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## DEVELOPMENT STRATEGY

# Turkey's Development Strategy in the Light of the Economic Development of Europe

by Werner Gumpel, Munich\*

**The Turkish Government intends to apply for EC membership later this year. The prospect of accession was opened to Turkey already by the EC association agreement of 1963. The world-political events pivoting on Afghanistan have greatly improved the chances for Turkey's admission to the EC — despite all the economic problems which Turkish membership involves for the EC and for Turkey itself. Prof. Gumpel analyses these problems here.**

Turkey is a developing country associated with an economic community which is dominated by industrially highly-developed countries. According to the treaty between Turkey and the European Economic Community of September 12, 1963 Turkey is to join the EC as a full member following a preparatory phase (which has ended in the meantime), a transitional phase and a final phase. It will be a particular aspect of Turkey's relationship with the European Community that after the accession it will be the most underdeveloped country in the Community even if it passes the various phases successfully. This in turn means that the country will be placed in a difficult position in competition with the industries of the developed founder members, the more so as Turkey has so far failed to evolve a clear development concept and it is a characteristic feature of the present situation that the Government is trying to survive by taking *ad hoc* action. So far it has been unable to prepare the country and the economy for membership of the European Community. For this very reason it has to be examined which development strategy has been pursued by Turkey in the past and which possible options there exist for the future.

Turkey's economic system will create special difficulties with a view to full EC membership as it leads to a distortion of market data or obliteration of market

forces, in the domestic as well as the external market, with correspondingly heavy burdens devolving on its external economic relations. The economic development of Turkey is therefore marked by strong state interventionism and direct state activities. Not only does the state determine the parameters of economic events but it acts as an investor though leaving wide scope for private initiative<sup>1</sup>.

Turkey has thus a mixed economic system with a state sector and a private sector of about equal (capital) size. But whereas the state planning has mandatory force for the state sector of the economy, it is only indicative for the private sector although the private firms are more or less forced by their strong ties with state suppliers and customers to conform to the state objectives. The planning is however much less obligatory, even for the state sector, than the economic plans of the socialist states for instance. Besides, it does not go nearly as far as these.

The Turkish economic system, which can still be described as *étatisme*, differs very significantly from the mixed economic systems of the West European states or those of other developing countries in which the state integrates itself with its enterprises in the

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<sup>1</sup> Cf. Werner Gumpel: Die wirtschaftlichen Beziehungen zwischen der Türkei und der EG und ihre möglichen Alternativen (The economic relations between Turkey and the EC and the possible alternatives), SWP — AZ 2154 (ext.), Ebenhausen near Munich 1977, p. 13ff.

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market<sup>2</sup>. Besides, government intervention is in other states, especially in Western Europe, much more restrained than in Turkey.

It is therefore very likely that when Turkey has become a full member of the EC the system will have to be altered. Till then however the existing system can act as an important instrument for the discharge of economic development impulses which will enable Turkey to join the EC with a consolidated economy and settled structures when the transitory phase (which will most probably have to be extended) is over, presuming of course that use is made of the potentialities of the existing system.

### Economic System and Development

The economic system of a country which is the result of a political process may exercise a significant influence on its economic development. In a fully developed advanced economy with a well-defined structure the free interplay of market forces is the best guarantee for further economic growth and prosperity because it would be far too costly and complicated to direct the highly developed economy from a central point. In a state of underdevelopment on the other hand a centralistic system may well offer certain advantages for the purpose of overcoming the state of underdevelopment.

A *centralistic economic system* of the type of the soviet-socialist states, and more especially the Stalinist model of industrialization in the Soviet Union, allows the given scarce resources to be deployed by central direction where they are (in the view of the government) most urgently needed. This holds good of the factor capital in particular. The formation of capital can, besides, be speeded by compulsory saving processes, provided that the centralistic economic system is complemented by a centralistic (totalitarian) political system with the help of which the compulsory saving processes can be enforced. With the help of this system it is also possible to enforce growth of the industrial sector at the expense of agriculture and to engage in interregional capital transfers and the transfer of qualified labour and technical know-how<sup>3</sup>.

