

"TURKEY'S INTERNATIONAL ECONOMIC AND POLITICAL RELATIONS"
University of Istanbul/Universität München/Deutsches Orient Institut
Tarabya, 20-30/VI/1979

- (1) programma e lista dei partecipanti
- (2) Aliboni, Roberto: "Turkey's political and economic relations with the USSR and the Eastern Block Countries. Possible future developments"
- (3) Endruweit, Günther: "Turkey and the Non-Alligned Movements - a sociological perspective"
- (4) Gumpel, Werner: "The Turkish-EC relations from the perspective of the Federal Republic of Germany"
- (5) Hic, Mükerrrem: "Turkey's international economic relations"
- (6) Hic, Mükerrrem: "Economic policies pursued by Turkey, performance of the economy and their effects on her international economic relations"
- (7) Manisali, Erol: "Turkey's place and possible developments in her international economic relations in view of changes in economic structures on the world scene"
- (8) Tashan, Seyfi: "Turkey's political and economic relations with the USA and possible future developments"
- (9) Zoppo, Elliot C.: "The future of US-Turkish relations: an American perspective"

1

ULUSLARARASI KONFERANS
"TÜRKİYE'NİN DIŞ EKONOMİK
VE POLİTİK İLİŞKİLERİNDE
SEÇENEKLER"

DÜZENLEYENLER :

- İSTANBUL ÜNİVERSİTESİ, İKTİSAT FAKÜLTESİ, AVRUPA VE ORTA DOĞU EKONOMİK İLİŞKİLER ARAŞTIRMA ENSTİTÜSÜ
- SEMİNAR FÜR WIRTSCHAFT UND GESELLSCHAFT SÜDOSTEUROPAS, UNIVERSİTAT MÜNCHEN
- DEUTCHES ORIENT INSTITUT, HAMBURG

TARABYA

28-30 Haziran, 1979.

**INTERNATIONAL CONFERENCE
OPTIONS FOR TURKEY'S
INTERNATIONAL ECONOMIC AND
POLITICAL RELATIONS**

Organizers :

- UNIVERSITY OF ISTANBUL FACULTY OF
ECONOMICS EUROPE AND MIDDLE EAST
ECONOMIC AND SOCIAL RELATIONS RE-
SEARCH INSTITUTE
- SEMINAR FÜR WIRTSCHAFT UND GESELL-
SCHAFT SÜDOSTEUPAS UNIVERSITÄT
MÜNCHEN
- DEUTSCHES ORIENT INSTITUT, HAMBURG

TARABYA

June 28 - 30, 1979

PROGRAM

26 Haziran, 1979.

9.00 Açılış Konuşması: Sayın Ziya Müezzinoğlu
Maliye Bakanı

Sabah Oturumu :

Oturum Başkanı: Sayın Naim Talu (eski başbakan)

9.15 — 9.45 Tebliğ (1) «Uluslararası Politik
Yapı İçinde Türkiye'nin Yeri»
Konuşmacı: Sayın Prof. Jacques
Vernant (Dış Politika Çalışmaları
Merkezi, Paris, Fransa)

9.45 — 10.15 Tebliğ (2) Dünyadaki Gelişmeler
Karşısında Türkiye'nin Durumu ve,
Dış Ekonomik İlişkiler Açısından
Bir Değerlendirme»
Konuşmacı: Sayın Prof. Dr. Erol
Manisalı (İstanbul Üniversitesi,
İktisat Fakültesi)

10.15 — 10.30 Çay

PROGRAMME

June 28, 1979

9.00 Opening Statement: Mr. Ziya Müezzinoğlu
Minister of Finance

Morning Session :

Chairman : Mr. Naim Talu (former Prime Minister)

9.15 — 9.45 Paper (1) «Turkey's Place in the International Political System»
Speaker: Prof. Jacques Vernant
(Institut Français des Relations Internationales, Paris, France)

9.45 — 10.15 Paper (2) «Turkey's Place and Possible Developments in her International Economic Relations in view of Changes in Economic and Political Structures on the World Scene»
Speaker: Prof. Dr. Erol Manisalı
(Istanbul University, Faculty of Economics)

10.15 — 10.30 Tea break

- 10.30 — 11.45 1. ve 2. tebliğlerin tartışılması
- 11.45 — 12.15 Tebliğ (3) «İzlenen Gelişme Stratejileri, Ekonomi Politikaları Ekonomik Performans ve Bunların Türkiye'nin Uluslararası Ekonomik İlişkilerine Etkileri»
Konuşmacı: Sayın Prof. Dr. Mükerrrem Hiç (İstanbul Üniversitesi İktisat Fakültesi)
- 12.15 — 13.45 (3.) tebliğin tartışılması
- 13.45 — 15.15 Öğle yemeği

10.30 — 11.45 Floor discussion of Papers (1) and (2)

11.45 — 12.15 Paper (3) «Economic Policies, the Performance of the Economy and their Effects on Turkey's International Economic Relations»

Speaker: Prof. Dr. Mükerrrem Hiç (Istanbul University, Faculty of Economics)

12.15 — 13.45 Floor discussion of Paper (3)

13.45 — 15.15 Lunch Break

Öğleden Sonra Oturumu :

Oturum Başkanı: Sayın Dr. Nejat Eczacıbaşı

15.15 -- 15.45 Tebliğ (4) «Türkiye - AET İlişkileri ve Türkiye Açısından Gelişmeler»

Konuşmacı: Sayın Prof. Dr. Erdoğan Alkin (İstanbul Üniversitesi, İktisat Fakültesi)

15.45 — 16.15 Tebliğ (5) «Türkiye - AET İlişkilerinde İşçi Sorunları»

Konuşmacı: Sayın Prof. Dr. Nusret Ekin (İstanbul Üniversitesi İktisat Fakültesi)

16.15 — 16.30 Çay

16.30 — 17.00 Tebliğ (6) «Türkiye - AET İlişkilerinde Gelişmeler: Federal Almanya Açısından Bir Değerlendirme»

Konuşmacı: Sayın Prof. Dr. Werner Gumpel (Münih Üniversitesi, Güneydoğu Avrupa Ekonomik ve Sosyal Bilimler Kürsüsü Direktörü, F. Almanya)

17.00 — 19.00 (4.), (5.) ve (6.) tebliğlerin tartışması

Afternoon Session :

Chairman : Dr. Nejat Eczacıbaşı

15.15 — 15.45 Paper (4) «Turkish - EEC Relations and Future Developments from Turkey's Perspective»

Speaker: Prof. Dr. Erdoğan Alkin
(Istanbul University, Faculty of Economics)

15.45 — 16.15 Paper (5) «Social Problems of Turkish Workers with Respect to Turkey - EEC Relations»

Speaker: Prof. Dr. Nusret Ekin
(Istanbul University, Faculty of Economics)

16.15 — 16.30 Tea Break

16.30 — 17.00 Paper (6) «An Evaluation of Turkish - EEC Relations and Possible Future Developments from F. Germany's Perspective»

Speaker: Prof. Dr. Werner Gumpel (Munich University, Director, Chair for Economic and Social Sciences Concerning Southeast Europe, W. Germany.

17.00 — 19.00 Floor Discussion of Papers (4), (5) and (6)

25 Haziran, 1979

Sabah Oturumu :

Oturum Başkanı : Sayın Prof. Dr. Sabri Ülgener
(İstanbul Üniversitesi, İktisat Fakültesi)

9.00 — 9.30 Tebliğ (7) «Türkiye'nin Orta Doğu ülkeleriyle Siyasal ve Ekonomik İlişkileri»

Konuşmacı: Sayın Prof. Dr. Esat Çam (İstanbul Üniversitesi, İktisat Fakültesi)

9.30 — 9.50 Yorum: Sayın El-Seyyid Yassin (Politik ve Stratejik Araştırmalar Enstitüsü, El-Ahram, Kahire, Mısır)

9.30 — 10.20 Tebliğ (8) «Orta Doğudaki Son Ekonomik ve Politik Gelişmeler Türkiye'ye Etkileri»

Konuşmacı: Sayın Prof. Dr. Manoucher Parvin (Orta Doğu Ekonomisi Dergisi Editörü; Akron Üniversitesi, Ohio, ABD)

10.20 — 10.35 Çay

10.35 — 12.00 (7.) ve (8.) Tebliğlerin ve Yorumun tartışması

12.00 — 12.30 Tebliğ (9) «Ulaşımın Türkiye'nin Dış Ticaretinin Geliştirilmesindeki Yeri»

Konuşmacı: Sayın Prof. Dr. Carl Oettle (Ulaşım ve Kamu Ekonomisi Enstitüsü Müdürü, Münih Üniversitesi F. Almanya)

12.30 — 13.30 (9.) Tebliğin Tartışması

13.30 — 15.00 Öğle Yemeği

June 29, 1979

Morning Session :

Chairman: Prof. Dr. Sabri Ülgener (Istanbul University, Faculty of Economics)

9.00 — 9.30 Paper (7) «Turkey's Economic and Political Relations with the Middle Eastern Countries)

Speaker: Prof. Dr. Esat Çam (Istanbul University, Faculty of Economics)

9.30 — 9.50 Comment: by El-Seyyid Yassin (Institute for Political and Strategic Studies, El-Azhar, Cairo, Egypt)

9.30 — 10.20 Paper (8) «Recent Economic and Political Developments in the Middle East as They Affect Turkey»

Speaker: Prof. Dr. Manoucher Parvin (Editor-in-Chief, Middle East Economic Review, Akron University, Akron, Ohio, USA)

10.20 — 10.35 Tea break

10.35 — 12.00 Floor discussion of Papers (7) and (8) and Comment

12.00 — 12.30 Paper (9) «Requirements in the Field of Transport for Promoting Turkey's Foreign Trade Relations»

Speaker: Prof. Dr. Carl Oettle (Director, Institute of Transportation and Public Sector, Munich University, W. Germany)

12.30 — 13.30 Floor discussion of Paper (9)

13.30 — 15.00 Lunch break

Öğleden Sonra Oturumu :

Oturum Başkanı : Sayın Muharrem Nuri Birgi
(emekli büyükelçi)

15.00 — 15.30 Tebliğ (10) «Türkiye'nin ABD ile
Siyasal ve İktisadi İlişkileri ve
Muhtemel Gelişmeler»

Konuşmacı: Sayın Seyfi Taşhan
(Dış Politika Enstitüsü Genel
Sekreteri, Ankara)

15.30 — 16.00 Tebliğ (11) «Türkiye'nin ABD ile
Siyasal ve İktisadi İlişkileri ve
Gelecekteki Muhtemel Gelişme-
leri: ABD Açısından Bir Değer-
lendirme»

Prof. Dr. Cero
Elliott ZOPPO
(UCL)
Konuşmacı Sayın ~~Prof. Dr. J.~~
~~Hurewitz (Yakın Doğu Enstitüsü~~
~~Direktörü, Columbia Üniversitesi,~~
~~New York, NY, ABD)~~

16.00 — 16.15 Çay

16.30 — 18.30 (10.) ve (11.) Tebliğlerin Tar-
tışması

Afternoon Session :

Chairman : Mr. Muharrem Nuri Birgi
(former ambassador)

15.00 — 15.30 Paper (10) «Turkey's Political and Economic Relations with the USA and Possible Future Developments»
Speaker: Seyfi Taşhan (General Secretary, Foreign Policy Institute, Ankara)

15.30 — 16.00 Paper (11) «Turkey's Political and Economic Relations with the USA and Possible Future Developmentst: Comments and the USA Perspective»

*Prof. Dr. Ciro
Elliott ZOPPO
(UCL)* Speaker: ~~Prof. Dr. J. Hurewitz
(Director, Near East Institute, Co-
lumbia University, New York,
NY, USA)~~

16.00 — 16.15 Tea break

16.30 — 18.30 Floor Discussion of Papers (10) and (11)

30 Haziran 1979

Sabah Oturumu:

Oturum Başkanı: Sayın Dr. Şahap Kocatopçu

- 9.00 — 9.30 Tebliğ (12) «Türkiye'nin Sovyetler Birliği ve Doğu Bloku Ülkeleriyle Politik ve Ekonomik İlişkileri ve Muhtemel Gelişmeler»
Konuşmacı: Sayın Prof. Dr. Önder Arı (İstanbul Üniversitesi, İktisat Fakültesi)
- 9.30 — 9.50 Yorum: Sayın Prof. Dr. Roberto Aliboni (Uluslararası İlişkiler Enstitüsü, Roma, İtalya)
- 9.50 — 10.05 Çay
- 10.05 — 11.05 (11.) ve (12.) Tebliğlerin ve yorumun tartışması
- 11.05 — 11.35 Tebliğ (13) «Blocsuz Ülkeler ve Türkiye»
Konuşmacı: Sayın Prof. Dr. G. Endruweit (Sosyal ve Planlama Bilimleri Bölümü, Berlin Teknik Üniversitesi, F. Almanya)
- 11.35 — 12.15 (13.) Tebliğin Tartışması
- 12.15 — 12.45 Tebliğ (14) «Federal Almanya'nın Dış Ekonomik ve Politik İlişkilerinde Türkiye'nin Yeri»
Konuşmacı: Sayın Dr. Udo Steinbach (Deutsches Orient-Institut Direktörü, Hamburg, F. Almanya)
- 12.45 — 13.05 Yorum
Yorumcu: Sayın Dr. Daniel Heradstveit (Uluslararası İlişkiler Enstitüsü, Oslo, Norveç)
- 13.05 — 13.45 (14.) Tebliğin ve yorumun tartışması
- 13.45 — 15.15 Öğle Yemeği

June 30, 1979

Morning Session :

Chairman :: : Dr. Şahap Kocatoğlu

9.00 — 9.30 Paper (12) «Turkey's Political and Economic Relations with the USSR and the Eastern Block Countries, and Possible Developments»

Speaker: Prof. Dr. Önder Arı (Istanbul University, Faculty of Economics)

9.30 — 9.50 Comment by Prof. Dr. Robert Albani (Istituto Affari Internazionali, Rome, Italy)

9.50 — 10.05 Tea break

10.05 — 11.05 Floor discussion of Papers (11) and (12) and Comment

11.05 — 11.35 Paper (13) «Turkey and the Non Aligned Movement»

Speaker: Prof. Dr. G. Endruweit (Social and Planning Sciences, Technical University of Berlin, F. Germany)

11.35 — 12.15 Floor discussion of Paper (13)

12.15 — 12.45 Paper (14) «Turkey's Place in W. Germany's International Political and Economic Relations»

Speaker: Dr. Udo Steinbach (Director, Deutsches Orient-Institut, Hamburg, W. Germany)

12.45 — 13.05 Comment by Daniel Heradstveit (The Institute of International Relations, Oslo, Norway)

13.05 — 13.45 Floor discussion of Paper (14) and Comment

13.45 — 15.15 Lunch break

Öğleden Sonra Oturum (Panel)

Panel Başkanı: Sayın Prof. Dr. Memduh Yaşar
(İstanbul Üniversitesi, İktisat Fakültesi)

Panelistler: Sayın ~~Ch. Caporeale~~ (Türkiye
Masası, AET, Brüksel) *VON MOLTKE*
Sayın Prof. Dr. Turan Güneş *(CEEC)*
(eski Dışişleri Bakanı)
Sayın Prof. Dr. Osman Okyar
(Ekonomi Bölümü, Hacettepe Üniversitesi)
Sayın Prof. Dr. André Piatier
(C.E.T.E.M. Direktörü, Ecole des
Hautes Etudes en Sciences
Sociales, Paris, France)
Sayın Dr. Udo Steinbach (Deut-
ches Orient-Institut Direktörü,
Hamburg, F. Almanya)
Sayın Prof. Dr. Yüksel Ülken
(İstanbul Üniversitesi, İktisat
Fakültesi)

15.15 — 16.35 Panelistlerin konuşmaları

16.35 — 16.50 Çay

16.50 — 18.30 Panel Konuşmalarının tartışması

18.30 — 18.45 Kapanış

Sayın Prof. Dr. Mükerrrem Hiç,

Sayın Dr. Werner Gumpel,

Sayın Dr. Udo Steinbach

Afternoon Session (Panel Discussion)

Chairman of the Panel : Prof. Dr. Memduh Yaşa (Istanbul University, Economics Faculty)

Panelists: ~~Ch. Caporale (Turkish desk, EEC, Brussels)~~ *UDOL MDLTKE (EEC)*
Prof. Dr. Turan Güneş (former Minister of Foreign Affairs)
Prof. Dr. Osman Okyar (Economics Department, Hacettepe University)
Dr. André Piatier (Director, C.E.T.E.M., Ecole des Hautes Etudes en Sciences Sociales, Paris, France)
Dr. Udo Steinbach (Director: Deutsches Orient-Institut, Hamburg, W. Germany)
Prof. Dr. Yüksel Ülken (Istanbul University, Faculty of Economics)

15.15 --- 16.35 Panel discussion

16.35 — 16.50 Tea break

16.50 — 18.30 Floor discussion

18.30 — 18.45 Closing Statements:

Prof. Dr. Mükerrrem Hiç,
Prof. Dr. Werner Gumpel,
Dr. Udo Steinbach

NOTLAR

NOTAR

Bu uluslararası konferansın düzenlenmesinde ve yabancı uzmanların büyük bir kısmının katılma giderlerinin karşılanmasında Volkswagen Varn önemli bir mali katkıda bulunmuştur. Ayrıca ticaret ve sanayi odaları, bankalar ve firmaların da çok değerli mali katkıları sağlanmıştır. Hepsine teşekkür borç biliriz.

Konferans Tertip Komitesi

In the organization of the international conference, the Volkswagen foundation has contributed greatly by financing the participation of a great number of foreign experts. Further financial funds were supplied by the chambers of commerce and industry of various regions, from various banks and firms. Our thanks are due to all.

The Organization Committee

1

International Conference

"Options For Turkey's International
Economic and Political Relations"

L i s t o f P a r t i c i p a n t s

- Prof. Roberto Aliboni;
Director, Instituto Affari Internazionali, Rome
- Prof. Erdoğan Alkin;
European and Middle East Economic and Social Relations
Research Institute, (EMEESRI), I.U. Economics Faculty,
Istanbul
- Prof. Önder Arı
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I.U. Economics Faculty, Istanbul
- Dr. Aydemir Aşkin;
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(and member of the Aegean University), Izmir
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- Prof. Zafer Başak;
Economics department, Hacettepe University, Ankara
- Muammer Baykan;
General secretary, North Atlantic Treaty Association, Ankara
- Peyyaz Berker;
Director, TIBA, Istanbul
- Dr. Taner Berksoy;
Economics department, Hacettepe University, Ankara
- Selahaddin Beyazid;
Businessman, Istanbul
- Muharrem Nuri Birgi;
Director, Foreign Relations Institute
(former ambassador), Istanbul
- Mehmet Faruk Cesayirli;
Cultural and Press Officer, Belgian Consulate, Istanbul
- Prof. Esat Çam
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I.U. Economics Faculty, Istanbul

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Business Administration Department, Hacettepe University,
Ankara

Necdet Doğanata;
Board member, Izmir
Chamber of Commerce, Izmir

Prof. Emel Doğramacı;
Dean, Hacettepe University, Ankara

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Eczacıbaşı Holding, Istanbul

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Asst. Dean, I.U., Economics Faculty, Istanbul

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Managing Director, Goodyear Lastikleri T.A.Ş., Istanbul

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Director, Middle East Affairs, Institute of Human
Relations, New York

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Director, Seminar für Wirtschaft und Gesellschaft
Südosteuropas, Munich University

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(former Minister of Foreign Affairs), Ankara

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Economist, Université Dauphine, (also employed in OECD),
Paris

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General Consulate of England, Istanbul

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Economist, I.U. Economics Faculty, Istanbul

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EMEESRRI, I.U., Economics Faculty, Istanbul

Prof. Haydar Kazgan;
Chair of economics and business administration, Istanbul
Technical University, Istanbul

Çoskun Kırca;
Minister of Foreign Affairs (ambassador and former M.P.)

Dr. Şahap Kocatopçu;
Paşabahçe Sığı Cam, Istanbul

Sönmez Köksal;
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General directorate of planning and research,
Ministry of Foreign Affairs

Bilge Kunalalp;
Economics assistant, I.U., Economics Faculty, Istanbul

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Secretary General, Near and Middle East Association,
Hamburg

Kenneth MacKenzie;
Free lance Journalist, Ankara

Prof. Erol Manisalı
Asst. Director, EMEESRRI. I.U. Economics Faculty,
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H. von Moltke;
EC, Brussels

- Dr. Orhan Morgil;
Economics Department, Hacettepe University
(and consultant, Ankara Chamber of Industry) Ankara
- Prof. Necati Mumcu;
Asst. Director, Economic Development Institute,
I.U., Faculty of Economics, Istanbul
- Ziya Müezzinoğlu;
Minister of Finance, Ankara
- Prof. Carl Oettle;
Director, Institute of Transport and Public Economy,
Munich University
- Prof. Orhan Ögüz;
President, Academy of Economic and Commercial Sciences,
Istanbul
- Prof. Osman Okyar;
Economics Department, Hacettepe University, Ankara
- Prof. Hasan Olalı;
Economics Faculty, Aegean University, Izmir
- Şeref Özgencil;
Turkish Industrialists and Businessmen's Association
(TIBA), Istanbul
- Basri Öztekin;
Businessman, Chairman, Economic Development Foundation,
Istanbul
- Gian Paolo Papa;
EC Information Bureau, Ankara
- Prof. Manoucher Parvin;
Economics Department, Akron University, Akron, Ohio
(also, editor-in-chief, Middle East Economic Review)
- Dr. Merih Paya;
Economist, I.U., Economics Faculty, Istanbul
- Trevor Penrose;
EC Information Bureau, Ankara
- Prof. André Piatier;
Ecole des Hautes Etudes en Sciences Sociales
(and director, CETP, Paris)
- Prof. Reha Poroy;
I.U. Law Faculty, Istanbul

- Daniel Primard;
General Consulate of France, Istanbul
- Dr. Cafer Tayyar Sadıklar;
former Governor of the T. Central Bank, Ankara
- Tevfik Saraçoğlu;
Ministry of Foreign Affairs (former ambassador to
NATO
- Prof. Necdet Serin;
Director, Institute of Public Finance,
A.U., Faculty of Political Sciences, Ankara
- Dr. Udo Steinbach
Director, Deutsches Orient-Institut, Hamburg
- Mehmet Şuhubi;
Businessman, member of the board,
Economic Development Foundation, Istanbul
- Naim Talu;
Chairman, Akbank, (former prime minister), Istanbul
- Dr. İbrahim Tanyeri;
Economics demant, Hacettepe University, Ankara
- Prof. Erdi Tokgöz;
Economics department, Hacettepe University, Ankara
- Dr. Gül Turan;
Economist, I.U., Economics Faculty, Istanbul
- Prof. İlder Turan;
Institute of Political Sciences,
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- Dr. Güngör Uras;
General Secretary, TIBA, Istanbul
- Prof. Sabri Ülgener;
Director, Institute of Economic Development,
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- Prof. Yüksel Ülken;
I.U., Economics Faculty, Istanbul
- Prof. Besim Üstünel;
RPP Senato, Ankara

Prof. Jaques Vernant;

Ecole Partique des Hautes Etudes
(and Institut Français des Relations Internationales),
Paris

El-Sayed Yassin;

Director, Centre for Political and Strategic Studies,
Al-Ahram, Cairo

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Director, Institute of Public Finance,
I.U., Economics Faculty, Istanbul

Dr. Bahri Yilmaz;

Economics department, Hacettepe University, Ankara

Dr. Ekmel Zamil;

Social Policy, I.U., Economics Faculty, Istanbul

Prof. Ciro Elliott Zoppo;

Political Science Department, University of California,
Los Angeles, California
(also, member of the International Institute for
Strategic Studies, London)

Prof. Haluk Ciller, Director,

Institute of Statistics, I.U.,
Economics Faculty.

Doç. İzzet Aydın

Economic advisor,
T.C. Central Bank, Ankara

Kenan Atakol;

Istanbul representative of Cypriot Turkish
Federated State

Europe and Middle East Economic
and Social Relations Institute
University of Istanbul

Deutsches Orient
Institut
Hamburg

International Conference on "Options for Turkey's
International Economic and Political
Relations"

Istanbul - June 28-30, 1979

(2)

Turkey's Political and Economic Relations with the USSR and the Eastern
Block Countries. Possible Future Developments

Comment by Roberto Aliboni, Director, Institute of International
Affairs, Rome, Italy

1. For some years now, as is well known, Turkey's relations with the European socialist countries and, in particular, with the Soviet Union have been of growing importance. In 1978, for instance, Rumania concluded a trading agreement with Turkey. This was followed by the granting of a credit line for the purchase of Rumanian exports. On April 19 of this year, another agreement was signed with Yugoslavia. In the future, the number of these accords might well tend to grow.

This report will be centred primarily on Turkey's relations with the Soviet Union. Here relations are being developed particularly intensely, especially in the field of economic and trading relations. Both sides attribute political significance to this trend. It is being said that Turkey is beginning to look "elsewhere".

The most important steps in this improvement in Soviet-Turkish relations were Kosyghin's visit to Turkey in December 1975, Çağlayangil's visit to Moscow in March 1977 and, most recently, Ecevit's visit to Moscow from June 21 to June 25, 1978. At the end of this visit a declaration was signed on the principles regulating neighbourly relations and friendly cooperation between the USSR and the Republic of Turkey. A number of other agreements were also initialled on this occasion. This included accords defining the extent of the continental shelf, as well as others on industrial, trade and cultural cooperation. During the period of Hikmet Çetin's visit to Moscow, the press (Financial Times 18.10.78, International Herald Tribune 4.10.78) reported that the Soviet Union was giving aid to 44 different development

projects in Turkey.

Given Turkey's role in Western defence and in the Western economy, the NATO allies have viewed this improvement in relations with some concern. How far is this concern justified?

2. It is generally recognized that the improvement in relations between Turkey, the Soviet Union and the other socialist countries is in some way tied to the following factors:

- a) The dispute with the United States following the embargo on US arms supplies imposed by the Senate following the Turkish intervention in Cyprus in 1974.
- b) The enlargement of the EEC to include Greece. General dissatisfaction with the results of Turkey's association agreement with the Community, and with European insensitivity towards Turkey's social and economic difficulties. Given the worsening of the dispute with Greece, there is widespread feeling in Turkey that the EEC has been less than even handed in its relations with the two sides.
- c) The intollerable pressure of economic difficulties, in particular the cost of oil imports.

These factors are inter-linked and have led the Turks into the belief that they have been abandoned by their allies and, therefore, that diversification of their relations has become an objective necessity. Turkey is thus seeking closer relations with the developing countries and with the socialist states, in particular the Soviet Union.

Now, in the short term, there can be no doubt that these factors are working to bring about a rapprochement with the Soviet Union and the other socialist countries. The important point, however, is to see whether these factors are capable of leading to a significant longterm change in Turkey's international role. If we are to make this evaluation, it becomes necessary to discuss the three orders of factors mentioned above in rather more detail.

3. There can be no doubt that in the period prior to the crisis which followed the American Senate's debatable decision to cut off arms supplies to Turkey, Turkish relations with the USA were, if anything, over-exclusive. Even Turkey's relations with NATO did not imply participation in a multilateral alliance so much as close bilateral relations with the United States. The crisis, together with the measures taken by Turkey in reprisal for the embargo, has reduced Turkish over-reliance on the US; overall Turkish foreign policy has returned to a more "normal" pattern. In other words, Turkey has diversified her economic and political relations in exactly the same way as other members of the Alliance already did, a considerable time ago, as part of

the process of détente.

The intensification of relations with the Soviet Union and the other socialist countries may thus be interpreted as a crisis in Turkey's alliance with the Americans. This does not mean however, that this alliance is being abandoned. What it does mean is that Turkey is loosening her over-exclusive relationship with the US A. In a world characterized by loose bipolarism - as Prof. Esat Çam has put it (Foreign Policy preferences of Turkey "Dis Politika", No, 3-4 1978, pp. 77-111) - rather than by the tight bipolarism of the past, this kind of relationship has lost its raison d'être.

This was very clear in a recent statement by Ecevit: "We see no reason why we should stick to a function reminiscent of the cold-war years in this period of détente. It is unfair of our allies to look upon these intentions with concern. In any case, we would not deviate from the sense of responsibility that our geopolitical position and our historic experience impose upon us..." (Newsweek, March 19, 1979).

The experience of recent political earthquakes as in Iran, along with the presence of armed groups and of terrorism in Turkey might lead one to take a pessimistic view. Nonetheless, as has been shown by the Italian example, if the army is loyal and the main political parties are united in their defence of the constitution, terrorism and the presence of armed underground groups, while constituting a very serious and painful problem, is not enough in itself to lead to a change in the existing order. As far as the Iranian example is concerned, it should be said that Iran is very different from Turkey which is essentially a European country with deeply rooted democratic institutions. What is more, unlike the situation in the other Southern European countries (Italy, Spain, France, Cyprus, Greece and Portugal), those organizations in Turkey which are presumably linked to the Soviet Union and to the other socialist countries are only very small.

In practice, Turkey is anchored to Europe regardless of insults from the American Senate, the weaknesses and hesitations of European governments and the errors of successive administrations in Washington.

4. The second order of problems concerns the insensitivity of Community policy towards Turkey. Here, however, although the Europeans deserve criticism, the feeling in Turkey that she has been unjustly treated and that she has been left to her own fate, seems, at least so far, to be unjustified. Greek membership of the Community is only the first step in a long and complex process which is going to involve the

countries of the Iberian peninsula, the other Mediterranean countries, and the non-member states in general. This process is of primary concern to the Community itself. In the past, the less developed regions of the Community (the Mezzogiorno and a few other limited areas) have played only a marginal role. With enlargement to include the countries presently applying for membership, they will come to constitute a priority problem for the whole Community. In other words, the EEC will be forced to concern itself with the problem of economic backwardness no longer simply as a problem concerning the associate members and non-member states, but rather as a problem within the Community. If she wishes to do so, Turkey could very well take advantage of this new situation.

A second point which should be mentioned in any discussion of the future of relations between Turkey and the Community is that Turkey, like Italy, is committed to improving the efficiency of public enterprise so that the new wealth created can be used to maintain social equilibria, without this signifying any reduction in accumulation in the productive sector of the economy. (This implies increased public expenditure in Italy, price control in Turkey.) Turkey also needs to clarify her present ambiguous position in which the desire for international integration contrasts with nationalist economic policy (obstacles to foreign investment, subsidies, etc.). This is not enough to tie Turkey to Europe. Nonetheless, if there are no clear decisions in this field, she will continue to play a marginal role in the Community.

If the Turkish economy is to make the transition to development and liberalization, the Community is responsible for helping her, along with other weaker industrialized countries in Southern Europe, to make this possible. If this is not done, Turkey's incentives to look "elsewhere" will grow. This would lead to a strengthening of Turkish relations with the Soviet Union and with the other socialist countries for technical as well as for political reasons. One could, however, be sceptical of the results for Turkey. Many previous examples - from India to Egypt - have shown that the present socialist countries have only very limited economic and industrial effectiveness when they operate abroad.

5. The third order of factors concerns the effects of Turkey's present economic difficulties. Like many other countries, Turkey has had to face the inflation and stagflation resulting from the crisis of the 1970s. The effects of this crisis have been extremely severe. Following the summit meeting at Guadalupe, aid has begun to arrive, but with very poor results considering the

needs of the country. One of the reasons for these difficulties may well lie in the analysis which is usually made of the difficult situation in which Turkey finds herself. Richard Cooper, the American under-secretary of state, reflected current opinion when he stated that Turkey is one of those countries, like Spain which has reacted to the crisis with "a conscious decision to ride out the inflation and recession of the mid-1970s through borrowing rather than reducing their level of economic activity". (I.H.T. 21.2.1979) Turkey is thus invited to reduce her level of economic activity, or, alternatively, to reduce domestic consumption and to increase exports.

This kind of bitter medicine could prove to be not only politically useless but also extremely damaging. In terms of increasing the gap between Turkey and the West, that is of the risk of a rapprochement with the Soviet Union, this kind of policy could play a far more decisive role than disputes with the allies or the lack of sensitivity shown by the EEC.

An over-drastring cure for the country's economic ills could have profoundly disruptive effects at a social level. The Italian experience teaches us perhaps that an increase in exports at the expense of internal consumption and a lowering in the level of economic activity are only possible in highly specific economic and political conditions. The trade unions and the Communist Party have made it possible to gradually devalue the lira and have allowed increased labour mobility. The administration has allowed the setting up of numerous productive activities which take no account of tax law and labour legislation. This has made it possible for a "submerged" economy to come into being. With its extremely low production costs and its high competitiveness, this submerged economy makes an important contribution to the overall wealth of the economic system.

This does not mean that this would be the ideal solution for Turkey's economic problems. It does, however, go to show how complex a situation can be compared to the simplistic solutions proposed by international financial circles.

Turkey will have to be very cautious when it negotiates economic commitments in return for financial aid. It is difficult to help Turkey to put

her foreign accounts and her economy back into a healthy position without creating dangerous, and irreversible social and political disruption. Nonetheless, this has to be done.

6. It seems unlikely that the various factors listed here could lead to a long term change in Turkey's international position. The primary reason for this is that as was stated earlier, Turkey has ties with the West and with the industrialized world which allow her to maintain a stable position regardless of adverse events and the insensitivity of her allies.

In the future, Turkey's relations with the Soviet Union and with the socialist countries could well become even more intense than at present. Nonetheless, they are not likely to go beyond the same kind of acceptance of détente and increased cooperation typical of the general relationship between the industrialized and the socialist countries.

There is, however, a risk, namely the light-heartedness with which Turkey's friends - that is both the EEC and the other OECD countries- could in the future approach her economic development and employment problems. A failure or even just mistakes in this field, could throw Turkey into a situation of apathy and abandon. In this case, Turkey would no longer feel that she were actively participating in the Atlantic Alliance. This would not imply a sudden change of camp but it would lead to just the kind of atmosphere the Soviets are waiting for.

Turkey and the Non-Alignment Movements

-a Sociological Perspective-

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Introduction

Imagine that you are the father of a daughter who has come to an age in which she is courted by young men. Actually, two boys are in competition for her.

The first boy is Avram who is -as his name indicates- from Avrupa. Although he has been relatively much richer in the past, he is still a comparatively wealthy man who can promise your daughter a life under good economic circumstances. On the other hand, he is a very demanding man. He wants your daughter to make a lot of changes in her way of life and to work very hard. Just recently he was allied with girls from London and Copenhagen who had a lot of difficulties in keeping pace with him. So you doubt whether or not you should recommend your daughter such a hasty life.

The second boy is Dogan who comes from the East. He is not so hasty, but he is, on the other side, not as wealthy as Avram. In fact, one may suspect him of being not able to guarantee your daughter the present standard of living after marriage. But he professes that he is in favor of non-discrimination, although there are rumors that he had beaten other girls he was engaged to. So you are not sure if you should endow this relation.

In this situation, your daughter has four options. She may marry either Avram or Dogan; both have their advantages and disadvantages. The third option is to look for a third man. It is a matter of sad fact, though, that your daughter's dowry has somehow faded away, and now, to tell the plain truth, she has even some debts; so it might be impossible to find a third gallant in time. The fourth option is problematic, too, for a girl who is no longer rich, but still beautiful and who has still a zest for life. This I would call the non-alignment option, and it means to remain an old maid.

I will not attempt to trace back the different non-alignment movements in Turkey to their ideological, historical and other roots or to describe who is now in favor of it and for which alleged reasons etc. You will know this much better than I ever could. I would rather prefer to screen the non-alignment option with a kind of systems-theoretical and interactionist approach. My hope is that the further spread of such a way of thinking could contribute to a relatively rational and calculated attitude in the decision-making process within the head and heart of every citizen of this country.

Turkey's Present Setting for Decision-Making

Before we come to an account of non-alignment elements I would like to correct an impression that might have come out of my nonchalant introduction. It may have sounded as if I regard Turkey's present decision situation as a kind of joyful promatiral game in non-committal courtship, as a part of happy life. In fact, though, this decision seems to me a matter of life and death. So I will add some sketching traits from the deadly side of the problem by mentioning some figures which are already well known but which have to be mentioned again in the context of our following considerations.

Turkey with its 43 million inhabitants has about 20 percent of its labor force unemployed¹, the inflation rate is above 50 percent annually², her foreign debts increased from 5.7 billion \$ in 1974³ (with a stock of 2.1 billion \$ in foreign exchange) to about 15 to 20 billion in the present times⁴ (with no foreign exchange at all at the Merkez Bankası). This development can be observed since several years, and it has only in 1978 been a little curbed as table 1 may show. Turkey's foreign trade has practically come to a stop, and one of the many results is that more than 2.500 companies went bankrupt and over 50.000 employees lost their jobs⁵; only in the regions of Istanbul and Izmir, Turkey

1 Krüger, p.2; Spiegel 8/1979, p.132; Becker, p.5;

2 Krüger, p. 2; Becker, p.5;

3 Spiegel 8/1979, p.132;

4 Grunenberg, p.3; Spiegel 8/1979, p.134; Krüger, p.2

5 Spiegel 8/1979, p.132

is indebted to 97 states and 228 banks⁶. All her present foreign exchange income is needed for energy imports⁷.

There are good reasons for the assumption that these difficulties will prevail. On one side, one must acknowledge that Turkey reached for about eight years until 1975 an annual average of economic growth between 7 and 8 percent which is far ahead of the EC countries and which could be regarded as a decisive prerequisite for quick progress, because it is the highest rate of all the 24 OECD member states⁸.

6 Grunenberg, p.3

7 Grunenberg, p.3

8 TÜSIAD, p.12; Spiegel 8/1979, p.132; Becker, p.5

Table 1: Development of Some Economic Indicators^a

Indicator	1972	1973	1974	1975	1976	1977	1978
Exports (mill. \$)	885	1.317	1.532	1.401	1.960	1.700	
Imports	1.563	2.086	3.776	4.738	5.129	5.580	
Trade Balance	-678	-769	-2.244	-3.337	-3.169	-3.880	
Workers' Remittances	740	1.183	1.426	1.312	983	1.000	
Balance of Payments	+152	-917	-428	-1.455	-1.751	+2.840	
Monthly average of imports (mill. \$)		175	311	387	419	477	341 ^b
Monthly average of exports (mill. \$)		110	128	117	162	145	158
Deficit		65	183	270	257	332	184
Gold and foreign Exchange		2.12	1.86	1.06	1.12	.77	.94 ^c
Holdings (bill. \$)							

a) Sources: İktisadi Rapor, Türkiye Ticaret Odaları, Sanayi Odaları, ve Ticaret Borsaları Birliği, Ankara, 1977, p.511; Der Spiegel 8/1979, p.134; 1978 Yılına Girerken Türk Ekonomisi, TÜSİAD, İstanbul, 1978, p.7

b) January through August

c) June

On the other hand, there are some enduring elements in Turkish social structure which heavily countervail the so admirable efforts. One of them is the extremely overpopulated and inefficient bureaucracy¹ and another one is the extremely high population growth, adding more than a million per year to the inhabitants and more than 400,000 per year to the labor force.² So it was even under the relatively favorable conditions of 1974 that an extrapolation of the existing trends predicted³ that Turkey would reach the EC standards of living⁴ of the seventies not before the year of 2359.

This domestic dilemma is equalled by an international dilemma in the recent history of attempts to retard the downhill driving. It is unanimously accepted that foreign aid is necessary. Estimates of the appropriate amounts vary heavily. In NATO circles 10 billion \$ are mentioned⁵ (military equipment not included); international bankers speak of 15 billion \$⁶, and Turkey's Five-Year-Plan of 1978 envisages foreign credits of 8 billion \$ for five years⁷. Under these impressions small practical steps toward relief were taken. The IMF and the EC allocated credits of 450 million \$ each, but blocked large portions thereof when Turkey did not agree to the political conditions. Having martial law in 13 of the 67 provinces Turkey could simply not guarantee to lower inflation and wage increases, to devalue the lira and to minimize the deficits in the state budget and in public industry.⁸ But even under more favorable circumstances Turkish pride would have rejected this kind of foreign interference. So Walter Leisler Kiep's efforts to collect about 1.5 billion \$ from OECD members and other sources seem to be the

1 This bureaucracy forces Turkish export firms to collect up to 200 official signatures before they can export a good (Spiegel 8/1979, p.134); thus discouraging every efficiency - oriented entrepreneur from nationally vital activities.

2 Spiegel 8/1979, p.132

3 Spiegel 34/1974, p. 46

4 In 1975, the EC average of per capita GDP was 5,168 \$, in Turkey only 861 \$.

5 Ruchl, p.6; Becker, p.5

6 Spiegel 8/1979, p.134

7 Ruchl, p.6.

8 Grunenberg, p.3; Spiegel 8/1979, p.134.

9 Spiegel 21/1979, p.140; Becker, p.5.

most promising activities for the moment.

Systemic Structure of the Options

Before we start with the pros and cons about non-alignment we should try to make clear what the concepts of alignment and non-alignment mean. Unfortunately, there is little enlightenment in general systems theory, as far as socio-political systems are concerned.

A clear case is non-alignment. This would mean that a system is related to other systems only but the usual system-environment relations. All other systems would be equally alien, undiscriminated parts of the system's environment. The system would have complete systemic independence from other systems.

Combinations of systems are, in sociological systems theory, usually thought of as relations between system and subsystems. A subsystem is a system itself, it serves, though, the goals of the "mother" system. So, system and subsystem are mutually dependent- but on an hierarchically different level. This would be the general model of real integration.

But this is not what happens when states form international, supranational, or transnational organizations with an own legal personality and jurisdiction. Admittedly, in our everyday conception of these organizations we tend to imagine them on a higher level than the states. And this may explain why systems theory has not yet developed appropriate instruments to handle the real construction of the relations. In reality, the relation between a state and a supranational organization of which it is a member, is not a stable system-subsystem-relation, i.e. integration, but a relation which should be regarded as a parallel to what is understood by "membership" in general terms. The members and their organizations are, still, systems of their own as systems and subsystems are. But unlike system and subsystems, their relation is not invariantly an up-the-line or down-the-line relation. Rather it is a kind of alternating current. The members borrow some of their sovereignty to the supranational organization, but they do not abdicate. Instead, they exert a joint control over the organization's making

use of this temporary sovereignty, and in so far the organizations are, at the same time, supranational and infra-national. That is what especially France has taught the Brussels Commission.

Table 2 aims at schematizing these differences¹. It should show clearly that membership - or, as we might call it for the present purpose, alignment - is a little different from what usually is understood, or just felt by connotations, by this term in political discussion. It is a transfer of national rights under the condition

Table 2: Schematized Differences of the Options

Non-alignment

Integration

Membership

Fusion

¹ We add, for reasons of completeness, the model of fusion. This is frequently mentioned in preambles as the goal of integration or membership. It is regularly not reached, though, and thus it can be regarded as harmless for advocates of non-alignment.

that the nation, again, controls the exercise of these rights. This insight may introduce some détente into the discussion about alignment or non-alignment.

Advantages and Disadvantages of Non-Alignment

	Alignment	Non-alignment
1) Sovereignty (political autonomy)	Direct exercise partially transferred to central power over which only indirect, participative control is reached	Not restricted
2) Entrepreneurship (economic autonomy)	Affected by important centralized responsibilities, but enlarged through additional chances	Not restricted, Not enlarged
3) Identity (cultural autonomy)	Affected by need of adjustment or by direct interference	Not affected
4) Solidarity	is granted and has often proven very helpful; but mutual obligations	is not granted
5) Communication	regularly institutionalized with partner, restrictions with third parties possible, but doubtful	no institutionalization
6) Cooperation	very close with other members, therefore often more difficult with others	depending on market value of system

a) Sovereignty

Sovereignty, i.e. political autonomy, is certainly affected by a state's entrance into a supranational organization of an EC type or of another type. Just as an example we will quote here and in further contexts the regulations of the Agreements of Rome of March 25, 1957, in order to show what is usually combined with membership in such a type of organization.

As an example of limitations of sovereignty we may use the rights of the EC Commission. The Commission acts through ordinances, guide-lines, decisions and recommendations (art. 189). Of these, ordinances are immediately applicable law in each member state, guidelines are mandatory for the state to which they are directed but who has to determine autonomously forms and means for the execution, decisions are binding those public and private institutions mentioned in the decision, and only recommendations are not more than a piece of advice. In the same way, the European Court can directly interfere in problems which are, at least on one side, problems of a national institution or of a citizen or a company in a nation (art. 169-178).

This is certainly a strong argument for non-alignment. One can imagine that membership means a great sacrifice for a nation that has repeatedly experienced the malevolence of other nations, some of which are even elder members of the prospective common club. The decision may even be harder when one takes into account that group opinions are normally formed on an average level so that group decisions may be, with some expectations, a special hardship for the weakest members.

But a state, even not the weakest one, is not a helpless victim to the new central powers. The Assembly and, above all, the Council of the EC in which, among other control institutions, each member state is represented have very important powers over the central institutions (art. 137 - 148). In most cases they have a quorum of two thirds, in other cases, e.g. art 238, even a veto power for each member. In so far, alignment is not an unconditioned surrender, but a partial and controlled transfer of sovereignty.

b) Entrepreneurship

National entrepreneurship, i.e. economic autonomy, is by an alignment even more touched than political autonomy. Regularly, preambles of interstate organizations begin with political goals (EC: to create an ever closer union of the European nations), their real heart, though, are economic aims which form, in words and deeds, the largest portion in the activities of such organizations. Consequently, the EC Agreements have among their nine motives in the preamble five with predominantly economic character: to secure economic and social progress through concerted actions; better conditions for life and work; to guarantee continued economic growth, balanced trade and fair competition; to unite the national economies and to further a harmonic development; to minimize obstacles to the exchange of goods. A detailed analysis of the EC activities would show clearly that they are mostly in the area of economics. There can be no doubt that it is a state's economic self-determination, its role as national entrepreneur, which is most rivalled by the supranational institutions.