Such far-reaching state activities which go hand in hand with very far-reaching central planning and direction of economic events presuppose the elimination of private ownership of the means of production. Only thereby does the state obtain the possibility of intervening in all spheres of economic life and to bring about developments entirely according to its objectives.

This industrialization concept has the economic drawback that its implementation entails self-segregation – voluntary abstention from integration with the division of labour in the world economy. Coincidentally however it implies substantial productivity lags as a result in great measure of the isolation from the technical progress elsewhere in the world, with the effect that undesirable structural developments are almost bound to occur. A typical illustration are the socialist states of Eastern and South-eastern Europe which have still not overcome the negative effects of the Stalinist industrialization policy<sup>4</sup>.

This model which is the most extreme case of extensive industrialization is not applicable to Turkey because it is a democratic state. Compulsory saving processes can be operated to a very limited extent only in this country and direct central control of the economy is not practicable except in the state sector. Indirect directive measures of various degrees of intensity can however be carried out without raising major problems.

A decentralized *market-economy system* poses a multitude of problems for a developing country. Most importantly, such a system implies that the country is opened to the outside world so that its young developing economy is exposed to competitive pressure threatening its existence. Under the present conditions characterized by the existence of highly industrialized states side by side with largely or absolutely underdeveloped states even the temporary tariff protection for infant industries as suggested by List is unlikely to provide a solution because they can be eluded by certain market strategies. Countries at an early stage of economic development will thus be unable to do without protectionist measures.

Similar considerations apply to the internal sphere. Capital usually flows (under the conditions in a market economy) to the place promising to make best use of it – to the nodal traffic points, the agglomeration areas

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<sup>2</sup> On the mixed economy systems in Western Europe cf. Sima Lieberman: *The Growth of European Mixed Economies 1945 – 1970. A Concise Study of the Economic Evolution of Six Countries*, New York-London-Sydney-Toronto 1977.

<sup>3</sup> Cf. Werner Gumpel: *Étatismus oder Sozialismus? Eine Untersuchung über Prinzipien und Effizienz der Entwicklungspolitik in der Türkei und in Sowjet-Mittelasien (Étatisme or socialism? An investigation into principles and efficiency of development policy in Turkey and in Soviet Central Asia)*, in: W. Gumpel and D. Keese (eds.): *Probleme des Industrialismus in Ost und West*, Munich-Vienna 1973, p. 51ff.

<sup>4</sup> Ferenc Jánosy: *Widersprüche in der ungarischen Außenhandelsstruktur – Wie sind sie entstanden und wie können sie überwunden werden? (Contradictions in the Hungarian foreign trade structure – How did they arise and how can they be overcome?)*, in: *Acta Oeconomica*, Vol. 4 (4) 1969, p. 351ff.

which represent the centres of gravity of economic development. Demand backed by purchasing power concentrates in these and gives rise to new investments and additional influx of population with further demand growth. Other regions, especially peripheral ones, with an unfavourable location for transport purposes, on the other hand, do not develop and people even leave these areas. This process has stood out especially clearly in Turkey with its few agglomeration areas (Istanbul, Izmir) and many areas where the exodus has gone so far that their population has declined although in Turkey as a whole it is increasing at about 2.5 % a year.

If market forces alone are allowed to determine the economic development of a country, the agglomeration tendencies will, as is known from Western Europe, be strengthened. The almost inexorable growth of Istanbul, Ankara and Izmir is convincing proof; their present populations can only be estimated. This growth overburdens the infrastructure; the agglomeration results in grave disadvantages: excessive wear and tear of the transport and social infrastructure, inadequate and overburdened telecommunications and severe environmental damage (most typically shown by the pollution of the Bosphorus and Sea of Marmara by sewage) cause huge though unquantifiable economic losses. And all this has happened in spite of the possibilities of state control in the *étatiste* system.

Being without a proper capital market, developing countries like Turkey need (indirect) state direction also for their natives' investment behaviour. The latter have a predilection for self-employment and accordingly endeavour to set up on their own, putting their savings in even minute enterprises, which leads to a vast misallocation of capital. The attempts to transfer capital abroad in order to make better and safer use of it necessitate foreign exchange controls and abandonment of the market mechanism also in this field.