Non-alignment policies would avoid totally such a transfer of power. Everything would rest with the state. But this, too, is a circumstance which some politicians deplore if they open their heart: they can blame nobody else for a lack of success in economic progress.

But these extremes of alignment and non-alignment are relative, too. Alignment gives a state the chance to influence the economic policy of the other members, too, a chance it would not have, at least not in the same degree, if it were isolated. This chance may be valuable in bad time where one can make the other partners in the organization pay practical attention to your difficulties; in good times though, you would have to show down a little and share with the poorer ones. Non-alignment, on the other hand, would mean that you can exploit favorable situations for your own sake without being compelled to take into account what this might mean to the neighbor.

c) Identity

Identity, perceived as cultural autonomy, is usually never spoken of when states organize international_{ly}. A lot of secondary adjustments, though, is necessary in these cases and takes place if you look a little closer at the consequences of

po_litical and economic cooperation. It is not only that foreign entrepreneurs and investors get access to the domestic market and import new products, new methods of production, of personnel selection, on-the-job training etc. . As soon as one comes to the question of free mo_bility of the labor force(art.48) one comes to the problem of equality of professio_nal training which regularly ends up in a more or less unified curriculum for the key profession(art. 128). Intensified trade is at the sa_me time an ironing-out of differences in consumption patterns, and internationaliza-tion of investments is a unification of work patterns. Both together constitute an important step toward a more similar life style in the whole. I have lived for twenty years on the border-line between France and Germany, and I could observe how the daily life in either place became more and more alike. There can be no discussion that Turkey could profit from such a development in some respect, but I am convinced that she would also loose many very lovable traits of national customs if she came under the influence of any adjacent alignment candidate.

So again, th_e alignment -non-alignment question is a question of a cost-benefit-analysis. It is a question of the national order of value if one should join or not.

d) Solidarity

The following poin_ts could be , with equal justification, regarded as independent decision elements or just as specializations of the viewpoint mentioned before.

In the question of solidarity the difference is obvious. An aligned state may profit from other members if it is in need of subsidies or other forms of help. And it would have to pay if it is better off than the partners. Granted assistance for balance of payment(art. 108), support for professional advancement of the labor force(art.125) and active development aids(art.129) are examples for this as_pect from the EC repertory.

The non-aligned state is free of everything, free of obligations to give help and free of rights to receive help. It is a similar decision as in the private ca_se where one has to make up his mind if or not to have a health insurance. If one

feels as healthy as Switzerland one may deny a need of risk-sharing. Advocates of non-alignment use to quote a German proverb which says, "The strong one is the strongest alone" A cautious person would add, though, "But only as long as he is strong", and would ask for admittance in time.

o) Communication

Regularity and intensification of communication are occasionally a specific goal of international organizations. Euratom, created simultaneously with the EC predecessor, has the explicit task of generating information about the industrial use of nuclear energy and of communicating these and other informations to the members. Certain informations can not be communicated to non-members (art. 24 of the Euratom-Agreement).

But even where communication is not a purpose of its own in the structure of an international organization the participation of a state in the standing and ad-hoc-committees provides a definitely higher degree of information than an outsider could ever reach. This is an advantage in addition to the information about the whys and hows of the decisions agreed upon by the official bodies of an organization. It is somehow similar to the result of a conference of professors; the most valuable harvest is not only in the meeting halls, but sometimes also in the lobbies.

The positive effect of non-alignment which could be mentioned against these advantages of alignment is by no means the necessity to communicate one's own devices in order to receive exchange gifts. This has been, for a long time, the policy of socialist states. Even they have, as their participation policy of the last years reveals, definitely found out that communication itself is a stimulating factor for new inventions. So, information under communication is much more than just the sum of information which was generated in isolation. The only valuable argument of an isolationist might be that you bar yourself from intensive communication with other groups by being too closely aligned with one group. But this idea is too general to countervail the obvious advantages of prefabricated communication.

patterns in every case.

f) Cooperation

Similar to the situation in communication is the discrepancy between alignment and non-alignment when cooperation is in question. All agreements on international organizations are agreements on cooperation, either as joint or concerted activities or as an action of central institutions in place of national institutions. Examples for this are the regulations about a coordination of the economic and financial policies of the EC members (art. 103-105) and measures to alleviate members from difficulties with their balance of payments (art. 108) or the European Investment Bank (art. 129). A comparable degree of cooperation has never been reached by just bilateral agreement unless they were on a pseudo-colonial level.

So a non-alignment system may never have a similarly close cooperation with another completely independent system.

An argument against alignment could, perhaps, be found in the fact, that many cooperation agreements do not just show those results they were especially designed for, but that they frequently show latent functions which, if they are discovered at all, are less enthusiastically hailed. So it might occur that, in the course of a longer cooperation process, the partner gradually develop a pattern of division of labor (or whatever functions one can imagine) which lead, unvoluntarily, to more and more interdependence, i.e. more and more dependence for either side.

One cannot deny that this is true. But one must also admit that this dependence is a structured one which allows an exchange of goods and services at minimum costs and that it is a mutual one so that it is different from the exploitative relationship which may arise between independent states which come to an effective cooperation on a less formalized basis. So the prospects for a better control of latent functions of cooperation speak for alignment instead of non-alignment.

In summing up our considerations we may say that we have just touched the surface of the problem. Our six points are certainly not sufficient to come to

a definite judgement about the preference of alignment or non-alignment, respectively. In several respects we might add more points on the same level as those mentioned above; and all of these points deserve a more detailed analysis¹. But I am not able to make several sections of the Devlet Planlama Teşkilâtı unemployed within one hour at a conference. But, anyhow, contribution was just designed as an incentive to look at the non-alignment problem more from a scientific, that is a pragmatic, point of view and not only from a political, i.e. mostly an ideological, point of view and not only from a political, i.e. mostly an ideological, point of view. I will not deny, though, that the final decision is, in its core, a value-judgement-and that is an ideological, political decision, not an outcome of cool, scientific considerations. But this is just the last step. If it is carefully prepared by a cost-benefit-calculation it will, most probably, be to the best of this beautiful country.

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1 It might be interesting, for instance, which groups in the population would be forced to change their attitudes and habits more than others. That might be necessary to estimate the degree of acceptance of alignment-an aspect of vital importance in a democracy.

THE TURKISH-EG RELATIONS FROM THE PERSPECTIVE OF
THE FEDERAL REPUBLIC OF GERMANY

I. THE TURKISH DISAPPOINTMENT IN THE EC AND ITS CAUSES

When the Ankara Agreement on the association of Turkey to the EEC was signed on April 12, 1963, the problems the world and especially Turkey face today could not be perceived. At that time it seemed as if the way chosen by signing this agreement would ease the Turkish industrialisation process and as if it would help Turkey in modernizing her economy. Indeed the EEC did grant unilateral advantages to Turkey in the preparatory phase and the EEC also accorded financial help. When the Additional Protocol came into force on January 1, 1973, the transitory phase began. During its duration the transition to the customs union shall be realized. At the same time the harmonisation of the contracting parties' economic policies is supposed to start, and free migration of labour shall be reached. In this phase Turkey is obliged to grant advantages to the EC -members in her turn and to reduce tariffs. There is no need to go into details in this context. Turkey fulfilled her obligations. The EC also kept its engagements, although the value of its concessions is reduced by the possible exceptional regulations. Why did the profound discord arise characterizing today's Turkish-EC relations in spite of a performance of contract looking satisfactory at the first glance? Mainly there are three reasons to be named:

1. The Community's concessions, Turkey does not see them to be sufficient. This relates especially to the acception of agricultural products and textiles, still the most important Turkish export goods, by the EC-members. The Turkish wishes in this field are generally ignored. This situation shows that in 1963 the partners failed in negotiating the contract to an extent, that future misunderstandings would have been precluded. Maybe the Turkish interest was not formulated distinctly enough.
2. The EC granted to other Mediterranean countries with a similar economic and foreign trade structure the same preferences as to Turkey. Some of the new preferential agreements were reaching even further than the Turkish Association Agreement. This inevitably made the Turkish angry. As countries not associated to the EC received these preferences, competitors accrued to Turkey and they render a selling Turkish agricultural products more difficult. There is no way of calling this a sympathetic action of the EC towards an associated country.

3. The change in the international economic situation reduced EC's willingness to make any further concessions. With the rise of the price for crude oil the trade balance deficits of most West-European countries grew, and thus the financial power, necessary for an economic aid, of the EC members decreased. The national interest of the members came forward much more intensive than in the past.

Turkey was hit extraordinarily hard by the worldwide recession and especially by the rise of the energy prices in her growing national economic problems. When 80 per cent of a country's foreign currency income needs to be spent just for the crude oil imports, the situation becomes most critical for this country. There can be no doubt, that for the actual situation of Turkey factors are chiefly responsible, which can be found in the interior: first of all, I presume, it is the political instability and the increasing rate of inflation. But, the circumstances in the surrounding world aggravate the situation.

The EC-members provided in 1977 42,6 per cent of Turkish imports and they accounted for 49,5 per cent of Turkish exports ¹⁾.

Therefore the foreign trade interchange between Turkey and the EC reached a level that equals economic dependence. There is no reason to rate this to be bad, if the partners recognize and accept the obligations evolving from this state of things. The way all the countries in the EC chose leads all of them from independence over dependence to interdependence. The latter in a dialectical way of thinking represents a new quality. By a maximum of international division of labour it conducts to an increase of welfare for all members of the Community. If there exists interdependence to such an extent, then a country, if need be, can expect solidarity from its partners. It is an important reason for the Turkish disappointment that the EC members did only show this solidarity in a very insufficient manner. The West-European people should understand this.

Of course Turkey must as well try to understand the situation of Western Europe, whose countries reproach her with the fact that her activities to solve her own problems are insufficient and that she relies too much upon help from the exterior. The German reformer Martin Luther said: God helps them that help themselves.

Certainly, the Turkish try to help themselves, but the success is not visible yet. As soon as this will be the case the readiness of West-European countries to help Turkey will increase.

In Turkish-EC relations the Federal Republic of Germany acts an important part. The Federal Republic is the economically strongest country in the Community and it is the main foreign trade partner of Turkey. In 1977 Germany accounted for 16.3 per cent of Turkish imports and 22.1 per cent of Turkish exports. The Federal Republic is therefore not only top-ranking as provider of goods important to Turkey but also the main buyer of Turkish products. Further on more than 80 per cent of Turkish emigrated workers went to this country. This is perhaps the reason why Germany shows a different attitude towards Turkey than all the other EC -countries do.

II. THE GERMAN - TURKISH COMMERCIAL RELATIONS

The commercial relations between Germany and Turkey are traditionally good. In the 18th and 19th century due to lack of political interest of the German Reich on one side and the undeveloped economy, technology and administration in the Ottoman Empire still of no importance, the relations started to develop well before the turn of the century, the German Reich chiefly acting as financier of the Ottoman Empire. The German-Turkish alliance in World War I then formed the basis for economic cultural cooperation with growing intensity. In the following time Germany became the most important business partner of Turkey - a position Germany was able to hold till today, except for a short discontinuance at the end of World War II²⁾.

The Federal Republic after having overcome the severe effects of the Second World War has further expanded the trade with Turkey continuously and also engaged itself in the financial aid program of the Turkey-Consortium formed by the OECD in 1962. Germany gave more than DM 3.2 billion (thousand millions) of direct capital assistance and technical aid to Turkey. Therewith this country ranks second after India among the receivers of German capital assistance. More than half of the German aid falls to the share of public loans on a term of 30 years at 2 per cent interest with ten years free of interest. On December 31, 1977 actual public German assistance added up to DM 1.9 billion of promised DM 2.143 billion³⁾.

The Federal Republic got involved in many sectors which are of great importance for Turkey's economic development. Germany attempted to take into account the Turkish development plans in its efforts. Thus it helped in the development of the educational system, of mining, and of agriculture. Germany performs a most significant help, too, in the framework of the reintegration-agreement contracted in 1972. Here the Federal Government supports the formation of small-and middle-scale enterprises whose share-holders are mostly Turkish migrant workers in Western Europe, who thus create a basis of existence for their return to their native country. The German name for these enterprises is "Arbeitnehmergesellschaft" which could be translated with "workers' company".

Under the present conditions the employment of more than 500.000 Turkish workers in the Federal Republic is of big help to Turkey. Their remittances contribute substantially to alleviate Turkish balance of payments problems. The benefit, however, is to be found on both sides, for the Turkish migrant workers, in Germany esteemed as assiduous workers, relieve the German labour market and its bottlenecks perceptibly. Although still about 800.000 Germans are unemployed, the German economy in many sectors cannot manage without Turkish workers.

Not only the Federal Government but also the German private economy proved great interest in Turkey. The German share in foreign private capital investments in Turkey has meanwhile reached 15 per cent. However, only a very small part of German private investment abroad is made in Turkey. According to data provided by Erol Manisali German industrialists invested in Brasil 27.6 billion TL, in Spain 23,2 billion TL, in Greece 2,4 billion TL, but in Turkey only 0,3 billion TL, (position as per 1976). They preferred chemical industry (23 per cent of capital invested, position as per 1977), hardware and equipment industry, electrical appliances industry, automobile industry, and food industry. German private capital investments in Turkey totaled 329 million TL in 1977⁴⁾.

The Turkish side criticizes that German investments chiefly aim at the Turkish interior market and that they need a high share of imported inputs⁵⁾, but there is no doubt in their benefit.

The causes why German investments in Turkey are comparatively low can be searched and found in Turkey herself. So German industrialists complain about bureaucratic

barriers hard to surmount and about difficulties in acquiring informations important for the decision on investment and about incentives for investment that are insufficient compared to what other developing nations offer and about difficulties in transferring the gains and about the problems in supplying the necessary in-puts that often need to be imported.

Most discouraging, our Turkish friends should be entirely aware of this fact, the country's political instability affects German industrialists. Together with the increasing deterioration of the Turkish economic situation, with strikes and fast rising wage costs at decreasing labour productivity and high rate of inflation, it effects that German industrialists prefer to invest in other countries.

Turkish-German cooperation works out rather well in a field scarcely ever mentioned: the defense sector. It materializes especially in the construction of submarines and small vessels, armoured vehicles, light and medium weapons, and ammunition. Federal Germany provides DM 1,2 billion worth of weapons to Turkey ⁶⁾. Due to the arms' embargo by the USA this cooperation is of very special importance.

If you chose 1965 as basic year equalling 100, than Turkish imports reached 1.128 in 1976 and Turkish exports 522. Whereas Turkish exports to Federal Germany in 1965 consisted of 96 per cent of raw materials and just 4 per cent of manufactured goods, the share of the latter has risen to nearly 36 per cent in 1976; but it has to be considered that Turkish statistics include processed agricultural products as industrial goods ^{6a)}. The share of yarns and textiles in the exports to the Federal Republic could be increased, too. Their volume rose from 9.4 million US Dollar in 1966 to 68,2 million US Dollar in 1976. The Turkish export of machinery and transport equipment developed quite well also ⁷⁾. So the structure of Turkish foreign trade became more diversified, which helps a lot in enlarging the volume of trade and which shows the progressive industrialization of the country. As trade among industrialized nations offers the best possibilities for enlargement, chances are good that the German-Turkish trade relations will continue to grow with the progressing industrialization of Turkey.

But the past years show a diminishing volume of German-Turkish trade, what was chiefly due to Turkish import restrictions. Indeed Turkey succeeded last year in cutting down its balance of trade deficit drastically. As much as the German side regrets the contraction of the volume of trade, as big is the understanding

for the Turkish steps.

What is a big burden for the trade between our two countries and what might have serious consequences^{COB} in the future, that is the fact that Turkey stopped the payments for German supplies. About 1.300 medium-sized German companies try in vain to get their money from the Turkish side for unsettled accounts adding up to DM 750 millions⁸). These claims are not secured by special guaranties of the Federal Government (via "Hermes Credit Insurance"). As part of the companies are rather small and none of them large-scale, for many of them this trade with Turkey has become of vital interest. Some of them face bankruptcy. By the manner the Turkish Central Bank (=Reserve Bank) acts in (the Turkish customers pay, but the Turkish Central Bank does not transfer) severe damage is caused for the confidence in the Turkish economy. It remains to hope that there will be no long-term consequences.

Considering the fact, that 44.8 per cent of Turkish exports to the EC (9) and 38,2 per cent of Turkish imports from the EC (9) are transacted with the Federal Republic, it is obvious, that any change in Turkish-EC relations will affect especially Germany. Therefore it is not astonishing that the Federal Government shows great interest in the development of things in Turkey and that they got involved in the conciliations re helping Turkey in the international framework. To my regret, these efforts have not been of big success so far because whatever result was reached up to now in the EC or in the OECD, it does not represent more than the reknown single drop of rain on the burning wood (hot stone) and it cannot bring about any change in the Turkish situation. It rather confirms the opinion that can be heard to be said in Turkey more and more often, that the EC does not really and seriously want to help Turkey.

III. THE GERMAN POINT OF VIEW

The basic idea is that the Federal Republic of Germany is much more interested in an amelioration of Turkey's economic situation than any other EC -member. There are historical reasons (the traditional German-Turkish friendship is not forgotten) for this, but there are also seizable economic reasons and military-strategic reasons. Human aspects are involved, too, particularly as the ties between Germany and Turkey were intensified by approximately 1,1 million Turks living in Germany. The German side therefore enforces the opinion that something urgently needs to be done. It seems to me that no conception for effective help has been drawn up till now.

German activities in favor of Turkey in a national or an international framework must be limited. The limits are

- 1) Germany's own national interest
- 2) The reluctant attitude of most of the other EC-partners.

Re 1) The Turkish Government is in its negotiations with the EC-administration and the Federal Government chiefly interested in ameliorating her position in three respects:

- re the export of agricultural products
- re the export of textiles
- re the export of migrant workers.

Whereas the first aspect does not affect the Federal Republic because the structure of Turkish agricultural exports does not only not disturb German agriculture, but rather complete it, there exists remarkable resistance against Turkish textile exports. Although in my view there is no direct competition with German products, the German textile industry's lobbyists are very active. They know how to carry their point through. Nevertheless I do not think them to be an insurmountable obstacle. With good will on both sides it should be possible to find a compromise. Because of the surrender of rights of sovereignty in connection with the EC-membership the Federal Government is not allowed to decide in this case, the decision is up to Brussels, what complicates the situation.

Vital German interest is concerned, however, when it comes to the question of sending workers to the EC respectively to the Federal Republic. The situation on the German labour market was already mentioned before. 80 per cent of Turkish workers abroad are employed in Germany. Many amongst them made their families follow. Now young Turkish of the second generation grow up in Germany. Every year 45.000 children of foreign migrant workers press on the labour market. Here a hidden immigration goes on that causes severe social and economic problems, for the number of apprenticeships is even insufficient for the German youth. The existing lingual and religious barriers provoke the formation of ghettos in the big cities what means the creation of social dynamite.

Further on the dependency bonus (Kindergeld) that must be paid to Turkish families (DM 50.— for the first, DM 80.— for the second, and DM 150.— for the third and

~~every further child~~) constitutes a heavy burden for the German national budget, particularly as the German law is substantially more generous than that of the other EC-members who use the principle of origin not the principle of residence.

When free migration for Turkish workers in the EC will be realized, then Germany will probably be deluged with workers. This could not be accepted by any Federal Government, by whatever party it would be formed, because the Government's first and main task is to take care for the ^{ir}own native people.

That is the reason why the Federal Government is interested that the free migration, which is provided in the agreement and which should be realized by 1982, will be postponed. This constitutes bitter medicine for Turkey, but it must be understood considering the German situation. Maybe it would even be of help for the Turkish side, if Turkey herself would cancel her demand for free migration of labour and receive in exchange compensatory payments from the Federal Republic, which could be used for building industries in the country itself and thus for creating new employment possibilities. Then Turkish workers would be able to stay in their native country with their families and friends and the Turkish economy would receive a certainly remarkable impetus of growth. If one succeeds in solving this problem, Turkey will find with Germany a reliable and honest advocate in the Community.

Re 2 : The majority of the EC-members see in Turkey nothing else but a country that will cause the Community permanent financial burden for a long time. Every member tries to get more money out of the common purse than it paid into it.

The Community lacks solidarity till now and the real trial is still to come. The EC will be encumbered by the entry of Greece, Spain and Portugal that hard that the limits of solvency can be anticipated. When Turkey with her 43 million inhabitants and the multitude of unsolved economic problems will become an additional member, it might provoke an endurance test for the EC that might very well end in dismembering the Community.

This is also true regarding the different interest of the members. France and Italy are afraid of Turkey because of her agricultural products, England is afraid of Turkey as competitor in textiles in the Common Market, France's preferred partner in the

Eastern Mediterranean is Greece. There France possesses a good position in the market which it tries to improve. In other words: The Turkish only have a few advocates in Brussels and even German initiatives in favor of Turkey can, as I see it, only be of limited success. Not only Turkey, the EC, too, see Turkey's Association different today than it did in 1963.

When Prime Minister Ecevit visited Bonn in May 1978, the Federal Government offered several proposals for the cooperation with Turkey. These proposals concern mostly the financial field. So Germany granted several loans and basing on the agreements in the OECD it negotiated three government contracts on a conversion of DM 650 million of borrowings. The Federal Government is also willing to give economic aid in cooperation with other governments. They not only expressed this at the summit conference in Guadaloupe, Germany also participates in an aid program of OECD. As Germany had to accept a multitude of other international engagements, its possibilities are limited also. It is known in Turkey, too, that Germany as consequence of the Israeli-Egyptian peace treaty has to bear new burdens, which it cannot avoid for international policy reasons.

But the Federal Republic, this is my conviction, could do more than it has done yet. The Federal Government pays billions and billions to soviet-communist countries who are hostilely minded towards the Federal Republic. The Federal Government believes that they can thus buy political détente. But they get kicked instead. If only half of the money that is paid to the East-German Government every year would be available for Turkey, a country free of any anti-German feelings, it would be of enormous help to this country. Of course the Turkish would have to attack their problems much more earnestly and intensively than before. I am convinced that the German public opinion accept an aid to Turkey more appreciatively than the help to the soviet-communist countries.