### **Failure of the *Étatiste* System**

Insofar as the *étatiste* system can be defined at all ("because its nature is chiefly defined by the form of its application"<sup>5</sup>), it offers many a lever for the mitigation though not prevention of undesirable developments originating in the market at a low level of development. In theory at least it has many instruments at its disposal which can be used to counter, in particular, sectoral

and regional imbalances in a country's development. The most important ones are:

□ State planning: The state sets in its plans the parameters of economic development and thereby determines also its key-points. To the private enterprise it offers directive aids, to the state sector it sets development and production targets. The regional and sectoral structure of the economy can be influenced in this way.

□ Investment activities by the state: In the *de facto* absence of a capital market the state is able to finance investments out of the state budget and preferably set up enterprises in localities where private investors hesitate to commit themselves because of low purchasing power and demand and the consequent low profitability (which may also be the result of high costs of transport). If chosen correctly, these investments can act as an impulse.

□ The attitudes of entrepreneurs: They can be influenced by direct or indirect measures as desired by the state. The development process can in this way be given a certain direction.

In the practice in Turkey things look admittedly somewhat different. The organs of the state have so far not succeeded in making such use of the advantages offered by the *étatiste* system as to ensure appreciable progress. Relatively high growth rates have been attained in the past but the economic imbalances, especially in a regional respect, have worsened. A very large part of the economic growth has been absorbed by the population growth which has also been substantial. The state enterprises have not been a stabilizing but if anything a disruptive factor.

The state enterprises are for the most part working at a loss because of a mistaken management policy (senior posts are sinecures for ex-politicians and retired military men) and a faulty price policy. These losses have to be covered from the state budget thus contributing to the continuously increasing inflation rate of recent years (in 1979 it was officially put at about 80 %). Firms are not free to fix their own prices and are therefore not able to adjust them to market conditions but must apply for ministerial authorization for each and every price increase. As a result the state enterprises which are supported out of the state budget charge lower product prices than competing private firms working without state subsidies. State enterprises also carry out price increases but (owing to

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<sup>5</sup> Cf. Ö. C. Sarc: Economic Policy of the New Turkey, in: The Middle East Journal, October 1948, p. 434.

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<sup>6</sup> Cf. Dündar Sağlam: Türkiye'de Kamu İktisadi Tesebüsleri, Ankara 1967, p. 310.

the authorization procedure), belatedly compared with the private sector. Many state enterprises, besides, have a monopoly and for practical purposes rule out private activities in their field<sup>6</sup>. They enjoy preferential treatment in the grant of credits.

The low productivity resulting from high staffing has also a detrimental effect on the profitability of the state enterprises. The overstaffing is due to endeavours to reduce the rising unemployment which is the result of the population growth (the official unemployment rate in 1979 was 15 %). The personnel policy of the ministries introduces external political considerations into business management and hampers objective economic thinking. Turkish critics no longer regard the state enterprises as anything but places for the achievement of the objectives of whatever political trend is dominant at the time. This means that their managements have to change course after every change of government. Moreover, through the ramifications with the governmental bureaucracy business decisions are affected by red tape, with the result that flexible management in accordance with the market becomes almost impossible<sup>7</sup>. As the control duties of the competent authorities have not been clearly defined, the state enterprises are, according to the report of an investigatory committee, "exposed to unnecessary interference from outside. ... All this leads to some state enterprises being operated like classical authorities."<sup>8</sup>

In these circumstances the development impulses issuing from the state sector cannot be in any way satisfactory. It is manifest that state activity in the economic sphere is in theory a possible development strategy but that in practice the state is incapable of doing justice to the tasks which it has set itself. An administrative approach is substituted for economic management, red tape takes the place of entrepreneurial flexibility. This is equally true for the socialist states of Eastern Europe and for the developing countries of the "Third World".

It is therefore of great importance for the evolution of the economic system of an underdeveloped country that the mostly in any case slender private initiative should not be supplanted but encouraged and that where the state plays an active part an impetus be imparted to the economic development with due regard to the situation in the market. Under no conditions must the state enterprise be misused as a

political instrument and degraded to the status of an administrative unit. This would be a misunderstanding of the meaning of *étatisme*.