Under the given circumstances an important enlargement of the German assistance to Turkey cannot be expected. The Federal Government rather aims at negotiating an international agreement and at getting active chiefly in the framework of a multilateral aid program. This is disappointing for Turkey, particularly as according to the present state of affairs not as much help can be expected to come from the EC as would be necessary to assist Turkey effectively to overcome the crisis. The EC is willing to postpone the duties that the Additional Protocole imposes on Turkey for some years (the exact wording is: "suspend for a limited

time") and the EC will probably grant DM 1,5 billion as financial aid over a five years' period. This shall be done independently from the planned OECD immediate help program which will provide a total of US Dollar 500 million ⁹⁾. Germany will cover US Dollar 100 million out of this sum as an additional performance. The Turkish wanted US Dollar 8 billion spread over five years. The German commissioner for this financial aid, Mr. Kiep, he holds the view that US Dollar 1,5 billion are the minimum sum necessary just to overcome the economic crisis in Turkey. I myself doubt whether this will be sufficient, but right now even Mr. Kiep's proposal seems to be difficult to be realized. To speak frankly, the West-Europeans see Turkey to be an ever leaking barrel, and they do not believe that their money will provoke any change. As they realize that there is no other realistic alternative for Turkey but the EC, they watch the evolution cool. Indeed the Communist countries cannot bring about a solution for Turkish problems either, much less still can the Arabic economic region. I regret having to say this, but thus is the situation and it would be wrong not to face it.

IV. SOLUTIONS FOR TURKEY

In this situation Turkey must try to make her voice be better heard in Brussels as well as in the capitals of the members. According to my opinion, the most advisable step in this direction would be to apply for full-membership in the EC. As the EC is unable to handle the Turkish entry of Greece as well as that of Portugal and Spain. This would have resulted in an amelioration of the Turkish position vis-à-vis the EC. These three other South-European countries being members, they will join the conversation in all questions concerning Turkey, from financial aids over tariffs and quotas (especially on agricultural products) all the way to the conditions of full-membership. The decision procedure of EC will become more complicated after the enlargement. Chiefly it will become more complicated in respect of Turkey, because the new members are competitors of this country in wide fields.

Although this chance is gone, from my point of view, an application for full-membership of Turkey would bring along advantages still today. If the EC would agree in the entry, no new obligations would evolve for Turkey. There would be no change in the transitory phase. On the other hand Turkey would gain the title to participate in the Community's regional and social funds. She would receive perceivable assistance from this side. Further on the Brussels administration and the industrialized countries in the EC would be obliged to deal with the Turkish problem more than ever before. And they would have to pay more attention to this country.

But also in case the negotiations re the entry would remain without result, such a motion would have positive effects for Turkey. In the case, too, Turkey would have become an important point on the agenda in Brussels and an energetic assistance could not be avoided. Thus Turkey would bring pressure to bear on Western Europe, what would be fully legitimate. As the EC-members in the present situation are anything but interested in a Turkish full-membership, they would grant concessions of all kind just for persuading Turkey to withdraw or postpone her application.

A Turkish application for full-membership would also bring about psychological effects. Many West-German politicians ask themselves whether Turkey will definitely continue on her way to Europe or not after all the Turkish criticism vis-à-vis EC and also after Prime Minister Ecevit's announcement that Turkey needs political reorientation¹⁰⁾. A precise and definite declaration from the Turkish side would be advantageous. On the other hand the EC on their side should state precisely how they see the future role of Turkey in Europe and whether they are still honestly interested in Turkey becoming a full member. When this matter will have been cleared up, a conception needs to be worked out for future political and economic cooperation. It is missing on the EC level as well as in Germany and in Turkey. The procedure could be facilitated by Turkey presenting a comprehensive rehabilitation plan which should form the basis for all common efforts. It is self-evident, that a full-membership of Turkey would constitute a big advantage in this context, too, because in this case she could participate in the decision in Brussels and thus look after her interest herself.

Prime Minister Ecevit characterized Turkey to be "ruins". I am afraid he is right. Nevertheless I am convinced that everything necessary to reconstruct a comfortable house from these ruins in mutual effort can be found and is available. Being the economically strongest member of EC and Turkey's most important foreign trade partner, the Federal Republic disposes of extraordinarily good possibilities to start activities aiming in this direction, which would help all: Turkey as well as Germany and Europe.

THE TURKISH-EC RELATIONS FROM THE PERSPECTIVE OF
THE FEDERAL REPUBLIC OF GERMANY

NOTES

- 1) Türkiye İstatistik Cöp Yıllığı 1978, Ankara 1979, s.194-197
- 2) Cf. Hermann Gross: Die deutsch-türkischen Wirtschaftbeziehungen, in: K.-D. Grothusen (ed.): Die Türkei in Europa, Göttingen 1979 (in the course of printing)
- 3) Ibidem and Bundesminister für wirtschaftliche Zusammenarbeit: Länderkurzbericht Türkei, Bonn 31.8.1978, p.13
- 4) Erol Manisalı, Turkish-German Industrial and Technological Cooperation. Economics Faculty Istanbul University, 1978, p.5
- 5) ibid., p.6
- 6) "Frankfurter Allgemeine Zeitung", on June 8, 1978
- 6a) cf. Turkish Industrialists' and Businessmen's Association, Turkey-An Economic Survey, Istanbul April 1977, pp.146-148
- 7) TÜSIAD: Turkey's Industrial Sector in Foreign Trade with Special Reference to EEC Relations, Istanbul, April 1, 1978, pp.45-46
- 8) "Handelsblatt" on April 6./7., 1979
- 9) "Neue Zürcher Zeitung" on April 4, 1979 and "Frankfurter Allgemeine Zeitung" on March 21, 1979
- 10) "Frankfurter Allgemeine Zeitung" on March 10, 1979.

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TURKEY'S INTERNATIONAL ECONOMIC RELATIONS

(With Special Reference to her relations
with the USSR)

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TURKEY'S INTERNATIONAL ECONOMIC RELATION

(With special reference to her relations with the USSR)

PART I

THE SCOPE OF THE STUDY AND THE MAIN THEMES

A-THE SCOPE OF THE STUDY

Turkey's international economic relations are surveyed in this paper with special reference to her economic relations with the USSR. For, Turkey's economic relations with the USSR can be studied best in comparison to her relations with the Western countries, in particular, the USA and the EC. We will be able to devote much less time in this paper on Turkey's political and military relations with the above countries although it is an interrelated part of the subject. Likewise, we will leave beyond our scope of investigations such other related topics as the place of Turkey within the context of USSR's perspective. Similarly for the USA and EC. And because of its immediate relevance for policy purposes we will focus our attention on the more recent years, since the late sixties and early seventies.

The scope of the study is defined in Part I of this paper and the main themes and conclusions reviewed briefly. Turkey's international economic relations with the USSR, the USA, EC and other country groups are surveyed in Part II. International economic relations cover such fields as foreign trade, foreign aid and credit, foreign private capital flow, tourism and workers abroad and their remittances. Major trends and tendencies that have occurred in the more recent years are traced briefly on a comparative country group basis, and the main reasons and causes for these trends and tendencies are explored. Part III follows with policy recommendations and possible future developments. Policy recommendations for future are devised not only

with respect to the recent changes in Turkey's international relations, but more directly with respect to the balance of payments crisis she faced in the last two years (See Tables I and 2 for the magnitude of balance of payments problems involved). Both the balance of payments problems and changes in Turkey's international economic relations took place simultaneously. Both were, in turn, largely attributable to development strategies and economic policies pursued by Turkey. There were, of course, other, external economic and political factors also at work, such as the oil price rises, changing economic conditions on the world scene, USA attitudes towards Turkey with respect to the Cyprus issue in 1964 and since 1974, the era of détente, etc.

B-A SUMMARY OF RECENT CHANGES IN TURKEY'S INTERNATIONAL RELATIONS

In the more recent years there was some political rapprochement with the USSR and a marked expansion in Turkish-USSR economic relations, particularly in the field of loan agreements and credits obtained from the USSR for various major public sector projects. This expansion took place at a time when Turkey's negotiations for credit with the IMF stalled. As Turkey faced mounting balance of payments problems, the attitude of the Turkish government towards the EC faltered and she asked for a five-year freeze of her obligations to the EC. Turkey's political relations with the USA, which had taken the first downward turn after the 1964 Cyprus crisis and the famous Johnson letter, dipped further following Turkey's 1974 Cyprus military intervention. There was, concomitant with the above changes in Turkey's international political and economic relations, an expansion in the role of the public sector at the expense of under-utilizing the full growth potential of the private sector and a growing negative attitude towards foreign private capital flow.

Much controversy lies in the Turkish literature and in the views of different political parties and doctrinaire movements in Turkey with respect to the above developments. In particular, the recent expansion in Turkish-USSR economic relations is deemed a "normal" development by some observers in view of the era of détente and the potential that was created as the USSR and Turkish economies grew over the years and that was not fully utilized due to cold war attitudes.

Indeed, in explaining expanding Turkish-USSR economic relations, the era of détente and the need for a multifaceted or flexible approach in Turkey's international economic relations was given as the underlying cause both by the 1975-77 National Front governments headed by the Justice Party (JP) and the (present) government formed by the Republican People's Party (RPP). But a closer investigation should show, according to the author of this paper, that Turkey's relations with the USSR and Balkan COMECON countries were expanded beyond the "normal" limit, defined in this paper in terms of considerations of economic efficiency. Part of the expansion was "residual" in the following sense; when Turkey faces balance of payment problems and credits she receives from international financial institutions and the West decline, Turkey tends to apply for aid and credit to the USSR, which the latter country obliges. Trade volume with the USSR and the Eastern bloc carried on bilateral basis also expands. But, part of the recent expansion in Turkey's economic relations with the USSR and Balkan COMECON countries was "deliberate" in the sense that deliberate and politically motivated attempts were made by Turkey recently to reduce Turkey's economic and political dependence on the West and increase her economic relations with all other country groups, including the USSR and Balkan COMECON countries.

Converse observations can be made with respect to Turkey's economic relations with the EC. Turkey's trade with the EC expanded fastest except for the Middle Eastern countries, the latter due to increase in the price of petroleum. Yet, despite this expansion of foreign trade with the EC a more detailed investigation should show that the full potential for expansion in Turkey's economic relations with the West, including the EC and the USA, is, in fact, under-utilized, that is, below the "normal" levels dictated by considerations of economic efficiency. This under-utilization is particularly acute with respect to foreign private capital (FPC) flow, Turkish exports, tourism, and with respect to a normal borrowing plane for bank credits. These, in turn, are attributable mainly to adverse development strategies and economic policies pursued by Turkey as well as a deliberate attitude to be "independent", or less dependent upon the West.

Turkey's economic relations with the Middle East (ME) and former RCD countries, on the other hand, have improved significantly since 1973. But this occurred mainly as a result of petroleum price rises and increased Turkish imports of petroleum from Iraq, Libya and Iran. Increases in exports to ME and RCD countries, credits obtained from them, construction undertakings and sending of workers remain at levels much below what Turkey could have achieved had she followed more appropriate development strategies and utilized the technology transfer potentials of EPC more fully.

Similar controversies abound in determining the major causes of the balance of payments crisis Turkey presently faces. A familiar reason given by the (present) Turkish government is the rises in the price of petroleum. A point of analytical interest in the argument is to what extent we should consider the subsequent rise in the prices of basic industrial and agricultural materials and inputs imported by Turkey as caused by the initial or autonomous rises in the price of petroleum. Interpreted either way, the oil price rises no doubt played a significant role in the recent deterioration of Turkey's balance of payments, but again, a closer scrutiny should show, according to the author of this paper, that adverse development strategies and economic policies pursued by Turkey played a still more significant role. Because, despite the rise in oil prices and the sharp decline in Turkey's terms of trade, foreign trade deficit of about 4 billion dollars in 1977 could have been met entirely or nearly so, by a higher level of workers' remittances, exports, tourism income, steady flow of credit, and reduced imports had she pursued appropriate development strategies and economic policies since the early 70's. The major elements of wrong economic policies pursued, in turn, can be summarized as increased budgetary deficits and increased financial requirements of State Economic Enterprises (SEEs), accelerated inflation, over-valued currency practices, making devaluations and exchange rate adjustments that were too late and too little, loss of confidence in the stability of the Turkish lira, neglect of exports, neglect of tourism, negative attitude and hostility towards EPC, failure to develop or expand viable import-substitute sectors in order to remove or alleviate shortages of domestic production and reduce

import requirements, distortions of the price mechanism, tendencies to expand government controls and to raise the share of investments of public sector or semi-public sectors at the expense of under-utilizing the investment potential of the private sector. These wrong economic policies were instrumental in the mounting balance of payments problems Turkey faced and the consequent slowing down of her growth rate and investments and increase in unemployment. They were more crucial than oil price rises in the sense that had appropriate economic policies been pursued consistently since the early 70's, Turkey could have entirely or largely avoided the balance of payments crisis she faced presently, despite the oil price rises and the sharp decline in her term of trade (1).

The mounting balance of payments crisis, in turn, played a significant role in holding Turkey's economic relations with the West, in particular the EC and the USA, below its full potential. It was also instrumental in raising her economic relations with the USSR and Balkan COMECON countries at above "normal" levels dictated by economic efficiency considerations. The above defined development strategies and economic policies are, in turn, termed as capitalistic development methods and resisted strongly by radicals both from left and right. Herein lies, according to the author of this paper, one of the root causes of Turkey's present economic problems and changes in her international economic relations.

C-ROOT POLITICAL CAUSES OR THE UNDERLYING MAJOR POLITICAL THEMES

The Turkish political history and political economy can be written with several main themes, such as the struggle for Westernization, the struggle between modernization and Westernization vs. religious reactionism, or as a struggle between the two major political parties,

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- 1) For more details, see: M. Ferret Hic, "Economic Policies Pursued by Turkey, Performance of the Economy and Their Effects on Her International Economic Relation" paper submitted in the International Conference on "Options for Turkey's International Political and Economic Relation", Istanbul, 28-30 June 1979. (to be published).

the former Democrat Party (DP) and the present JP vs. the RPP, differences with respect to the role of the state and the public sector vs. the private sector in economic development, or else, in the more recent period, as a struggle between radical left vs. radical right. In fact, all the above are valid themes and are simultaneously present as basic explanations of political and economic events taking place in Turkey. No doubt these events take place within the context of a changing world and are highly influenced from changes on the world scene. The main theme of this paper is that in the more recent years doctrinaire views, both radical left followed by radical right, have gained considerable ground in Turkey. Furthermore, taking advantage of the rivalry between the two major political parties, they have exerted an influence in the decision-making and law making processes a role much greater than their vote-mustering capacities. They have also caused the traditionally existing differences of development strategy between these two major parties to intensify even further.

Historically the struggle in Turkey was between modernists in favor of Westernization vs. the religious reactionaries. So, the emergence of the National Salvation Party (NSP), its participation in governments from 1974 till 1977, its strong influence and uncompromising anti-West stand led many foreign observers to think that the same struggle continued and the more influential anti-EC and USA overnotes came solely or overwhelmingly from the radical religious right. In fact both radical left and radical right condemn capitalistic West. The radical right of to-day, both the nationalist right represented by the Nationalist Action Party (NAP) and the radical religious right represented by the NSP have emerged as a response or reaction to the radical left of to-day. But all the three have their roots in the past. The radical left of to-day displays strong tendencies of religious and radical segregationism. The influence of the NSP rather than that of the NAP was more conspicuous and instrumental in the cold attitude the National Front (NF) governments led by JP showed towards the USA and the EC and in attempts to raise M.E. Islamic countries as an alternative to Turkey's relations with the EC. The influence of the radical leftist factions in the RPP and radical leftist pressure groups outside, on the other hand, were instrumental in the stand taken by the present RPP government to continue cold relations with the EC, to intensify the negative attitude towards EPC, to seek further substantial economic relations and accommodation

with the USSR and COMECON countries as well as the M.E. and RCD countries and the Third World. The recent developments may, therefore, be also explained with the rivalry between the two major political parties. For, we may say that the political rivalry between the two major parties and the already existing differences in their economic philosophy was decidedly instrumental in the recent growth of the radical left and radical right doctrines which, in turn, led Turkey to follow wrong development strategies and economic policies. The influence of the radical left and right got more out of hand with respect to anarchist and segregationist activities. Mistakes of economic policies arising out of the influence of the radical doctrinaires were compounded by the bureaucrats as a pressure group who tended to have doctrinaire and political party choices and preferred centralized government and expanded government controls since this gave them more power "to prevent the misdeeds of civilians and the private sector". In addition, politicians and political parties tended to prefer short-cuts to expand or maintain their constituencies by increasing employment -- and disguised unemployment -- in the SEE's, raising agricultural support prices unduly, granting wage and salary increases, expanding the social security system, failing to raise tax revenues, and thus contributing heavily to accelerated inflation.

From the perspective of international policies, on the other hand, we might consider the Turkish case as a limited success story on the part of the USSR in their effort to gradually turn Turkey away from NATO, USA and EC, and in spreading the Marxist doctrine. Conversely, it may be viewed as a study in the relative failure of the USA in maintaining Turkey closely trenched in the Western political and military camp.

PART II

RECENT TRENDS AND TENDENCIES IN TURKEY'S ECONOMIC RELATIONS WITH MAJOR COUNTRY GROUPS

A-FOREIGN TRADE

Turkey always had extensive trade relations with the EC countries -- F. Germany coming first -- before she applied for EC associate membership in 1959, Ankara Treaty was signed in 1963 and became operative in 1964. To wit, Turkey's exports to the EC (the six) comprised about 42% of her total exports in the years 1950-53 and remained at about 35%

from 1954 till 1966. Her imports from the same formed 42% of her total imports and remained at about 32% from 1954 till 1966 (2). During the same period the share of the USA was also relatively large. The USA (and Canada) comprised about 20% of Turkey's total exports during 1950-1966 declining, however, at a slow pace. Turkey's imports from same rose from around 20% in 1950-53 to around 29-27% subsequently till 1966, again showing a very slow decline in the later years. The relatively high share of the USA, particularly imports from the USA, can be explained by the relatively high share of USA in foreign aid and credit Turkey received, and by the relatively early phases in economic growth and development of European and all other countries. The share of the East bloc in exports peaked in the growth setback year 1954 to 19% and imports to 22%. It declined to around 10-14% in the subsequent years both for exports and imports. There was, however, a slight rise in the years 1964-66 as balance of payments difficulties began to increase. This may be taken as evidence of the "residual" character of Turkey's trade relations with the East bloc in the period studied.

Since 1966 till the present, trade with the EC, particularly with the Six increased steadily till 1977 and fell slightly in 1978. In both imports and exports the EC, and specifically the Six, showed the greatest rate of increase compared to all other country groups but for the exceptional case of M.E. and RCD countries (Tables 3 and 4). Percentagewise, the share of the EC (the Nine) in total imports rose from 44% in 1966 to 55% in 1973, the share of the Six from 32% to 44%. After petroleum prices were raised by OPEC and Turkey's imports from the M.E. and RCD countries began to rise sharply, the share of EC in Turkey's total imports began to decline. For the Nine it fell down to 43% and for the Six to 35% (Table 3). The share of EC in Turkey's exports, however, continued to show a steady increase percentagewise as well as in absolute figures. In 1966-67 the share of the Nine was 46-40%, in 1976-77 it reached 48-49%. The share of the Six rose even faster; from 34-31% in 1966-67 to 41-43% in 1976-77. (Table 4) Trade with the EC showed tendencies of decline, however, in 1978. As total imports fell from 5.796 million dollars in 1977 to 4.599 million dollars in 1978,

2) Seymour Goodman, Turkey's Trade Prospects in the Common Market: An Exploratory Study, I.U., Economics Faculty, Istanbul 1969, pp. 16, 35.

imports from the EC (the Nine) fell from 2.460 million dollars to 1.873 million dollars, or from 42,6% in 1977 down to 40,7 in 1978 (3). Her export to the EC (the Nine) rose from 868 million dollars in 1977 to 1.090 million dollars. But, percentagewise, this still meant a decline from 49,5% in 1977 to 47,6% in 1978 (4). Part of the decline in 1978 may, however, be illusory. For, in 1978, although official imports went down substantially, the volume of blackmarket or illegal imports must have increased, compensating a major part of the decline in official imports. Most of this increase in blackmarket imports must have been made from the EC countries.

The rate of increase was slowest for the case of trade with the USA. Consequently, the share of the USA fell significantly. In imports it fell from about 24% in 1966 and 17% in 1967 to 12% in 1972 and remained at about 8-9% since 1973. (Table 3) Hence, not all the decline in the share of USA imports was attributable to rises in petroleum prices and the consequent rise in the share of imports from the M.E. and RCD countries. The decline had set in since 1966 and earlier. Turkey's exports to the USA also rose, slowest as compared to all other major country groups. Percentagewise, the share of USA in exports declined from 16% in 1966 down to 10% in 1976 and 7% in 1977 (Table 4).

The decline in the share of USA trade and increases in that of the EC raised the issue of the operation of the trade-diverting as opposed to trade-creating effects of the customs union. This should be interpreted for the Turkish case not as the effects of a full-fledged customs union in operation but as the institutional set-up and the relative tariff reductions and exemptions between Turkey and the EC within the terms of the Ankara Treaty and the Supplementary Protocol (5). In the opinion of the author of this paper, only a small part of the decline in the share of USA trade can be attributed to the trade-diverting effects of tariff reductions and exemptions. There were, in addition, much more fundamental reasons. Part of the decline in imports from the USA can be explained with the decline in the share of USA in

3) Turkish Union of Chambers (TUC), Economic Report 1979, p. 556

4) TUC, ibid.

5) For details on institutional arrangements, see: EC Information Bureau, Türkiye-ABT İlişkileri (Turkish-EC Relations), Ankara, 1976.

foreign aid and credit Turkey receives. The share of aid and credit Turkey received from the EC countries would have increased as the income of these countries rose. Hence, imports from these countries dependent on credit would also have risen. But certainly the EC associate membership and the Financial Protocols enabled Turkey to obtain a higher level of aid and credit from the EC countries -- and the European Investment Bank (EIB) -- than in the case of no such associate membership relations. The USA imports compared to EC imports further carry an important disadvantage for Turkey in higher transportation and communication costs as well as generally higher prices. In the case of electronics and electrical appliances they do not conform with the properties of electric current in Turkey. They are also bigger than the required capacities in the case cars and many investment goods. We should also note here the existence of a high degree of complementarity between the Turkish and the EC economies, aparcicularly, F. Germany. This is not present for the case of the USA economy since it also produces many of the agricultural products Turkey exports. All these factors, therefore, combine to outweigh the importance the trade-diverting impact of the institutional arrangement of associate membership in explaining the decline of Turkey's trade with the USA and the expansion of her trade with the EC. In fact, it was because of the underlying complementarity in the economies of Turkey and the EC countries as well as competition between Turkish and Greek economies in the EC markets that Turkey applied for EC associate membership in the first place.