In the light of the economic development of Europe *étatisme* is seen to involve a multitude of difficulties which will make cooperation with the West European states more difficult. The economic system as it is now installed in Turkey is hardly compatible with the objectives of the EC<sup>9</sup>, not only because the other EC countries despite their various forms of state interventionism have significantly more liberal systems and a high measure of liberality is to be achieved within the EC, but because Turkish firms (and especially the state enterprises) under the given conditions lack the competitiveness and adaptability required for the common European market<sup>10</sup>.

### Economic Exigencies in Turkey

The objectives of economic development in Turkey follow from the endeavour to overcome the state of underdevelopment which is marked by high unemployment, shortage of capital and balance of payments disequilibrium as well as infrastructural inadequacies (in the transport and social spheres) and a high rate of inflation. The economic policy of the state must satisfy the following requirements if Turkey is to cope with its present exigencies and to become a member of the EC:

□ Strengthening of the investment potential of the economy and encouragement of investments especially in remote regions. This is only possible if the political conditions in the country are stabilized at the same time. Only if the political conditions are stable will business firms be willing to invest. Such conditions alone guarantee that Turkish capital will not leave for other countries if and when Turkey is a full EC member and capital is free to move. The prerequisites for satisfactory opportunities for its use inside the country have therefore to be provided; these include a reform of the tax system and the creation of a viable capital market.

□ Fighting the inflation. Inflation rates of over 80 % per annum paralyse the economy. The creation of money by the state is an essential cause of inflation in

<sup>7</sup> Cf. Arif Payaslıoğlu: KIT'lerde Yönetim-Politika İlişkileri, in: Kamu İktisadi Tesebüleri Yönetim Sorunları, Ankara 1976, p. 53ff.

<sup>8</sup> Türkiye ve Orta Doğu Amme İdaresi Enstitüsü: İDT ve İdari İlişkileri Araştırma Grubu Raporu, Ankara 1971, p. 7.

<sup>9</sup> Cf. Osman Okyar: Turkish Industrialisation Strategies. The Plan Model and the EEC, in: Osman Okyar and H. Aktan Okan (eds.): Economic Relations between Turkey and the EEC, Ankara 1977, p. 14ff.

<sup>10</sup> Cf. Werner Gumpl: Die Vollmitgliedschaft der Türkei im Lichte der Problematik unterschiedlicher Wirtschaftssysteme (The full membership of Turkey in the light of the problems of different economic systems), in: Werner Gumpl (ed.): Die Türkei auf dem Wege in die Europäische Gemeinschaft. Reihe: Wirtschaft und Gesellschaft in Südosteuropa, Vol. 1, Munich 1979.

Turkey. A thorough tax reform could result in a substantial increase of the tax revenues and thus at least moderate the assumed need for the creation of money. This must be combined with fundamental changes in the state's spending policy. The Turkish politicians recognize this task but seem to lack the strength to implement it. In Turkey the inflation rate has constantly increased while in Western Europe inflation rates have been perceptibly lowered in recent years. The trend has thus been contrary to that in the European Community also in this respect.

□ Industrialization of the country with the aim of creating more jobs especially outside the agglomeration areas as a counterforce to the signs of depopulation in some regions. Connected with this is the aim of raising incomes in order to create purchasing power and stimulate the demand which is indispensable for the industrialization process.

□ Development of agriculture to supply the rapidly growing population. Not only must yields per hectare and the productivity of labour be increased but agricultural products have to be produced which can be disposed of in the West European market and preferably in other countries as well. Required is not only better quality but diversification of agricultural outputs, an aim which can be attained by greater capital inputs in agriculture (mechanization, use of more fertilizers) and by irrigation devices as under discussion for South-eastern Turkey.

□ Improvement of the infrastructure. The opening-up of the country's resources is hampered by the inadequate transport infrastructure. Agricultural exports could be increased, industrial development could be speeded up, if there were better traffic links and the performance of the existing ones (e. g. railways and roads) were improved. The same is true of the telecommunications which do not meet the needs of a modern economy, with consequent losses for the national economy and individual operations and reduced economic efficiency.

□ Improvement of the energy situation. Such deposits of primary energy sources as have been opened up so far are not sufficient to meet the requirements of the Turkish economy. The trade deficit is in very great measure caused by the need for high mineral oil imports (in 1979 nearly all export earnings had to be

spent on oil imports). Development of the country's own resources and the mitigation thereby of its dependence on external sources of energy is an essential aim of the Turkish Government. Its accomplishment could impart fresh impulses to the economic development of Turkey.

□ Alleviation of the balance of payments disequilibrium. The imbalance of the external payments has reached dimensions which forced Turkey at times to suspend all payments to foreign countries. This imposed a further burden on the Turkish economy because raw materials, semi-manufactures and replacement parts urgently needed for production can no longer be obtained at all or in adequate amounts. This again affects exports so that the balance of trade worsens further. Turkey's currency is thus drawn into a vortex of devaluations which however merely attack the symptoms and do not touch the causes of the malaise. The result is that foreign business circles have less and less confidence in the Turkish economy which in consequence goes downhill even faster. The Turkish Government therefore considers incisive measures to improve the balance of payments or, to begin with, at least the balance of trade indispensable for the future development of Turkey and its further approximation to the EC; so do the International Monetary Fund and the European Community.

The realization of these aims hinges on a variety of measures in complementary areas. *Education* must be mentioned first; it has to provide an indispensable prerequisite of the industrialization process by raising the quality of the factor labour and thus creating "human capital". At present illiteracy reaches 50 %; it must be reduced and a cadre of skilled workers has to be trained.

In the agricultural sector a continuation and intensification of the initiated *land reform* appears to be essential although it will certainly not pass without problems as the big estates have so far fulfilled major social functions<sup>11</sup>.

The economic exigencies mentioned here (which are only the most important and indispensable ones in Turkey and would have to be supplemented by many other developments enumerated and elucidated in the five-year plans) indicate very clearly how far Turkey lags behind the countries of the EC. The latter have also their economic problems, differing from country to country. But nowhere else are they as urgent and as deep-seated as in Turkey where the development began much later and under very much worse

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<sup>11</sup> Cf. Udo Steinbach: Auf dem Weg nach Europa? Die Beziehungen zwischen der Türkei und der Europäischen Gemeinschaft durchlaufen eine kritische Phase (On the way to Europe? The relations between Turkey and the EC are passing through a critical phase), in: Orient, Vol. 18, No. 1 (1977), p. 81.

conditions than in the industrialized states of Western Europe. The problems confronting the Federal Republic of Germany, France, Great Britain and the Benelux countries have their cause and explanation in the high level of economic development attained.

The industrialized states of Western Europe are enabled by their advanced state of development to adjust their economies and their further advancement in the orbit of the EC to an increasing extent to each other and thereby to attain ever closer cooperation (once their governments and parliaments have created the legal framework). The fact that economic cooperation and trade have the best chances of developing when they take substitutive forms is proved most convincingly by the six founder members of the EC and Great Britain. For this reason these same countries are bound to be interested in Turkey's speedy economic development; with progressing industrialization it will become an increasingly valuable partner.

#### **Possible Strategies**

The issue to be resolved by Turkey and its West European partners is this: On which road can Turkey proceed in order to overcome the state of underdevelopment? Many answers have been proposed in the literature on development policy but few of them are applicable to the specific case of

Turkey. The main problem to be surmounted arises from the fact that the technologies of the advanced industrialized states are oriented to the farthest possible elimination of the most expensive cost factor – human labour. Turkey on the other hand possesses labour in abundance but lacks capital which is plentiful in Western Europe. Turkey would therefore prefer the extensive process of substituting the amply available labour for scarce capital. If it embarked on industrialization coincidentally with immediate full integration into the international division of labour, it would, in order to remain competitive, have to purchase expensive technologies unable to provide more than a limited number of jobs and use for this purpose capital which is in any case scarce. "Two aims of development policy are thus here in direct opposition to each other: fulfilment of one means industrialization of the country at the highest technical level and thereby international competitiveness of the newly created industries together with a very slow reduction of unemployment while attainment of the other leads to relatively fast reduction of unemployment and lagging behind the technical development in the world together with corresponding integration difficulties at a later date"<sup>12</sup>. If the first

<sup>12</sup> Cf. Werner Gumpel: Die Türkei und die EG. Über die Problematik ihrer Vollmitgliedschaft (Turkey and the EC. On the problems of its full membership), in: Südosteuropa-Mitteilungen, 15th year, No. 3/1975, p. 3.