Turkey's trade with the USSR and the Balkan COMECON countries rose slower than the average rate and that of the EC, but faster than that of the USA. In imports, the share of the USSR and COMECON countries went down from about 12% in 1966 to 6% in 1977 (Table 3) both due to the sharp increase in imports of petroleum from M.E. and RCD countries, and also due to the increase of imports from the EC. In exports too, the share of USSR and COMECON countries declined from around 18-17% in 1967-68 to 9-10% in 1976-77 (Table 4). The rate of increase in exports for the said countries was slower than the EC (the Nine), more specifically the Six, but it was faster than the Three. It was also faster than the USA. In 1978, however, there was a tendency for the share of USSR and COMECON countries to rise. Total imports from same rose

from 340 million dollars or 6,2% in 1977 to 383 million dollars or 8,3% in 1978. In exports it rose from 174 million dollars or 9,9% in 1977 to 324 million dollars or 14,2% (6).

Again we may explain some of the changes in Turkey's trade with the USSR and COMECON countries since 1966 with the "residual" effect. The slow decline in the share of same both in imports and exports in the early 70's compared to the late 60's is a case in point. In the late 60's Turkey faced severe balance of payments problems which were largely alleviated after the 10 August 1970 large-scale and successful devaluation (7). Care must be exercised in interpreting the increase that occurred in 1978. Since 1978 was a year of acute balance of payments crisis the sharp increase in the share of USSR and COMECON countries decidedly had a "residual" component in the sense that Turkey's foreign exchange difficulties diverted Turkey's trade away from the EC and OECD countries towards bilateral trade agreement Eastern bloc. If we take into consideration the increase in the volume of blackmarket trade, particularly the blackmarket imports from overwhelmingly EC and EFTA countries, we may, furthermore, deduce that the rate of increase in the share of USSR and COMECON countries should be less than is calculated in terms of official balance of payments figures. But, in the opinion of the author of this paper, the increase in the volume of trade with the USSR and COMECON countries in 1978 still went beyond the residual effect. For there was a deliberate effort on the part of the Turkish government to effect long-term expansions in the economic relations with these countries. This can be witnessed in the bilateral trade and economic cooperation agreements signed between Turkey and these countries. These began to increase since 1974 but accelerated after 1977. Their implementation also began to be rigorously followed through. Since payments for USSR and COMECON country credits are made with exports, we may deduce that after 1978 we will witness a still faster rise in the volume of trade between Turkey and these countries.

Turkey's trade with the M.E. and RCD countries, on the other hand changed radically since 1973 with the sharp rise in oil prices.

6) TUC, *ibid.* pp. 561-2

7) See: Mikerrem Hi, "The Question of Balance of Payments Deficit and the August 10, 1970 Devaluation, in Problems of Turkey's Economic Development, Vol. I, I.U., Economics Faculty, Istanbul, 1972.

The share of same in Turkey's imports rose from about 6% in 1966 and 8% in 1972 to 22% by 1977. The share of her exports to same also rose fast, from 5% in 1966 and 12% in 1972 to 17% in 1975, going back to 13% in 1977. (Table 3 and 4) But, exports were still far below imports. Further investigation could show that Turkey's exports to M.E. and RCD countries -- as well as credits received from them, construction undertakings and the concomittant exports of workers-- are much below her potential, had she followed appropriate policies of encouraging exports and EPC participation for the transfer of technology. We are omitting here the large scale contraband trade that goes between Turkey and such border countries as Iran, Syria and Lebanon.

When we survey Turkey's trade in 1977 with individual countries (Table 5), we see that Turkey's major trading partner is F. Germany. In imports F. Germany comes first with 945 million dollars or 16,3%, followed by Iraq, Turkey's major supplier of petroleum, with 695 million dollars or 12%. Third comes the USA, with 503 million dollars or 8,7% followed Italy, UK, Switzerland, France and Japan. Turkey's other petroleum suppliers, Libya and Iran come behind. They are followed by Belgium, Luxemburg and Holland. Rumania with 114 million dollars is ahead of USSR with 82 million dollars or 1,4%. In exports too, F. Germany is first with 389 million dollars or 22,2%, followed by Italy with 163 million dollars, USA with 122 million dollars or 6,9%, Switzerland, UK, France and USSR, the latter with 80 million dollars or 4,6%. Exports to Romania is very low, thus producing a large trade deficit unlike all the rest of the bilateral trade agreement COMECON countries. Very low level of exports to Iraq, Libya and Iran produce substantial trade deficits with these three petroleum supplier countries.

B-FOREIGN AID AND CREDIT

In the founding years of the new Turkish republic, USSR credits played a significant role in Turkey's industrialisation and establishment of SFE's started in early 30's with the first Industrial Development Plan 1934-38. Soviet credits were used in establishing several textile installations and sugar factories, among others. But, the Second Industrial Development Plan devised for 1939-43 makes no mention of Turkish-USSR economic cooperation. This Plan was not implemented due to the outbreak

of World War II and the economic problems Turkey faced, European credits, however, soon took over, with UK in the forefront. The Cubuk dam was built by UK; many of the developmental infra-structure were built by European capital. In the 50's, the USA capital aid and EPC flow came to the forefront. A major part of these were directed to the building of highways, dams, hydro-electrical and thermal power plants, ports, airports, etc. Most of these projects were subjected to severe criticisms by the RPP in opposition on grounds they led to the neglect of railroads and opened the way to the development of the high cost automotive industry which utilized EPC and raised imports of inputs. They were also criticized for creating excess capacity and leading to waste, although the proof of this latter argument seems ambiguous. As European countries developed after the 2. World War, the share of EC and European countries in both aid and credit and EPC flow increased rapidly. Recourse to USSR aid in the 50's was minimal and tended to have a residual character, as was witnessed in the late 50's. This was when Turkey faced a severe balance of payments crisis but an adequate amount of aid from international financial institutions and the West were denied before she checked inflation and effected a large-scale devaluation. The erosion of cold war attitudes, USSR's change of policies and attitudes towards Turkey, and finally the cooling political relations between Turkey and the USA after the 1964 Cyprus crisis, however, played important roles in breaking the ice in Turkish-USSR political and economic relations. The significant attempts go as early as December 1966 when A. Kosygin visited Turkey to sign an agreement of trade, economic cooperation and aid. This was followed by N.V. Podgorni's visit which further expanded economic cooperation. Thus we witness, in the early 70's a remarkable increase in the share of USSR credits at a time when credits from the EC also expanded to take the first place. During 1970-74, the USA is still the major single creditor country. But it is closely followed by the USSR. Third comes F. Germany by some margin. The rest of the major creditors, mostly the EC countries follow by a wider margin. The EC countries as a group (the Nine, or more - specifically the Seven since Ireland and Luxembourg are not creditors) along with the EIB, however, are responsible for the major bulk of aid and credit. Their share, excluding debts cancelled -- and also excluding their share in credits directly lent by international financial institutions such as the IMF and the IBRD -- form about one third of total credit

and aid Turkey obtained during 1970-74. The USA and the USSR, the IBRD, and all the rest - including Japan, (8) comprise about one fifth each (Table 6).

In the face of mounting balance of payments problems during 1975 and 1976, the Turkish government at the time (the first NF government headed by the JP) tried to finance the increased imports bill by means of recourse to short-term private bank borrowings and schemes to encourage the deposits of savings of workers abroad in the form of foreign exchange in the Turkish bank. Hence, the DQM's (or deposits convertible to foreign exchange, alternatively called convertible lira deposits) were reallocated. The DQM's rapidly expanded and, in addition to workers' remittances, use of previously accumulated foreign exchange reserves, foreign aid and credit (program and project credits), they were able to finance a large volume of imports. This kept Turkey's growth rate and investments at high levels during years when most of the non-petroleum-producing developed and developing countries faced a severe recession, making Turkey the 4th fastest growing country in the period 1970-75. The share of USA as well as EC and other European banks in the flow of short-term private bank credits are overwhelming. The DQM's were, however, subjected to severe criticisms by the RPP. One of the criticisms was the alleged discriminating use of DQM credits on the part of the Turkish private banks. It was argued that these credits tended to go to the already large private companies. Another criticism was that they were flowing to certain private banks and thus were discriminating for the case of banks too. Another criticism was that the DQM's would tend to run away at times of acute balance of payments problems, thus compounding the problem. Still another criticism was that they carried a high interest rate compared to development credits.

The balance of payments problems reached crisis proportions from 1977 till present. Immediately after coming to power, the RPP government applied to the IMF for aid and effected a set of devaluations and exchange rate adjustments. But it was unable to control inflation. On the contrary, the rate of inflation accelerated markedly 1978. Therefore, credit nego-

9) For loan agreements and undertakings with Japan see: Turkish Industrialists and Businessmen's Association (TIBA), The Turkish Economy, 1978, pp. 117-8.

tiations with the IMF, the Western governments and banks were prolonged. In the meantime, the RPP government applied to the EC for a five-year freeze of her obligations, that is, to discontinue reduction of customs tariffs that Turkey applied to EC imports on grounds it would worsen her trade deficit still further. The Western countries were reminded of the military and political arguments - as opposed or in addition to strictly economic arguments - for aid to Turkey. The government also prevented further recourse to DQM's; consolidation of outstanding DQM's and their eventual liquidation were programmed. It made an all-out drive for getting aid and credit from various individual countries and country groups. Its efforts with the ME and RCD bore only limited results. Efforts were also spent to create strong political and economic ties with the Third World but these attempts too brought very limited result. In contrast, significant advances were attained in the case of the USSR and Balkan COMECON countries. They were, however, far from being sufficient to ease Turkey's immediate balance of payments crisis, to finance a minimum volume of imports from and to pay or defer her matured debts to Western countries. Finally an agreement was reached with the IMF on July 1979 when the Turkish government came to terms with most of the IMF policy recommendations, effected another large scale devaluation, agreed to follow anti-inflationary policies and to reduce the growth rate in order to reduce imports.

The progress in economic cooperation with the USSR was enabled by visits to Moscow of the Turkish Minister of Foreign Affairs in March 1977 and of the Prime Minister in June 1978. During these visits the Turkish government expressed a determined desire to expand Turkish-USSR economic relations. The era of détente even allowed the two countries to arrange for reciprocal visits of top military personnel. Similar contacts for aid and economic cooperation were also made to Balkan COMECON countries and progress attained in expanding trade and economic relations with them. The agreements with these countries drawn in 1974 and 1975-76 were mostly concerned with trade and expansion of trade. The only exceptions were Bulgaria and Romania with which economic and technical cooperation agreements of limited scope were reached in 1976. The agreement with Bulgaria involved cooperation in transit transportation as well as Turkish purchases of electrical energy. The agreement with Romania had a wider scope. It involved cooperation in the fields of energy, mining (coal), petroleum, natural gas, petro-chemical and

chemical industries and transit transportation as well as joint trade to the Third World countries. In 1977-78 trade agreements gave way to economic, technical, industrial and scientific cooperation agreements with all the Balkan COMECON countries. The only exception was Poland with which only credit agreements were drawn. The most comprehensive cooperation agreements among Balkan COMECON countries was made again with Romania. The agreement with Romania made in 1977, involved trade, cooperation in trade, transportation and transit transportation. The 1978 agreement involved the construction of the Mid-Anatolian refinery, Yumurtalık-Kırıkkale petroleum pipeline, phosphate installations in Kızı Dağı (mountain) region, purchases of petroleum drilling equipment and central heating system for Ankara (9).

The extent of economic cooperation with the USSR was most comprehensive. In 1975 several agreements were already reached for economic aid, increase in trade and in Turkish exports as well as construction of Arpa Çay dam in Turk v's eastern border. Other significant projects financed by USSR credit and technology before 1977 included the Seydişehir Aluminum Factory, İzmir Aliağa Refinery, ISDEMİR (İskenderun Iron and Steel Installations) and Bandırma Sulphuric Acid Factory. The agreements reached in 1977 involved economic aid, purchasing of electrical energy, credit for the expansion of ISDEMİR, and increases in trade and Turkish exports. In late 1977 the economic and technical cooperation agreements were ratified and intensive efforts were spent in 1978 for drawing up and materializing several credit and technical cooperation projects. The complete list of these projects is given in Appendix I (10). The total cost of these projects amounted to 210,0 billion Turkish liras, and foreign financing requirements to 88,5 billion liras (or 4,2 billion dollars and 1,8 billion dollars respectively, at to-day's rate of exchange). Some of the more important projects involved are the Hasan Çelebi mining operations, capacity expansion of Aliağa Refinery, capacity expansion of Seydişehir Aluminum Installations, second capacity expansion of ISDEMİR, Orhanlı thermal power plant and lignite operations, Kavşak-Çatalan-Kırımlı dam, Karababa (Atatürk),

9) For more details, see: Önder Arı, "Turkey's Political and Economic Relations with the USSR and Eastern Bloc Countries", paper submitted in the international conference on "Options for Turkey's international Political Relations", held in Istanbul, June 28-30, 1979 (to be published).

10) See: Önder Arı, ibid.

Ilisu and Batman dams, Other projects generally involve mining and heavy industries; railroad construction; railroad equipment, Istanbul and Ankara subway systems, various textile projects geared to exports to the USSR, and petroleum explorations as subcontractor to Türkiye Petrolleri A.O. (TPAO), and the construction of a nuclear reactor.

This brief survey enables us to make the following observations with respect to the recent expansion of economic cooperation between Turkey and the USSR. The USSR aid and credit projects undertaken would, in the near future exceed credits received from any single country, including the USA and F. Germany. It would also exceed total FPC flow to Turkey. The projects in petroleum explorations and refineries replace FPC activities and are in line with the Petroleum Reform Law No. 1702 dated 1973 and with the philosophy of the RPP in giving priority to the public sector in petroleum and restricting or eliminating FPC companies. The Mining Law put into force in 1954 had given the priority in mining operations to the public sector. But it was moderately applied to allow the operation of FPC company in borax and sundry small scale private firms in lignite and chrome. In 1978, in compliance with the mining law, the RPP government ceased the operations of private enterprises in mining. The mining projects with the USSR attempt to expand mining operations under the public sector. The lignite mining operations and thermal power plants indicate the RPP government's preference for producing electrical energy quickly by making use of Turkey's abundant lignite ores. Prior to the oil price rises effected by OPEC, the JP governments had preferred to build still quicker but import-oriented fuel based electrical power plants. The agreement with the USSR also contain a significant number of dams and hydro-electrical power plants, another abundant but costly resource. Projects with regard to the construction of railroads and supply of railroad equipment would help to offset the under-utilization of railroad transportation in Turkey compared to the over-utilization of highway transportation. The expansion of highway transportation by the DP and JP governments with USA aid was criticised by RPP on grounds that it had a high social cost, involved the private sector, gave rise to the development of the automotive industry by means of FPC flow and joint ventures, and necessitated a large volume of imports of inputs and component parts. A critique of the full impact of the expansion of highways and automotive industry on Turkey's economic development is considered

beyond the scope of this paper. The projects involved with the development of the heavy industries and expansions in the manufacture of basic materials with the USSR loans, when studied from the prospective of industrial sectors, generally fulfill a genuine need for the Turkish economy and are viable. But the USSR technology is generally deficient compared to the Western. The expansion of the inefficiently operated SEE's in these fields by means of USSR loans seems to have been programmed without first making sincere search for Western credits, the encouragement of the private sector and FPC flow. Similarly, using USSR loans and technology in the construction of various dams, and subway systems for Ankara and Istanbul also do not seem to have been preceded with a determined effort to seek Western aid and technical cooperation. The expansion of the SEE's and other public investments through USSR aid and credit is, however, in line with the philosophy of the RPP to expand heavy industries by the public sector and make Turkey at the same time less dependant on West. It also confirms with the 4. Five Year Development Plan (FYDP) 1979-83 prepared by the government which aims to raise the share of public sector in total fixed investments from 51% to 57%.

Payment of USSR credits is generally made in terms of exports: Turkey's traditional exports to the USSR are agricultural products and to a lesser extent textiles. Exports of mining will also be on the increase. Due to its barter arrangement nature the Soviet credits offer at first sight an easy way out for back payments compared to Western credits. The credit arrangements with the USSR would thus also mean that trade with the USSR will expand rapidly in the future.

6- FOREIGN PRIVATE CAPITAL

FPC, as a conspicuous element in Turkey's economic relations with the West, the EC and the USA, or as an element of capitalistic development methods, has been subjected to severe criticisms coming from first the radical left since late 1960's, and in the more recent years since the early 70's also from the radical right, particularly the NSP. Historically, the experience with the capitulations granted to FPC companies during the Ottoman Empire had made the new Turkish Republic, the RPP and the bureaucrats reluctant towards FPC. FPC companies in the fields of transportation and municipality services were gradually purchased by the new Turkish republic and nationalized as public companies. Those in trade, representation, imports, exports and banking were allowed to operate stripped of capitulations. In the 50's, along with the changing world conditions and changed view on development policy, Turkey opened to FPC. In the later years of the single party RPP government, in 1947, a Regulation No.13 was passed which introduced some encouragement measures to FPC flow. But this regulation was not implemented. The DP which came to power 1950 followed the principle of rigorously encouraging FPC flow as well as private sector investments. After two short laws passed in 1950 and 1951, two comprehensive laws were prepared and put in force in 1954: Law No. 6224 for the Encouragement of FPC--in fields other than petroleum--and Law No. 6326 for the encouragement of the private sector and FPC in petroleum (11). These laws, particularly Law No. 6326, were heavily criticised by the RPP then in opposition. Petroleum and mining were considered by the RPP as fields that should best be taken up by the public sector. Criticisms levelled to FPC that had flown under Law No. 6224 carried technical overtones. FPC had flown mostly to import substitute sectors and assembly-line industries, they had low domestic production content (DPC), they were mainly interested in maintaining imports to Turkey in the disguise of imported inputs under the Turkish import regulations and difficulties of imports of final goods, they enjoyed high monopoly profits under the heavily protected domestic market and encouragement measures for domestic production, they were not interested in the transfer of technology, their profit transfers ran high, they addressed themselves largely, to high-income groups, and their net effect on Turkey's balance

(11) For details on FPC see: Cihat İren, "The Growth of the Private Sector in Turkey," in Turkey's and Other Countries' Experience with the Mixed Economy, Istanbul 1979.

of payments, considering imports of inputs as well as profit transfers was negative. With the 27 May 1960 Military revolution and entry into planned development period, despite the above criticisms, the principle of encouragement of FPC was retained but proper controls were tried to be established. One aspect of control was the distinction between low priority economic sectors, such as banking, trade, etc, vs. the high priority development sectors, such as the a manufacturing industry. FPC companies in low priority sectors were brought under Regulation No.17 passed in 1962 (12). FPC companies in these fields were not rigorously encouraged and limitations were put with regard to their profit transfers. FPC flow to high priority development sectors were continued to be rigorously encouraged under Law No.6224. But controls were established particularly with the Regulation on Assembly-Line Industries (RAI) passed in 1963 and put into effect since 1964. The RAI set targets for minimum plant capacity and for yearly DPC ratios. Thus the DPC of assembly-line industries rose significantly, particularly during 1965-71 (13), in a period when criticisms against FPC coming from radical left and the RPP began to mount. The points in these criticisms were similar to those levelled in the DP or the unplanned development period. After the 12 March 1971 Military Memorandum, the reform governments elected by the parliament under the force of the military, prepared and passed two principal reform laws. One was on land reform. The other law, No.1702 was the petroleum Reform Law. The latter law was radical in the sense that it changed the priority in petroleum explorations and production to the public sector whereas the previous law no. 6326 had given priority to the private sector and FPC. It also prevented further expansion of refinery capacity of the private (and FPC) sector. Although the principles accepted in Law No.1702 were radical, it still have room for a moderate implementation. But, the actual implementation of the law since 1973, particularly during the RPP-NSP coalition government of 1974 and the present RPP government since 1977 was far from being moderate. FPC companies in petroleum were tightly squeezed by controls of import prices, allowed at prices much lower than the gulf price. Very low prices on domestic production were set. The difference between the retail and the domestic production price was to go to a fund to finance the petroleum explorations of the public

(12) For a list companies operating under Regulation No.17 as of end 1974 and their breakdown see: TIBA, Turkey, an Economic Survey 1976, pp.122,125.

(13) For the scope of assembly lines industries, the method of calculation of DPC and the increase of DPC over the years between 1954-71 see: Mikerrem Hiç et al Montaj Sanayii (Assembly-line industries), Economic and Social Studies Conference Board (ESSCB) Istanbul 1973. For DPC targets in the more recent years see: TIBA ibid.p.121.

sector, that is the TPAO (14). Pressed with budgetary deficits and financial difficulties, however, not enough funds could be appropriated by the government to the TPAO. In 1978, the ATAŞ refinery jointly owned by the FPC companies (Mobil, Shell and BP) was purchased by the Ministry of Energy.

The effects of these policies on domestic production and investments were markedly negative. After a brief period of explorations and drilling, production of FPC companies, hence total domestic production of petroleum, had started to rise significantly since 1964. It had reached a peak of 3,6 million tons in 1969. The share of FPC was about 2,5 millions and that of TPAO about 1,1 million tons (Table 7). But from 1969 on, particularly in the more recent years investments of FPC declined and their production fell down to 1,6 million tons in 1977. With TPAO still around 1,1 million tons, total domestic production fell down to 2,7 million tons. This decrease in domestic production increased imports of petroleum from 2,9 million tons in 1977 (Table 8), at a period when petroleum prices were raised sharply by OPEC. Hence the precipitous increase in Turkey's petroleum imports bill that reached about 1,1 billion dollars in 1977-78 cannot be attributed to price rises in petroleum alone. It is also affected by policies that had adverse effects on investments and domestic production.

In the case of FPC under Law No.6224, several controls were established in the 3.FYDP(1973-77) passed as law in 1973 before general elections were held (15). These controls seemed moderate and reasonable on paper. But, their actual implementation were radical and the attitude of the Turkish governments towards FPC flow were generally negative and hostile. This hostility was witnessed in the RPP-NSP coalition government in 1974, in the 1. and 2. NP coalition governments during 1975-77 exercised by the Ministry of Industry and Technology held by the NSP, and finally by the (present) RPP government in power since 1977. Despite the existence of a Law of encouragement and the presence of only moderate and reasonable controls, de facto negative attitude and hostility towards FPC flow could be expressed generally by means of long delays in permitting FPC flows or capacity expansion of existing FPC companies or outright refusals of investment applications. Until the regulations on price controls were changed in 1977 and some automaticity introduced in this respect, the Ministry of industry under the NSP also exercised considerable de facto

(14) For more details see: ESSCB, Türkiye'nin Petrol Politikası, (Turkey's Petroleum Policy), Istanbul 1974.