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alternative is chosen, the home market will not necessarily be opened at the same time to competing foreign products. It could still be kept under some kind of infant industry protection as suggested by F. List.

A middle course exists no doubt between these two possible extremes, and Turkey is trying to pursue it. However, it merely alleviates the fundamental problems but does not remove them. Labour-intensive activities are encouraged most but are to be confined to the building and services sectors while in industry the use of modern capital-intensive technologies is to make the Turkish economy competitive within the EC<sup>13</sup>. Even this however is beyond Turkey's own strength. If the West Europeans want to have Turkey in the Community, they must recognize and accept the consequences, which means, help with capital. On this condition alone will Turkey be in a position to create the economic requisites for full EC membership. It goes without saying that Turkey will have to make great efforts of its own to this end.

The countries of Western Europe should look on extensive capital aid for Turkey, not as unrequited subsidies, but as investments in a market for the future. Turkey will soon have 50 million inhabitants and offer a sizable market once the requisite purchasing power has been generated. But it has to be decided where West European capital can be deployed most effectively for the speediest solution of Turkey's basic problems – the deficit in the balance of payments, unemployment and inflation.

One possible strategy involves the *abatement of overstaffing* and thus increased productivity in Turkish industry as part of an industrialization programme to be supported by foreign credits. Labour-intensive industries should be given preference. This would include the much-discussed expansion of the tourist industry with its complementary areas. Turkey's immense potentialities in this respect need opening up for the benefit of economic development, with interlocking effects on the balance of payments and the labour market. The lucrative West European tourist market should be developed in parallel.

As progressive industrialization necessarily entails increasing raw and fuel material inputs, there is a possibility that improvements of the balance of payments situation stemming from other sectors will be nullified or at least scaled down by the need for larger

imports in this sector. It therefore makes sense if the West European states help Turkey with the *exploration and exploitation of raw material and fuel deposits* which will be required as a concomitant of other measures. Turkey's dependence upon imports in this area would be alleviated and perhaps even cancelled, and it may even be possible to export a few raw materials and thus help to finance the essential investment goods imports.

The same point can be made for the *furtherance of agricultural production* through assistance with irrigation schemes, especially in the well-watered eastern part of the country, and with mechanization. Per-hectare yields could be raised in this way and adequate supplies for the rapidly growing population assured; in addition it would be possible to raise the export potential for agricultural products.

The increasing goods traffic resulting from industrialization necessitates an *extension of the transport system*; roads and railways in particular will have to be built at a forced pace. Infrastructure investments will release resources which are now idle and thereby give substantial impulses to development. Moves in this direction can be assisted by West European credits.

Lastly (and this is by no means the only other measure which could be mentioned in this context), the Turkish workers in Western Europe and more especially in the Federal Republic of Germany could be induced by selective subsidies and other assistance to transfer their savings to Turkey and invest them there in productive business enterprises. This would contribute greatly to the solution of the capital problem and job creation.

### Restoration of Confidence

Provision of capital aid in the mentioned areas in the framework of a Turkish development programme will raise the economic strength and thus the credit standing of the country. It can supply the impetus for the advance which all wish for. An essential precondition is the restoration of confidence in the Turkish economy among businessmen in the countries of the EC which can only be achieved by the Turks through their own efforts and through political stability in the country. As long as the latter is lacking, it is not likely that development strategies, however commendable, can be put in effect and a way be found from the present underdevelopment into the European Community.

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<sup>13</sup> Cf. World Bank (ed.): Turkey: Prospects and Problems of an Expanding Economy, Washington, D. C. 1975, p. 32.