(15) For details on these controls, see: Cihat İren, ibid.

discouragement on the existing joint ventures by granting price increases that were too little and too late(16). Another policy of discouragement was the refusal of public or semi-public companies working with license agreements in lieu of FPC flow and joint ventures. The TÜMOSAN project accepted by the Ministry of Industry under NSP in 1976 for the manufacture of diesel engines for the automotive industry affords one good example. It still has not started operations due to finance problems. This policy was also widely used by the (present) RPP government. To cite some examples, capacity expansion of the existing joint ventures in tractor manufacturing was refused. Instead, a project was put in force for the manufacture of Köy-koop (village development cooperatives), another semi-public institution, in cooperation with Czechoslovakia. For the case of petroleum, the TPAO entered into a sub-contracting agreement with the USSR in 1979 for land explorations. Similarly, in chemical fertilizers and sundry heavy industry sectors. Projects were also drawn to start the manufacture of pharmaceuticals by the Social Security Institution, again a public directorate. In tourism too, several joint venture projects were refused since 1974 till the present.

As a result of the negative attitudes and policies the number of FPC firms declined during the recent years, from 118 in 1973 to 99 in 1977 (Table 9). Total capital in nominal terms also declined in some years as in 1974. The decline or the very slow rise in total FPC flown to Turkey should become more manifest when measured in real terms, or in constant prices. But such a study has not yet been made. This means that in the more recent years, and since the 70's, Turkey has effectively prevented the expansion of FPC flow. This was effected by de facto policies implemented and decisions taken despite the presence of de jure encouragement. The negative attitude and hostility towards FPC had historical roots, but they were mainly influenced by the prevailing radical left and right doctrines and their participation and influence in the governments formed since 1973. Under severe criticisms from the radical doctrinaire circles, coalition partners or factions the Turkish Governments generally shunned from importing FPC from the West. Instead, they preferred to export workers to the West, or otherwise expand public and semi-public sectors and use credits coming from non-Western sources, in particular the USSR and COMECON countries in order to expand the public sector. The

(16) For the case of price controls in the pharmaceutical industry, see: Türkiye İlaç Endüstrisinin Genel Sorunları Hakkında Bilgiler (Information Concerning the Pharmaceutical Industry in Turkey and its Problems), Turkish Pharmaceutical Industry Employers' Union, Istanbul, 1975.

under-utilization of the potential for FPC flow to Turkey no doubt reduced Turkey's economic relations with the West, particularly the EC and the USA by a considerable extent. In contrast, it increased the share of the USSR and COMECON countries. More important, it also reduced her opportunities for increasing investments and savings, foreign exchange earnings through increased exports both to OECD countries and the ME and RCD countries, development of the tourism sector, expansion of viable and productive import-substitute sectors and the elimination of domestic production bottlenecks. Thus, it makes it difficult for Turkey to improve her balance of payments problems and resume a high and steady growth rate. It is true that till present profit transfers formed a rather high percentage of yearly FPC flows (Table 10). This is mainly because Turkey has effectively discouraged or otherwise not sufficiently encouraged FPC flow. But, the real favorable impact of encouraging FPC flow on balance of payments lie in expanding exports, tourism and import-substitute sectors. Looked at from another angle, we see that the advantage of FPC to Turkey lie not so much in additional investments and savings it will afford, but rather in the transfer of technology required to develop export and import-substitute industries. A study of the sectoral breakdown of FPC by the end of 1977 (Table 11) reveals that it has flown mostly to higher technology manufacturing industries such as chemicals, railroad vehicles, metal goods, machinery, electrical machinery and to tourism. In contrast, the share of FPC in the total production of low technology agricultural based industrial sectors such as food, tobacco, textiles, glass, leather, cement, ceramics, etc. is either non-existent or very low. When we also take into consideration the extent of licence agreements that have concentrated again in the relatively higher-technology industries, particularly in electronics, electrical and non-electrical machinery as well as all other industries in which FPC has flown, the importance of and the need for the transfer of technology for the Turkish economy becomes more manifest.

A brief survey of FPC companies or joint ventures under Law No.6224 by country of origin by the end of 1977 (Table 12) shows that F. Germany occupies the first position in terms of number of firms with 24. The USA comes second with 19, and Switzerland third with 11. In terms of nominal FPC flown and the total nominal capital of the joint ventures including local capital, the USA comes first, followed by France and F. Germany comes third. When we consider the EC countries as whole (the Nine) we see that they form 54,5% of total FPC flown to Turkey. If investments

of FPC companies in petroleum are brought into the picture, considerable changes in ranking would occur. N.V. Turkse Shell, the major petroleum producer in Turkey is 60% Dutch and 40% British owned, Mobil, the third greatest producer coming after TPAO is US owned. BP, another UK firm, engages only in imports and distribution and in refining activities as a minor partner of ATAS till the latter was purchased by the public sector in 1979.

D. TOURISM

Tourism occupies a relatively unimportant place in Turkey's economic activities and in her balance of payments. The net balance of tourism was around 20 to 80 million dollars during 1971-75, turning into a minus in 1976 and 1977. It shifted to plus 123 million dollars in 1978 mainly by restricting tourist outflow than by increasing tourist inflow (Table 13). This negligible performance of the tourism sector in Turkey is in stark contrast to her natural endowments. Most of the Mediterranean countries that have developed their tourism industry, like Spain, Italy and Greece have net tourism balances that run into multi-billion dollars. Socialist Yugoslavia and Black Sea COMECON countries like Romania and Bulgaria, with much less favorable natural endowments, have performed far better than Turkey. In fact, Turkey's tourism balance with Romania may have shown a deficit. A full fledged study of the policy mistakes made in the past that led to ^{the} poor performance of the tourism sector in Turkey and policy recommendations for future is beyond the scope of this paper. It should be noted, however, that negative attitude towards the tourism sector itself--as opposed to heavy manufacturing industries--and towards FPC flow in the tourism sector were instrumental in the poor performance of this sector. To cite, by the end of 1977 there were only 6 joint ventures operating in tourism. Had Turkey encouraged a proper expansion of the tourism sector consistently till present and planned investments in this field more efficiently, the foreign exchange earnings of this sector alone could have gone a long way in alleviating the present balance of payments crisis she faced.

A breakdown of Turkish tourism by countries (Table 14) shows that the EC plays a predominant role in the inflow. One factor affecting the volume of inflow could possibly be the volume of trade by countries as well as that of FPC flow. There is also a markedly high inflow of tourists from bordering countries with which there is extensive contraband trade. The overwhelming majority of tourist outflow goes to

W.Germany. Figures on F.Germany, France and Netherlands suggest that Turkish workers abroad and their distribution affect tourist outflow by countries considerably. Tourism inflow and outflow with the USA is also very high at present but would definitely be hindered by high transportation costs.

We find from above that tourism and Turkey's international relations are related in both directions. First, neglect of tourism has worsened Turkey's balance of payment crisis and led to the under-utilization of the potential for expansion of her economic relations with the West, both directly in the tourist sector and indirectly through a worsened balance of payments situation. Deliberate restrictions to FPC flow from the West, and unwillingness to let trade with West to expand to its full potential would, in turn, further restrict tourist inflow.

E. WORKERS ABROAD AND THEIR REMITTANCES

Sending workers abroad presented enormous economic advantages to Turkey. It reduced excess labor directly. Workers' remittances enabled Turkey to finance a larger volume of imports and widen her foreign trade deficit. The larger volume of imported inputs as well as investment goods contributed to production, investments and hence the rate of growth of income and employment. Furthermore, they did not generate the acute political controversy FPC flow generated. Therefore, the Turkish governments generally preferred exporting workers to importing FPC. The social problems raised by workers abroad and their return is studied in another paper submitted in this seminar. Therefore, we will confine ourselves only with the recent decline in workers' remittances and their possible causes, since the latter is related with the economic policies Turkey pursued. The volume of workers' remittances declined in the recent years from around 1,4 billion dollars in 1974 to below 1 billion in 1978. In fact since part of this sum contains purchases of domestically manufactured automotive vehicles in foreign exchange, the workers' remittances proper in 1978 must have been less than 850 million dollars. There is a tendency on the part of the government circles to explain this recent decline in workers' remittances with the alienation of the Turkish workers. But, there seems to be no scientific research available that proves this hypothesis in a conclusive way. Instead, several factors may be offered here as possible explanations for the recent decline in workers' remittances. One is the unemployment of guest workers faced in the EC countries after the oil crisis. The other is the prevention of new entry of guest workers by

F. Germany since 1974 unless called in name by a German employer. Experience with devaluations and foreign exchange premiums suggest, furthermore, that the volume of official remittances is very sensitive to the blackmarket rate of exchange. A widening margin between the official and the blackmarket rate would tend to increase the unofficial at the expense of the official flow of remittances. And, since 1977, despite several devaluations and exchange rate adjustments, there existed a wide margin between blackmarket and the official rates of exchange. Galloping inflation in Turkey and lack of confidence in the stability of the Turkish lira, in contrast to a strong DM, could have further induced the Turkish workers to retain their savings in DM rather than transfer them into Turkish liras. These are mistakes of monetary and exchange rate policies committed by the Turkish governments and stand more to test than the hypothesis of workers' alienation. We may deduce from the above that had Turkey pursued more appropriate monetary and exchange rate policies, workers' remittances would not have declined, or would not have declined to the extent it actually did during the recent year.

PART III

POLICY RECOMMENDATIONS AND POSSIBLE FUTURE DEVELOPMENTS

A- POLICY RECOMMENDATIONS

The basic conclusion of this paper is that Turkey's recent balance of payments crisis, the consequent decline in her rate of growth of income and investments, as well as changes in her international relations -- under-utilization of the expansion potential in her economic relations with the West and increases in her economic relations with the USSR and COMECON countries -- are inter-related. They basically stem from wrong development strategies and economic policies Turkey pursued (17). There were, undoubtedly, other external factors that affected both her balance of payments crisis and the change in her international economic and political relations. These, however, seem to have less greater weight and less usable as policy parameters. A crucial element in the wrong development

(17) See also: Mükerrrem Hic, "Economic Policies Pursued by Turkey, Performance of the Economy and Their effects on her International Relations", paper submitted to the international conference on "Options for Turkey's International Political and Economic Relations", Istanbul, June 1979.

policies pursued can be defined as deviations from an appropriate mixed economic regime and recent efforts to expand the public sector unduly. This basically stems from the influence of radical doctrinaire movements. Another crucial factor is the accelerating inflation which, in turn, stems from social and political pressures (18). Still another crucial element is the excess weight given to import-substitution industries at the relative neglect of exports. Economic policies pursued since the establishment of the Republic have cumulated to make the Turkish economy inward-looking. Most of the industries developed are import-substitutes. Even those industries which have a net positive balance of payments effect are also geared essentially to the domestic market. The import substitute industries are, in turn, heavily dependent upon imports of inputs (Table 15). The Turkish governments generally try to finance these imports by borrowing and by workers' remittances rather than expanding exports. Import-substitute vs. export orientation of an economy is essentially a non-doctrinaire economic strategy (19). But, unfortunately, its various aspects in Turkey have been involved in futile party politics and doctrinaire arguments.

Wrong development strategies and economic policies combined to reduce the potential for expansion of Turkey's economic relations with the West. In certain cases this effect manifested itself directly, as in the case of the negative attitude of the Turkish governments towards FPC flow, and neglect of the tourism sector. In many instances, however, the effects were indirect. They led to a balance of payments crisis which in turn, led to faltering economic relations with the West or conversely to the "residual" effect of expanding economic relations with the USSR and COMECON countries. But, in addition, there was a deliberate effort on the part of the Turkish governments to become less dependent on the West politically and economically and to expand relations with the USSR and COMECON countries.

It is a relatively easy job to prepare a prescription of an optimum set of development strategies and economic policies for Turkey to follow in future. Such a prescription will aim at the correction of the wrong

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- (18) For a thorough analysis of this point, see Osman Okyar, "Political Economy of Turkish Inflation" paper submitted to international conference on "Inflation in Turkey" Istanbul, February 1979.
- (19) See: Bela Balassa, "Policies for Stable Economic Growth in Turkey", paper submitted in the international conference on the "Role of Exchange Rate Policy in Achieving the Outward Orientation of the Turkish Economy", Istanbul, July 1979.

policies Turkey pursued particularly since the early 1970's. These policy recommendations if followed rigorously, would alleviate Turkey's balance of payments problems and enable her to eventually resume a high and steady growth rate. They would, at the same time, increase her economic relations with the West, and gear her economic relations with the USSR and COMECON to "nominal" levels dictated by considerations of economic efficiency. The main ingredients of such a policy recommendation would be as follows:

- To control inflation comes foremost. It would require reducing the budgetary deficits, increasing tax revenues and decreasing government expenditures, reducing the losses and financial requirements of the SEE's and implementing appropriate support pricing in agriculture.
- To discontinue over-valued currency practices, to pursue consistently a policy of equilibrium foreign exchange rate, to reduce the excesses in the practice of multiple exchange rates (20).
- Controlling inflation and pursuing a policy of equilibrium exchange rate will go a long way in avoiding excesses of import-substitution, in encouraging exports, tourism and workers' remittances. They must also be supplemented by interest rate and wage policies that reflect the relative scarcity of capital and abundance of labor.
- In addition to the above outlined monetary policies, further tax and credit incentives are required to promote investments in export industries, tourism and other foreign exchange earning activities, and to avoid excesses of import-substitution.
- Another powerful tool of reallocating investments to exports is physical planning, investment permits and building of government infra-structure to encourage private investments in export sectors.
- Such import-substitute industries that are viable yet present production shortages thus raising the imports bill should also be encouraged. This would not mean an "excessive" expansion of the import-substitute sectors given the present structure of the Turkish economy. On the contrary, it would affect Turkey's balance of payments positively. Examples are iron and steel, casting and forging, chemicals, fertilizers, petroleum production, the automotive, tractors, the diesel engine, etc. In this sense correction of Turkey's balance of payments problems should involve

(20) See: Bela Balassa, ibid., for a detailed and lucid analysis of this and related points.

less decrease in the volume of investments and the growth rate and more reallocation of investments on the basis of their balance of payments effects. Many of the above areas have been taken up as public investment projects financed by USSR loans. Most, however, could have been efficiently taken up by FPC flow and joint ventures. In this regard, therefore, the policies pursued by the Turkish government were erroneous. But neither were the recommendations of the IMF entirely satisfactory.

- There has been a definite tendency in the recent years to expand the share of public investments and SBE's despite their low efficiency and budgetary deficits. This tendency is witnessed not only in the fields of mining, petroleum and energy but also in the manufacturing industry, lighter as well as heavier industries, and even in trade. In all these fields, the potential of the private sector including FPC should be tapped first. Furthermore, acute government controls and regulations that have the effect of reducing the initiative of the private sector in its investment and export activities should be eliminated.

Of particular relevance in the discussions of economic policy is income distribution. Though the calculations made by the SPO on this subject (21) are erroneous, there is widespread belief in politically and doctrinairely motivated circles in Turkey that income distribution worsened over the years since 1950 and she is at present among the countries with the worst distribution of income. This, in turn, is attributed to capitalistic development methods pursued--by the DP and later by the JP. It is believed that the expansion of the public sector and government controls would raise the growth rate and improve income distribution at the same time. Apart from the methodologically deficient calculations of income by the SPO, however, there are no definitive clues that income distribution worsened in Turkey over a long span of time. Nor is Turkey among the countries with worst income distribution. Distribution of land operated in Turkey seems to be much less unequal than those developing countries with the worst income distribution, to which group, according to the SPO study, Turkey belongs (22). This

(21) SPO Gelir Dağılımı 1973 (Income Distribution 1973) Ankara. September 1976 calculates Gini concentration ratios of 0,55, 0,56 and 0,51 respectively for the years 1963, 1968 and 1969. The methods used, however, are deficient and inter-temporal comparisons are impossible.

(22) For land distribution in Turkey, see: State Institute of Statistics (SIS), 1950, 1963 and 1970 Censuses of Agriculture. For land distribution in other developing countries see B.M. Russett, "Inequality and Instability". The relation of Land Tenure to Politics", World Politics, XVI, No.3 April 1964 and R.Schickele, Agrarian Revolution and Economic Progress, New York 1968. For income distribution of various developing countries, see: "Income, Inequality: Some Dimensions of the Problem" by M.S. Ahluwalia, Finance and Development, September 1974

suggests an obvious inconsistency. Furthermore, real wages rose slightly faster than the rate of per capita income growth in real terms for a long span of time (23). Even as employment and workers abroad increased, however, surplus labor, particularly non-agricultural surplus labor, began to increase since 1973 (24). In the more recent years, further reverse developments took place. The expansion of the public sector, far from alleviating Turkey's economic ills, contributed to inflation, production shortages, worsened her balance of payment problems, reduced her growth rate and thus increased unemployment. Accelerated inflation coupled with increased unemployment, on the other hand, must have worsened income distribution.

B. POSSIBLE FUTURE DEVELOPMENTS

The above recommendations of economic policy are, however, easier said than done. And it is dubious whether and to what extent Turkey would, in future, likely to follow the policies recommended in this paper. They are given here a set of moderate policies that would eliminate the radical and doctrinairely motivated strategies and policies in the past that have distorted the working of a "normal" mixed economy. In a normal mixed economic regime applied in developing countries, the market or price mechanism is still basic. There is a wider scope for public investments than in the developed countries, but the public sector is considered complementary to the private sector and the latter sector is encouraged (25). Alternately, however, the policies recommended here as "normal" or "moderate" or "optimum" are defined as "capitalistic" development methods" and condemned by the doctrinairely motivated circles. Since the late 60's till present they had met with severe opposition from radical left and right as well as from the RPP, a major section of the press and the bureaucrats. Extra-parliamentary pressure groups and political organisations, such as the youth organisations, several professional associations that were won over by minority radical groups gave further weight to the radical doctrinaire movements and hence to

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- (23) A study of nominal wages in constant prices over a large span of time is given in: Sabahattin Zaim, Türkiye'de Ücretler ve Gelirler Siyaseti, (Wage and Incomes Policy in Turkey), Ankara, 1974.
 - (24) For statistics on domestic employment, surplus labor, agricultural and non-agricultural surplus labor, see: SPO Five Year Development Plans and Annual Programmes.
 - (25) See: Mükerrrem Hiç, "A Theoretical Framework for the Mixed Economy Applied in Developing Countries", in Turkey's and Other Countries' Experience with the Mixed Economy, I.U. Economic Faculty, Istanbul 1979.

opposition of moderate economic policies that the recent governments deviated increasingly away from them. At present, there are some clues that the smoke is clearing in the minds of many. But still, for a great bulk of the population who form strong pressure groups as well as for the adherents of radical doctrines the lesson of the recent economic crisis is lost. It was the radical elements in the economic policies pursued in the past that had precipitated Turkey into a balance of payments crisis and reduced the growth rate. Yet a great many people in the pressure groups and doctrinaire movements continue to interpret the events in the opposite way. According to them, it was the still present excess capitalistic methods and tools in the economic policies pursued in the past that were responsible; hence economic illnesses faced to-day will be eliminated once excesses of capitalistic methods or capitalism itself is completely eliminated. These views lead to still further expansions of the public sector, elimination of FPC, and loosening or complete break of Turkey's ties with EC and the USA, and political and economic rapprochement with the USSR -- or else Islamic countries.

The RPP, whether in power or in opposition is highly influential in the policies Turkey follows. For it has on its side the majority of the bureaucrats, technocrats and the press. Yet it has strong radical leftist factions within the party cadres which exert considerable influence in the party's economic philosophy and actions. The JP, on the other hand, in order to accomodate coalitions with parties of radical right, seems in many instances compelled to use radical rightist rhetoric. It compromised extensively in the 1. and 2. NF Government coalitions. This means that in future too, strong opposition to the policies recommended above will continue to exert a strong influence. Optimum policies are never implemented. But in this instance the author of this paper feels unable to predict to what extent the actual policies implemented in the near future will deviate from the optimum. It is true that the RPP government will feel compelled to follow the letter of intent submitted to the IMF. But the letter of intent contains less exhaustive policy recommendations and is strictly concerned with technical aspects of anti-inflationary policies and balance of payments problems. Secondly, the prospects, say, two years from now may get even dimmer with respect to anti-inflationary policies. Thirdly, radical movements involve the aim of breaking away from the West and have little respect to follow IMF recommendations. In forecasting policies that will be implemented in future, simplistic predictions of

the likely winner or winners of the coming general elections in 1981 will be only of limited help. For, regardless of the winner or winners, the radical doctrines will likely continue to exert their influence either in opposition or as a coalition member or a partner in power. Furthermore, anarchist activities and segregationist tendencies may in future have still greater impact in shaping the political events and developments in Turkey than mere discussions with respect to development strategy. In fact, the emergence and the growth of the radical doctrines and segregationist tendencies are closely related. In Turkey, segregationists generally seem to adhere to radical left doctrines.

Even assuming the influence of the radical doctrines are diminished, we would still have other, less vitally critical stumbling blocs on the way that would prevent the implementation of optimum economic policies. One is the social and political pressures that would be resisting a sustained and strict anti-inflationary policy. Strong pressure coming from various social groups, including the businessmen, the farmers, the workers and the government employees to raise their income, combined with acute political rivalry between the two major parties will continue to make inflation seem an easy way out for the party in power to maintain or expand its constituency. In the short run, the RPP government, in complying with the letter of intent submitted to the IMF with regard to restrictions of credit expansion, may tend to apply a greater pressure on private sector credits than the public. It would thus precipitate further recession and further loss of confidence on the part of the private sector.

Still another stumbling block is the present situation of the SEE's which have already over-expanded, over-crowded with disguised under employment, over exposed to the politicking of the party or parties in power and are generally working very inefficiently, thus contributing to the present inflation significantly. Attempts to reform the SEE's radically would deprive the political party in power from a major source through which it satisfies its constituency. It is, therefore, never desired at heart. Dispensing with excess employment would mean throwing a large number of people out of jobs and would be politically undesirable. A long term freeze of employment is politically less undesirable. But it would continue to burden the government budget with a large wage bill and thus make the control of inflation still relatively difficult. This latter line of action was accepted by the Turkish government in its letter of intent to the IMF.

Still another pitfall on the way is the time it takes for the proper policies to bear fruits. In the case of public investments it would involve only the gestation period. But, in the case of private investments and FPC flow it would involve time enough for these sectors to regain confidence with respect to a consistent implementation of encouragement and favorable attitudes. In the meantime, further rises in the prices of oil and further worsening of Turkey's terms of trade would compound Turkey's balance payments problems. This, in itself, would not necessitate any major change in the policy recommendations made above. But worsening external conditions, coupled with deviations from the optimum set of policies and the long time required for the proper policies pursued to bear fruits, could result in the continuation of Turkey's acute balance of payments problem -- after a brief span of time the fresh money supplied through the IMF is used up. This, in turn, could open the possibility of abandoning whatever proper policies were implemented. Such a course of events could be concomitant with a large scale reduction in Turkey's economic relations with the West.

Table 1: TURKEY'S BALANCE OF PAYMENTS, 1976-8*

	(in million US \$)		
	<u>1976</u>	<u>1977</u>	<u>1978⁽¹⁾</u>
I. CURRENT ACCOUNT			
A. Foreign Trade			
1. Exports	1.960	1.753	2.288
2. Imports	-5.129	-5.796	-4.599
Trade balance	-3.169	-4.043	-2.311
B. Invisibles			
1. Interest payments	-217	-320	-399
2. Tourism (net)	-27	-64	145
3. Workers' remit.	983	982	983
4. Profit transfers	-83	-116	-47
5. Project credit service charges	-15	-60	-56
6. Other invisibles	212	224	254
Invisibles balance	854	640	880
C. Infra-structure and offshore	15	12	3
CURRENT ACCOUNT BAL.	-2.301	-3.385	-1.428
II. CAPITAL MOVEMENTS			
Debt payments (2)	-119	-214	-199
Foreign Private Capt.	27	67	47
Project Credit	608	499	497
Imports with waiver	135	103	120
Program credits	6	3	110
Other capt. move.s	197	710	490
CAPITAL MOVE. BAL.	854	1.168	1.065
GNL. BALANCE	-1.447	-2.217	-363
III. RESERVE MOVE (2)	-148	566	-163
IV. SDR	-	-	179
V. SHORT-TERM CAPITAL	1.895	2.284	558
VI. ERRORS, OMISSIONS	-448	-633	-211

(1) temporary figures

(2) excludes extensions

(3) + means decrease, - means increase

* Source: Ministry of Finance; Also reproduced in various publications of the state Planning organization, Turkish Union of Chambers (TUC) and Turkish Industrialists and Businessmen's Association (TIBA)

Table 2: TURKEY'S TRADE AND CURRENT ACCOUNT BALANCE, 1966-78^{*}

(in million US \$)

	<u>Imports</u>	<u>Exports</u>	<u>Trade Deficit</u>	<u>Workers Remit.</u>	<u>Current Account Deficit</u>
1966	- 718	490	- 228	115	- 158
1967	- 685	523	- 162	93	- 114
1968	- 764	496	- 268	107	- 222
1969	- 801	537	- 264	141	- 214
1970	- 948	588	- 360	273	- 171
1971	-1.171	677	- 494	471	- 109
1972	-1.563	885	- 678	740	- 8
1973	-2.086	1.317	- 769	1.183	- 484
1974	-3.778	1.532	-2.246	1.426	- 719
1975	-4.739	1.401	-3.338	1.312	-1.880
1976	-5.129	1.960	-3.169	983	-2.301
1977	-5.796	1.753	-4.043	982	-3.385
1978	-4.599	2.288	-2.311	983	-1.428

^{*} Source: Ministry of Finance.

Table 3: TURKEY'S IMPORTS BY MAJOR COUNTRY GROUPS, 1966-77^{*}

(in million US \$)

Years	The Six	The Three	EC (Nine)	USA	Arab and RCD	COMECON	Total
1966	236	82	318	175	46	84	718
1967	237	91	329	122	46	90	684
1968	281	104	386	120	60	98	763
1969	284	99	384	154	52	99	801
1970	325	96	421	206	63	115	947
1971	455	116	571	171	106	113	1.170
1972	652	177	829	191	134	162	1.562
1973	923	231	1.155	185	222	175	2.086
1974	1.419	288	1.708	350	735	260	3.777
1975	1.962	375	2.338	425	844	245	4.738
1976	1.911	430	2.342	437	1.091	319	5.196
1977	2.040	429	2.469	502	1.252	340	5.764
Increase 1966-77	(8.64)	(5.23)	(7.76)	(287)	(27.22)	(4.05)	(8.03)
(percentages)							
1966	32	11	44	24	6	12	100
1967	34	13	48	17	6	13	100
1968	36	13	50	15	7	13	100
1969	35	12	47	19	6	12	100
1970	34	10	44	21	6	12	100
1971	38	9	48	14	9	10	100
1972	41	11	53	12	8	10	100
1973	44	11	55	8	10	8	100
1974	37	7	45	9	19	7	100
1975	41	7	49	8	17	5	100
1976	37	8	45	8	21	6	100
1977	35	7	43	8	21	6	100

- 1) EC total includes the Nine: F. Germany, Italy, France, Holland, Belgium-Luxembourg, Denmark, UK, Ireland
- 2) OECD total includes the EC, EFTA (Switzerland, Sweden, Austria, Norway, Portugal, Finland) as well as Japan and Canada
- 3) Total Eastern Bloc (COMECON) countries includes USSR, Poland, Czechoslovakia, Dem. Rep. of Germany, Hungary, Romania, Bulgaria and Albania
- 4) Total Middle Eastern and RCD countries include Bahrain, Qatar, Mascherone and Oman, Morocco, Algeria, Iraq, Kuwait, Libya, Lebanon, Egypt, Sudan, Syria, Saudi Arabia, Tunisia, Jordan, Yemen, Iran and Pakistan.

^{*} Source: reproduced from TIBA, The Turkish Economy, Prospects for Growth Within Stability, 1978, p.109.

Table 4: TURKEY'S EXPORTS BY MAJOR COUNTRY GROUPS, 1966-77*

(in million US \$)

Years	The Six	The Three	EC (Nine)	USA	Arab and RCD	COMECON	Total
1966	171	55	227	80	27	75	490
1967	176	44	220	92	27	87	552
1968	164	41	205	72	36	90	496
1969	214	36	251	59	39	91	536
1970	239	44	283	56	54	84	588
1971	266	42	309	68	78	81	676
1972	347	57	404	103	97	87	884
1973	493	118	611	130	179	102	1.317
1974	619	97	717	144	225	146	1.532
1975	530	85	615	147	235	122	1.401
1976	806	152	958	191	248	169	1.960
1977	760	108	868	121	235	174	1.753
Increase							
1966-77	(4,44)	(1,98)	(3,82)	(1,51)	(8,70)	(2,32)	(2,58)
(percentages)							
1966	34	11	46	16	5	15	100
1967	31	8	40	16	5	17	100
1968	33	8	41	14	7	18	100
1969	40	6	46	11	7	17	100
1970	40	7	48	9	9	14	100
1971	39	6	45	10	11	12	100
1972	39	6	45	11	11	10	100
1973	37	8	46	9	13	8	100
1974	40	6	46	9	14	10	100
1975	37	6	43	10	16	9	100
1976	41	7	48	9	12	9	100
1977	43	6	49	7	13	10	100

* Source: TIBA, *ibid*, p.109.

Table 5: TURKEY'S MAJOR TRADING PARTNERS, 1977*

Country	In million US \$			percentages	
	Imports	Exports	Trade Balance	Imports	Exports
F.Germany	944.9	388.8	- 556.1	16.3	22.2
USA	502.8	121.8	- 381.0	8.7	6.9
Italy	454.4	163.3	- 291.1	7.8	9.3
UK	402.8	94.3	- 308.5	6.9	5.4
Switzerland	335.5	108.8	- 226.7	5.8	6.2
France	327.7	94.1	- 233.6	5.7	5.4
Japon	311.2	36.5	- 274.7	5.4	2.1
Holland	154.2	57.5	- 96.7	2.7	3.3
Balgium-Lux.	159.7	56.2	- 103.5	2.8	3.3
Total EC ¹	2.470.1	868.0	-1.602.1	42.6	49.5
Total OECD ²	3.966.5	1.234.7	-2.731.8	68.4	70.4
USSR	82.0	80.4	+1.6	1.4	4.6
Romania	114.3	25.7	-88.6	2.0	1.5
Total Eastern B ³	340.3	174.3	-116.0	5.9	10.0
Iraq	694.5	49.5	- 645.0	12.0	2.8
Libya	276.4	13.6	- 262.8	4.8	0.8
Iran	165.0	48.6	- 116.4	2.9	2.8
Total M.E.,RCD ⁴	1.252.7	235.8	-1016.9	21.6	13.5
Total	5796.3	1.753.0	-4.043.3	100	100

- 1) EC total includes the Nine: F.Germany, Italy, France, Holland, Belgium-Luxemburg, Denmark, UK, Ireland.
- 2) OECD total includes the EC, EFTA (Switzerland, Sweeden, Austria, Norway, Portugal, Finland) as well as Japon and Canada.
- 3) Total Eastern Bloc (COMECON) countries includes USSR, Poland, Chechoslovakia, Dem.Rep. of Germany, Hungary, Romania, Bulgaria and Albania.
- 4) Total Middle Eastern and RCD Countries include Bahrain, Quatar, Mascherone and Oman, Morocco, Algeria, Iraq, Kuwait, Libya, Lebanon, Egypt, Sudan, Syria, Saudi Arabia, Tunisia, Jordan, Yemen, Iran and Pakistan.

* Source: TIBA, ibid, p.108.

Table 6: FOREIGN AID AND CREDIT TO TURKEY BY MAJOR COUNTRY GROUPS AND FINANCIAL INSTITUTIONS, 1970-74^{*}

(in million US \$)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>Debt Relief(1)</u>	<u>Total for 1970-74(2)</u>
F.Germany	41,5	29,2	52,6	48,8	27,2	154,1	199,2
Belgium	1,5	2,0	2,2	2,6	2,7	-	11,0
France	21,9	14,7	21,9	9,9	3,9	74,1	72,2
Holland	0,5	1,2	1,5	9,0	-	-	12,2
Italy	12,1	14,9	7,0	5,4	3,4	41,2	42,8
Denmark	0,4	0,6	-	-	-	2,6	1,0
UK	11,8	13,0	16,6	5,6	1,6	4,9	49,7
E.I.B.	26,2	25,6	17,5	42,0	28,8	117,3	140,0
Total EC(3)	115,9	102,1	110,3	123,4	67,5	454,3	528,1
USA	77,6	84,7	50,5	48,7	24,7	110,8	286,1
USSR	29,9	39,4	112,6	54,0	15,0	n.a.	251,0
W.B.Group	27,9	37,3	38,1	80,0	94,4	549,9	277,7
Others	91,7	91,2	46,0	16,9	39,4	n.a.	285,2
Total	343,0	354,6	366,4	323,0	241,0	n.a.	1.628,0

1) Project and program credits, debt relief on 31 dec 1974

2) Excludes debt relief

3) Excludes shares through the World Bank group.

^{*} Source: Avrupa Topluluğu Yayınları, Türkiye-AET İlişkileri (EC publications, Turkish-EC Relations) pp.324-5 (original Source: OECD publications).

Table 7: DOMESTIC PRODUCTION OF CRUDE PETROLEUM IN TURKEY, 1955-77^{*}
(in thousand tons)

Years	TPAO ¹	Mobil ²	Shell ³	Total Private (FPC) ⁴	Total Dom. Prod.	Share of TPAO (%)	Share of Private (FPC)(%)
1955	178,6				178,6	100	
1956	305,6				305,6	100	
1957	298,1				298,1	100	
1958	328,5				328,5	100	
1959	372,9			16,7	389,6	95,7	4,3
1960	362,5			12,7	375,2	96,6	3,4
1961	414,3	14,2	13,2	27,5	441,7	93,8	6,2
1962	510,7	51,8	32,9	84,7	595,4	85,8	14,2
1963	613,7	56,9	62,4	132,4	746,0	82,3	17,7
1964	631,6	158,3	101,0	289,3	921,4	68,5	31,5
1965	701,3	443,3	348,2	832,8	1.534,1	45,7	54,3
1966	765,2	521,4	712,9	1.275,5	2.040,7	37,5	62,5
1967	988,6	632,1	1.056,7	1.736,8	2.725,4	36,3	63,7
1968	1.024,6	673,4	1.357,1	2.078,9	3.103,5	33,0	67,0
1969	1.102,3	608,4	1.830,5	2.488,5	3.590,7	30,7	69,3
1970	1.066,5	477,4	1.943,8	2.478,0	3.544,5	30,1	69,9
1971	933,0	502,7	1.882,4	2.385,1	3.452,5	28,8	71,2
1972	940,6	493,2	1.872,3	2.447,6	3.388,2	27,8	72,2
1973	1.026,7	427,6	2.014,1	2.441,7	3.511,2	29,2	70,8
1974	1.111,3	405,5	1.766,0	2.171,5	3.309,0	33,6	66,4
1975	1.101,6	252,3	1.628,9	1.893,9	2.995,5	36,8	63,2
1976	1.030,1	301,9	1.250,1	1.565,2	2.595,4	39,7	60,3
1977	1.070,1	426,0	1.213,9	1.642,9	2.713,0	39,4	60,6

1. Türk Petrolleri A.O.

2. Mobil and Panoil (Dorchester). Mobil T.A. is USA owned

3. N.V. Turkie Shell is 60 % Dutch, 40 % British owned.

4. Includes Mobil, Shell, Amoseas that operated briefly in 1959-60 and Ersan, a small national private company. BP is engaged in distribution only and not in explorations and production. The major contribution is made by Shell, and at a much lower level by Mobil.

^{*}Source: TUC, Economic Report, 1979 p. 199
(Original source: Ministry of Energy and Natural Resources),

Table 8: DOMESTIC PRODUCTION AND IMPORTS OF CRUDE PETROLEUM?
1968-78*

(in million metric tons)

	<u>Domestic production of oil</u>	<u>% to total Oil used</u>	<u>Imported oil</u>	<u>% to total Oil used</u>	<u>Value of imports of oil (million \$)</u>	<u>Oil imports as % of total imp.</u>
1968	3.104,5	48	3.412,8	52	42,6	5,6
1969	3.599,2	56	2.870,5	44	36,5	4,6
1970	3.542,0	48	3.845,1	52	49,1	5,2
1971	3.453,0	39	5.469,6	61	97,2	8,3
1972	3.388,2	30	7.969,3	70	124,0	7,9
1973	3.511,2	27	9.305,8	73	200,1	9,6
1974	3.309,0	25	9.701,9	75	693,6	18,4
1975	3.095,5	24	9.634,1	76	718,1	15,2
1976	2.595,4	19	11.231,2	81	1.002,5	19,5
1977	2.713,0	19	11.658,8	81	1.151,6	19,9
1978	2.736,3	21	10.354,4	79	1.043,5	22,7

*Source: TUC, ibid, p.200

(original source: Ministry of Energy and
National Resources)

Table 9: FOREIGN PRIVATE CAPITAL FLOW AND PROFIT TRANSFERS, 1966-78^{*}

<u>Years</u>	<u>FPC Yearly Flow</u>	<u>Profit Transfers</u>	<u>Net Balance</u>
1966	30	16	-14
1967	17	25	- 8
1968	13	32	-19
1969	24	32	- 8
1970	58	33	25
1971	45	36	9
1972	43	35	8
1973	79	35	44
1974	88	71	16
1975	153	36	117
1976	27	83	-56
1977	67	116	-49
1978	47	47	0

^{*} Source: Balance of payments statistics prepared by the Ministry of Finance (also reproduced in TUC, Economic Reports).

Table 10: FOREIGN PRIVATE CAPITAL FLOW, 1973-77

(in million liras)

<u>Years</u>	<u>No. of firms</u>	<u>FDC cum. net</u>	<u>Total Capital</u>	<u>% of FDC</u>
1973	118	2.069	4.548	45,4
1974	111	1.962	4.472	43,9
1975	109	2.177	5.417	40,2
1977	99	2.480	6.326	39,2

* Source: SPO, Annual Programmes

Table 11: SECTORAL DISTRIBUTION OF FOREIGN PRIVATE CAPITAL FIRMS
UNDER LAN NO 6224, 31 December 1977*

(in million liras)

	<u>No. of Firms</u>	<u>FPC Flow</u>	<u>% Share in the Sector</u>	<u>Total Capital</u>	<u>% Share of FPC</u>
I. MANUFACTURING					
A. Food, beverages, tobacco	9	148,3	6,1	256,5	57,8
B. Textile, Confectionary	2	21,1	1,0	23,0	91,3
C. Paper	1	48,7	2,0	86,9	56,0
D. Rubber tirés	3	225,5	9,0	378,0	58,8
E. Plastics	1	3,8	0,2	9,9	38,9
F. Chemicals	23	465,4	18,9	976,0	47,7
G. Glass	1	45,5	2,0	350,0	13,0
H. Railroad vehicles	8	675,7	27,9	1725,5	39,2
I. Metal goods	10	99,5	0,5	546,6	19,2
J. Machinery	5	55,1	0,3	128,1	43,0
K. Agr. mach. and equipment	3	64,1	2,7	242,0	26,5
L. Electrical mach, electronics	17	315,7	12,8	589,9	53,5
M. Cement, Cement products	1	24,0	1,0	80,0	30,0
N. Packaging	1	1,1	0,0	2,1	50,0
O. Construction materials	1	0,6	0,0	12,0	5,0
Total	86	2191,0	88,3	5406,5	40,5
II. AGRICULTURE	1	1,0	0,0	2,0	51,0
III. MINING	1	20,0	0,9	20,0	100,0
IV. SERVICES					
A. Tourism	6	210,4	8,7	447,2	47,0
B. Banking	2	51,6	2,1	435,4	11,9
C. Research engineering	2	4,0	1,2	10,0	40,0
D. Transportation	1	2,3	0,1	4,5	50,0
Total	11	268,3	10,8	897,1	29,9
GRAND TOTAL	99	2480,3	100%	6.325,6	39,2

* Source: SPO, 1978 Annual Programme
(Original Source: Ministry of Commerce)

Table 12: DISTRIBUTION OF FOREIGN PRIVATE CAPITAL (FPC) FIRMS
UNDER IAN NO.6224 BY COUNTRY OF ORIGIN, 31 Dec. 1977

<u>Country of origin</u>	<u>No. of firms</u>	<u>FPC Flow (million TL)</u>	<u>% to Total FPC Flow</u>	<u>Total Capt. of FPC firms (million TL)</u>	<u>% of FPC to total Capital of FPC firms</u>
F.Germany	24	329,0	13,2	725,8	45,3
USA	19	398,5	16,0	1.567,5	25,4
Austria	5	30,5	1,1	44,3	68,9
Belgium	4	55,0	2,2	364,2	15,1
Denmark	5	88,6	3,6	247,9	35,7
France	6	408,4	16,5	877,9	46,5
Holland	6	122,5	4,8	184,7	66,0
UK	4	58,1	2,6	145,2	40,3
Sweeden	2	5,5	0,2	22,0	25,0
Switzerland	11	243,3	10,8	429,9	56,6
Italy	6	289,1	11,7	682,9	42,3
Japon	1	80,0	3,4	200,0	40,0
Canada	1	51,0	2,7	100,0	51,0
Kuwait	1	240,0	10,6	600,0	40,0
Mix	4	80,9	3,2	133,1	60,7
TOTAL	99	2480,3	100%	6.325,6	39,2

* Source: State Planning Organization,
1978 Annual Programme.

Tablo 13: Turkey's Tourist Inflow and Outflow for Selected countries, 1975*

(in thousand)

<u>Country</u>	<u>Tourist Inflow</u>	<u>Tourist Outflow</u>
USA	97,7	5,5
Austria	31,5	16,5
F.Germany	191,2	761,5
France	87,7	27,7
Netherlands	29,5	25,3
UK	75,5	10,7
Sweeden	27,6	2,9
Switzerland	31,6	17,3
Italy	61,7	11,6
Iran	38,7	3,1
Suria	24,6	28,3
S.Arabia		18,0
Total	1031,7	1011,4

★

Source: SIS, Statistical Yearbook of Turkey 1978, pp.291,294.

Tablo 14: TOURISM BALANCE, 1969-78

<u>Years</u>	<u>Income</u>	<u>Exp.</u>	<u>Net Balance</u>
1969	36,6	41,5	- 5,0
1970	51,6	47,8	3,8
1971	62,9	42,2	20,7
1972	103,7	59,3	44,4
1973	171,5	93,0	78,5
1974	193,7	152,0	41,7
1975	200,9	155,0	45,9
1976	180,5	207,9	-27,4
1977	204,9	268,5	-63,7
1978	230,4	102,5	122,9

* Source: TUC, Economic Report, 1978.p.565
(Original source Ministry of Finance)

Table 15: MANUFACTURING INDUSTRY, DOMESTIC PRODUCTION, DOMESTIC DEMAND, EXPORTS AND IMPORTS BY SECTORS, 1975*

current (1975) prices, in
million Turkish liras)

Sectors	Domestic Production	Domestic Demand	Exports
AGRICULTURE	185.878		5.449
MINING	13.398,7	27.965,2	1.627,8
MANUFACTURING INDUSTRIES:			
Food	97.684,5	86.372,2	5.196,0
Beverages	4.906	4.766,1	34,1
Tobacco	9.137,2	9.137,2	2.600,7 (2)
Textiles, conf.	45.620	45.732	1.814
Forest prod.	10.057	10.002,2	-
Paper	3.070,8	3.476,5	11,8
Printing	1.904	2.054	3,1
Leather, prod.	9.318,8	8.228	1.031,2
Rubber, tires	2.278,8	3.133,1	34
Plastics	3.483	3.497,7	35,3
Chemicals	13.847	19.292,6	284,9
Petro-chemical	4.358,8	7.336	14,1
Petroleum prod.	26.394	26.655	916,3
Chem. fertilizers	4.764,7	7.607,9	-
Cement	4.302	4.967	317,7
Earthenware, cement Products	3.846,3	4.074,1	10,2
Glass	1.903,8	1.716,2	261,7
Ceramics	928,1	1.206,7	0,4
Iron, steel	17.664,2	22.574,1	15
Non-fer. metals	5.536,8	7.179,8	270,5
Metal products	9.150	10.571,7	183,5
Non-electrical machinery(3)	15.427,3	30.647,3	172,5
Electrical mach.	6.185	8.494	9
Measuring and Control instru.	194,1	1.231,9	7,5
Electronics	3.180	5.326,5	3,5
Automotive (exc. tractors, inc. big repairs)	13.146,2	16.463,5	132,4
Railway vehicles	1.132,6	1.454,2	-
Shipbuilding and repairs	1.039	1.212,8	25

(1) Includes imports of investment goods as well as raw and intermediary materials

(2) From stocks left over from previous years, note the discrepancies between columns(1), (2), (3) and (4) for the other sectors can also be explained with stocks -

(3) Includes tractors and other agricultural equipments and machinery

*Source: State Planning Organization, 1977 Annual Programme, (Tables: 66 to 189)

Table 15
(laterally cont.)

<u>Imports</u>	<u>exports minus imports</u>
2.096	3.353
16.023,9	-14.396,1
2.924,8	2.271,2
21,9	12,2
-	2.600,7
712	1.102
50,5	-50,5
417,5	-405,7
128	-124,9
131,5	899,7
438,3	-404,3
50	-14,7
5.704	-5.419,1
2.991,3	-2.977,2
1.211,9	-295,6
1.892,5	-1.892,5
-	317,7
186,7	-176,5
74,1	187,6
37,1	-36,7
9.613,5	-9.598,5
1.774	-1.503,5
1.605,2	-1.421,7
15.392,5	-15.220
2.318	-2.309
1.045,3	-1.037,8
2.150	-2.146,5
4.916,2	-4.783,8
321,6	-321,6
198,8	-173,8

APPENDIX I

AREAS OF ECONOMIC COOPERATION BETWEEN TURKEY AND THE USSR*

I- PROJECTS INVOLVING CREATION OF PLANT CAPACITY

(in million TL.)

No.	Project	foreign financing	total cost of project
1	Orhaneli lignite operations	313	965
2	Can lignite operations	213	2.803
3	Hasan Çelebi mining operations	5.318	13.225
4	Muğla, Tınaz lignite operations	125	312
5	Agricultural insecticides	100	300
6	Capacity expansion, Alağa refinery	1.800	3.000
7	New refinery	2.879	5.225
8	Capacity expansion, Seydişehir Aluminum installations	832	3.243
9	Second capacity expansion, İskenderun Iron-Steel Plant (İSDEMİR)	31.250	82.787
10	Pre-fabricated construction elements	150	400
11	Iron and steel casting project	292	784
12	Iron forging project	453	1.081
13	Hydraulic machinery	350	800
14	Plant for manufacturing investment equipment (for sugar, cement, fertilizer plants and refineries)	747	1.504
15	Heavy electro-mechanic equipment plant	802	1.915
16	Orhaneli thermal power plant	2.300	4.050
17	Çan thermal power plant	6.470	11.120
18	Kavşak-Çatalan-Kirimli dam	6.000	17.000
19	Atatürk (Karababa) dam	19.000	38.310
20	Ilisu dam	5.600	11.610
21	Batman dam	800	3.180
22	Turkish State Railroads, materials and equipment purchases	500	600
Total:		86.294	204.214

II- PROJECTS INVOLVING TECHNICAL KNOW-HOW

1	Transportation of natural gas	50	100
2	Sinter magnesium-based bricks	25	50
3	Nuclear reactor project	75	150
4	Transfer of electrical energy	50	100
5	Ankara subway project	25	50
6	Istanbul subway project	25	50
7	Sivas-İskenderun railroad	50	100
8	Expansion of Blacksea ports	25	50
Total:		325	650

APPENDIX I cont.

III-PROJECTS GEARED TO THE NEEDS OF USSR

(in million TL.)

No.	Project	foreign financing	total cost of project
1	Iğdir integrated cotton installations	197	835
2	Erzurum shoe factory	21	120
3	Corum velvet installations	42	226
4	İzmir confectionery installations	41	123
5	Kayseri cotton installations	80	247
6	Nazilli cotton installations	456	544
7	Capacity expansion, Denizli cotton installations	329	414
8	Standard furniture and parts	100	300
9	Satsuma (Aegean tangerine) production	50	200
10	Akdeniz (Mediterranean) vacation village	250	1.350
Total:		1.566	4.359

IV- TECHNICAL COOPERATION

1	Petroleum explorations, drilling	90	220
2	Manufacturing industry, project services	100	250
3	Railroad vehicles, equipment and maintenance methods	30	115
4	Communications, tele-communications	75	150
Total:		295	735
GRAND TOTAL:		88.180	209.958

* Source: Önder Arı, ibid. (original source: Ministry of Foreign Affairs)

(6)

ECONOMIC POLICIES PURSUED BY TURKEY, PERFORMANCE OF THE ECONOMY
AND THEIR EFFECTS ON HER INTERNATIONAL ECONOMIC RELATIONS

Prof. Dr. Mülkerrem Hic
I.U., Economics Faculty

A. MAJOR ECONOMIC PROBLEMS CURRENTLY FACED BY TURKEY

The economy of Turkey to-day faces very severe problems listed below:

- i) Balance of payments deficits due to increased petroleum import bill, fast rises in the prices and volume of imports in general as opposed to relatively slow rises in exports; a trade deficit of 3,2 billiondollars in 1976, 4,0 billiondollars in 1977 and 2,3 billiondollars in 1978.
- ii) Continuation and acceleration of inflation, reaching 29,8 % in 1974, 10,1 % in 1975, 15,6 % in 1976, 24,1 % in 1977 and 52,6 % in 1978 according to wholesale price index prepared by the Ministry of Commerce.(1).
- iii) Deviations from the equilibrium exchange rate; insufficiency and inefficiency of the devaluations and exchange rate adjustments implemented thus far. (2).
- iv) Production shortages that arose due to shortages of foreign exchange; sharp rises in the blackmarket prices of iron and steel, cement, fertilizers, chemicals, automotive vehicles and in all industrial goods manufactured with imported components and basic materials.
- v) The drastic fall in the GNP growth rate from 7,7 % in 1976 to 4 % in 1977 and 3 % in 1978 (in 1968 prices)(3)

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- 1) Turkish Union of Chambers, Economic Report, 1979, p. 403.
 - 2) For a long list of devaluations and exchange rate adjustments since 1971 see: Turkish Industrialists and Businessmen's Association (TUSIAD), The Turkish Economy 1978, p. 143.
 - 3) State Institute of Statistics (SIS), Turkey's National Income 1972-1977 and 1978.

- vi) The rise in the rate of domestic surplus labor in 1977 to 2,175 thousand or to 13,5 % of total domestic civilian labor supply; and increase in unemployment (estimated as 241 thousand as those seeking employment and 1.194 thousand as those who gave up seeking employment. (4)

Parallel to the emergence of the economic problems listed above, considerable changes were witnessed in Turkey's international economic and political relations, as follows:

- i) The foremost question was the need for a large sum of foreign aid and credit including the postponement of matured debts, the delay encountered in Turkey's negotiations with the IMF and the Western Countries in getting aid, and the insufficiency of the amount of aid obtained.

In addition, the following tendencies became manifest:

- ii) Turkey's relations with the EC entered a period of stagnation since 1974. To-day, at a time when Greece has been accepted for full membership, Turkey asked for ^{and} obtained a 5-year freeze of her obligations to the EC.
- iii) There was a cooling of Turkey's political relations with the USA and serious problems succeeded one another, such as the Cyprus issue, the USA arms embargo, the fate of US military bases over the Turkish territory, and the flight of U-2 planes over the Turkish territory for the verification of the SALT II agreement.
- iv) There was a softening in Turkey's political relations with the USSR; and a rapid expansion in economic relations. In particular, Soviet credits were increased considerably to cover several investment projects. Among these, the TPAO (The Turkish Petroleum A.O.) reached an agreement with the USSR for oil explorations and drilling. Similar expansions were registered also in Turkey's economic relations with the Balkan COMECON countries.

- v) Foreign trade with Middle Eastern and Islamic countries rose considerably since 1974, initially due to petroleum price rises and the petroleum import bill. This was followed by some expansion of credits granted by these countries to Turkey, Turkish exports, sending of workers, and construction undertaking projects obtained.

Some figures below will confirm the above. Turkey's trade volume (exports plus imports) with the EC increased in absolute terms by about 3,7 times between 1969 and 1978. But the share of EC in Turkey's foreign trade went down from 47,5 % in 1969 to 43,0 % in 1978, the share of USA went down from 16 % to 6,3 %, the OECD countries in general from 76,7 % to 62,4 % (5). Foreign trade with the USSR increased in absolute terms by about 2 times, but percentage wise, it also declined from 4,7 % down to 2,5 % (5). A major reason for the fall in the shares of EC, OECD in general, and the USSR was the rise in the share of Middle Eastern countries due to petroleum price rises. There was, however, an acceleration in Turkey's trade with the USSR as compared to the previous periods. In addition, the recent agreement with the USSR for economic cooperation and foreign aid has reached considerable proportions (6). Turkish exports to the USSR and Balkan COMECON countries formed 16,9 % of total exports in 1969 and 14,2 % in 1978; Turkey's imports to the same formed 12,3 % and 8,3 % in the respective years (7). Foreign trade with the Middle East countries, on the other hand, went up from 6,7 % in 1970 to 21,4 % in 1977 (8).

B. EXTERNAL AND POLITICAL FACTORS IN THE ECONOMIC PROBLEMS ENCOUNTERED

Diferent interpretations have been made by different authors about the economic problems encountered and the recent changes witnessed in Turkey's international economic relations. In fact, these topics have been and will remain subject to heated polemics by different political parties and by different doctrinaire schools.

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- 5) Union of Chambers, *ibid*, pp. 552-3 (original source: Ministry of Commerce).
 6) See: Önder Ari's paper presented in this seminar; also see: TUSIAD, *ibid*, pp. 116-7.
 7) Union of Chambers, *ibid*, pp. 561-2
 8) TUSIAD, *ibid*, p. 144.

An attempt will be made in this paper for a more objective and comprehensive appraisal of the several factors that have given rise to the severe economic problems Turkey faces to-day and the factors that caused the recent changes in her international economic relations. In particular, an interrelation will be established between the economic problems Turkey faces and the changes in her international relations.

1) Rises in the Prices of Petroleum and Other Import Commodities

Several major factors contributed to the economic problems currently faced by Turkey. One such factor was obviously the quadrupling of petroleum prices by OPEC since end 1973 within a period little over a year, followed by rises in the prices of industrial goods and the consequent sharp decline in Turkey's terms of trade. These have decidedly played an important role in Turkey's balance of payments deficit and in the inflation she encountered as well as in the eventual slowing down of her GNP growth rate. But this was neither the sole nor, ~~in~~ according to the views of the author of this paper, the major factor in the economic crisis Turkey faced. It is, however, next to impossible to quantify this assessment accurately because at about a time when OPEC raised oil prices, domestic production of petroleum in Turkey started falling due to adverse economic policies pursued in this field. To cite, total domestic production of crude petroleum reached a peak of 3,6 million tons in 1969; 1,1 million tons by TPAO and 2,5 million tons by private and foreign private capital (FPC) companies. By 1977 total domestic production was down to 2,7 million tons; 1,1 million tons by TPAO and 1,6 by FPC companies. Consequently, the volume of imports rose from 2,9 million tons in 1969 to 10,4 tons in 1978 (9). →

← We have no way of estimating to what level domestic production of petroleum could have reached had Turkey continued to encourage investment of FDC companies in petroleum. Further mistakes of policy were made by delaying investments in several thermo and hydro-electric energy projects (10).

2) The Cyprus Military Intervention and The Prolongation of Peace Negotiations

The Cyprus military intervention (called in Turkey The Cyprus Peace Operation) and, perhaps more important, the undue prolongation of the ensuing peace negotiations, or at least the impression rightly or wrongly raised about Turkey's deliberate prolongation of the peace negotiations, and the subsequent US arms embargo have decidedly increased the need for Turkey's military preparedness and thus brought additional burdens to the government budget as well as to her balance of payments. It also caused frictions in Turkey's political relations with the US and the Western countries. The Cyprus issue was, therefore, another important factor that contributed to Turkey's economic problems. It was, moreover, a turning point that caused Turkey to make deliberate changes in her economic and political international relations.

3) The Attitude of the Western Countries and of the IMF towards Turkey

Another factor cited by some politicians, political scientists and economists is the alleged negative attitude of the West, and foremost of the USA and the EC countries towards Turkey. The reservation about the USA stemmed basically from the Cyprus dispute and culminated with the arms embargo. It came over an already spreading anti-Western and anti-USA doctrinaire movements and thus strengthened the mood in the Turkish intellectual, administrative and political circles to attempt to attain an "independent" posture, meaning less dependence on the West and the USA. This gave rise to a re-evaluation of Turkey's political relations with the USSR and the Balkan COMECON countries as well as with other country groupings such as the Middle Eastern Islamic countries and the Third World. It also gave rise to attempts to develop Turkey's own national defense industry. In the more recent years, developing Turkey's own national defense industry was seen more realistically as an area of cooperation between Turkey

9) Union of Chambers, ibid, pp. 199-200 (original source: Ministry of Energy and Natural Resources).

10) For details, again refer to Union of Chambers, Economic Reports, 1975, 1976 and 1979; also refer to: TUSIAD, ibid, pp. 93-98.

the USA and NATO countries as opposed to becoming less dependent from the latter.

The cooling of relations with the EC also started in the years 1974, 1975 with the Cyprus issue as well as the growing of Turkey's balance of payments problems. It was also fueled by growing anti-EC *doctrinaire* movements of both radical left and right. Failure of the EC to meet Turkey's demands for more aid, reduction of tariffs on Turkey's agricultural products, freedom of movement of workers, the imposition of limits and quotas by the EC on Turkey's textile exports, as well as the EC's decision to accept Greece to full-membership were all interpreted as declining interest the EC showed towards Turkey. The balance of payments problems, as well as fear from competition from the EC industry also made many Turkish industrialists doubtful about the advantages of Turkish-EC relations. In the more recent years, however, the pro-EC stand has again gained considerable support, particularly among industrialists and the business community (11). Turkey's relations with the USA and with the EC are subjects of other papers in this seminar and will not be explored here any further. But we must stress here that the argument about the "negative" attitude of the West needs a much more careful and unemotional weighing of events, including the negative effects of policy mistakes made by Turkey. Furthermore, in the more recent years we witness "less negative" attitude from the West, and alternately Turkey seems more willing to correct some of the policy mistakes she made in the past (12).

A parallel dispute ensued over the Turkish-IMF negotiations since 1977. The prolongations of the credit negotiations with the IMF and demands of the IMF with respect to implementation of a large scale devaluation and a tight anti-inflationary policy or austerity program were, at first, viewed as too "rigid" and as lacking concern for Turkey's troubled democracy and her military-strategic importance. Such rhetoric again hid from the Turkish public the mistakes of economic policies that Turkey currently was making which contributed to inflation and balance of payments problems she faced. Economic necessities and questions of domestic policy finally led the Turkish government to come to terms with the IMF stipulations of economic policy and signed the letter of intent.

11) Witness, for instance the various publications and newspaper statements made by the Economic Development Foundation (İktisadi Kalkınma Vakfı - IKV) or its representatives. The IKV is an institution founded by the business community to promote Turkish-EC relations and to carry research in this field.

12) Refer, for instance to the confidential report on Turkey by the IMF, leaked to Turkish newspaper Milliyet, August 6 and 7, 1979.

4. Changing Economic and Political World Conditions and the Era of Detente

Another factor behind Turkey's changing international economic relations is the changing economic and political conditions in the World. It is observed that the era of detente enable Turkey to take advantage of the potential in developing economic relations with the USSR; some political accomodation was also made. Many authors also refer to the "residual" character of economic relations between Turkey, the USSR and bilateral agreement COMECON Balkan countries: these relations rise when Turkey's economic relations with the Western countries decline as Turkey faces balance of payments problems. The residual character of the USSR-Turkish relations should, in turn, have logically led us to dwell upon the mistakes of economic policies Turkey made that caused the recent severe inflation and balance of payments problems. But, there was a Tendency in many authors to put the blame squarely and exclusively on "external" factors alone, such as the rise in oil prices and the negative attitude of Western countries towards Turkey. Entry into the era of détente which is given as another external factor that caused the change in Turkey's international economic relations considers the expanded economic relations and some political accomodation with the USSR as "normal" developments. But, according to the author of this paper, at least when we confine ourselves to economic relations, we should find many examples of mistakes of economic policies and development strategy that have caused Turkish-USSR economic relations to expand above the "normal" expansion level that would have been caused by détente alone. One particular example can be cited again from the petroleum industry in which antagonism towards foreign private capital led to a decline of Western origin NPC investments in this field and to the agreement that TPAO reached with the USSR for land exploration of crude petroleum. Chemical fertilizers, tractors afford other similar examples. Failure to curb inflation and reduce the balance of payments crises is another mistake of economic policy which led to Turkey's eagerness to increase project credits received from the USSR, within the context of the "residual effect". The USSR credits are used generally to finance public as opposed to private investment ~~credits~~ ^{projects} and this seems to be in line with the increased reliance the Turkish governments recently placed on the public sector - another concomitant mistake of development strategy and economic policies pursued by the Turkish governments, at least according to the author of this paper. ~~In addition to the residual~~

~~There was also a deliberate attempt by Turkey to expand its economic relations with the USSR.~~

Another aspect of the changing world economic conditions is the oil price rises and the consequent increase in the oil imports bill of Turkey to the Middle Eastern and Islamic countries. To cite, in 1973 the oil imports amounted to 200,1 million dollars or 9,6 % of total imports; in 1977 it reached 1,152 thousand dollars or 19.9 % and in 1978 it was 1,043 thousand dollars or 22,7 %. The total volume of Turkish exports in 1969 was 537 thousand dollars, in 1977

In addition to the "normal" expansion and the "residual effects" there was also a "deliberate" attempt by the Turkish government to expand economic relations with the USSR and Balkan COMECON countries.

and the concomittant
sending of workers

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it was 1,753 and in 1978 2,288 thousand dollars (13). The rise in the import bill to Middle Eastern and Islamic countries was followed by some expansion in credits granted by these countries, Turkish exports to these countries, ~~sending of workers as well as the carrying through of some construction undertakings~~. In view of the isolation Turkey felt in the aftermath of the 1974 Cyprus Operation, she sought political accomodation with the Middle Eastern and Islamic countries and reached an agreement of principle concerning the Cyprus versus the Palestinian issue. The growing influence of the National Salvation Party and its strong religious stand has led many Western observers to ponder whether Turkey was giving away Westernization and Western ties in favor of acquiring an Islamic identity. This, however, was a wrong interpretation of the current and the future situation of Turkish politics. This mistake manifested itself again after the Islamic Revolution in Iran when many Western observers started looking for Turkish Ayetullahs, in vain, as they also soon found out. Another possible cause of concern was Turkey's expanding economic relations with particularly the more radical Islamic countries, such as Libya and Iraq. But, increased relations with Libya stemmed from personal attachments and Moslem priorities of the Libyan government while rivalry with Syria may have played an important role in the case of Iraq. In fact, the less than satisfactory expansion in the economic relations with other Middle Eastern countries may be attributed to adverse economic policies followed by Turkey such as those leading to the neglect of exports and those reducing the transfer of technology from the EC countries, USA and Japan. Pursuing more proper economic

policies, closer economic ties with the West and the EC could have expanded Turkey's economic relations with the Middle Eastern countries more than is actually attained, at least in absolute terms. Percentagewise, however, it could have shown an increase in the share of trade and economic relations with the EC and the Western countries, compared to the actual figures attained.

C. THE MAJOR FACTOR: WRONG DEVELOPMENT STRATEGIES AND ECONOMIC POLICIES PURSUED BY TURKEY; A CHRONOLOGICAL SURVEY

The main theme of this paper is that the balance of payments crisis Turkey faces to-day and the recent changes in her international economic relations cannot be attributed solely to such external factors as price rises in petroleum and imported industrial goods, the "negative" attitudes of the Western countries, nor to the changing economic and

13) Union of Chambers, Economic Reports, 1979 (pp. 201, 564) and 1976 (p. 556); original source: Ministry of Commerce and Ministry of Finance.

political conditions in the world, such as the now oil-rich Middle East and the era détente with the USSR. The more important reason had been the pursuance by Turkish governments of wrong development strategies and economic policies that caused inflation and balance of payments problems and at the same time created a considerable unused potential in Turkey's economic relations with the Western countries, in particular with the EC and the USA. Neither can we attribute the wrong development strategies and economic policies only to a specific period or government.

In this connection we must first note the wrong economic policies pursued since 1950, in fact, since 1923 till present. These wrong policies can be summarized as excess encouragement of import-substitute industries, relative neglect of export industries and foreign exchange earning activities, excess inflationary financing of economic development and over-valued currency practices, all of which went to make Turkish economic development and industrialization inward-oriented, autarchic and dependent to outside for imports and for foreign aid and credit.

The problems that the Turkish economy faces to-day, however, stem mainly from those wrong development strategies and economic policies pursued since 1971, 1973 and 1974. These can be traced according to the periods of different governments, as below.

1) Economic Policies Pursued in 1973, 1974 and Since

In the field of petroleum, the 1973 Petroleum Reform Law gave the priority of exploration and production to the public sector (in effect, the TPAO) over the private sector and foreign private capital. It also prevented opening of new refineries or expansion of existing refineries by the private sector. Further restraints were implemented since 1973 and particularly during 1974 by holding down the price of crude petroleum imported by FPC companies lower than the gulf list price and also by keeping down the price of domestic production at considerably low levels. The difference between the retail and production price was intended to go to the public sector (TPAO) for financing explorations, drilling and domestic production (14). These policies led to a decrease in investments of the FPC companies and hence a decline in their production since 1969, from 2,5 million tons down to 1,6 in 1978. Financial difficulties and technological constraints, on the other hand, forced the production of TPAO to remain about the same, at around 1,1 million tons. Thus, total domestic production declined and consumption requirements expanded at a time when oil prices were more than quadrupled by OPEC. In 1969 total domestic production

14) For details see: Economic and Social Studies Conference Board, Türkiye'nin Petrol Politikası (Turkey's Petroleum Policy), Istanbul 1974.

of crude oil was 3,6 million tons, or 56 % of total consumption, and total imports 2,9 million tons, or 44 % of total consumption. In 1978 total domestic production went down to 2,7 million tons, or 21 % of total consumption while imports rose to 10,4 million tons, or 79 % of total consumption. The total oil import bill in 1978 was a little over 1 billion dollars. (15)

The negative attitude towards the private sector, FPC and joint ventures was witnessed not only in the field of petroleum, energy and mining but also in the manufacturing industry, particularly in the assembly-line industries encompassing the automotive, electronics, electrical home appliances, as well as in pharmaceuticals in all of which joint ventures and licence agreements are dominant. The Law No. 6224 on the encouragement of foreign private capital enacted in 1954 contains very liberal clauses while the 3. Five Year Development Plan (1973 -1977) accepted and passed as law in 1973 contains what on paper seem only reasonable controls with respect to development priorities, plant capacity, transfer of technology and balance of payments effects of FPC investments (16). This is often used -- for misused -- by many Turkish politicians, bureaucrats and doctrinaires as proof that FPC flow is encouraged in Turkey but fails to flow in adequate amount. Alternately, it is argued, FPC flow fails to effect the Turkish economy and her balance of payments favorably. In fact, however, despite a liberal law and reasonable controls in the 3 FYP, the actual implementation of policies concerning FPC had been discouraging since 1974. Various devices were used to discourage FPC de facto. The most effective discouragement measures were the prolongation of permissions for new investments and expansion of existing capacities, refusal for expansion of existing capacity of joint ventures on the basis that extra production were not needed even when the industrial sectors in question soon showed acute production shortages and necessitated imports, as in the case of tractors and rubber tires; delays in granting price rises even in view of rapidly rising manufacturing costs, etc. The latter was implemented strictly particularly during 1974-76 and was later somewhat relaxed by new regulations. We may also cite here the refusal to permit the private sector and FPC to enter into the manufacture of the diesel engine for the automotive industry and for use in agriculture although the application to this end was made by the private sector and FPC in the early 1970's. Preferences of the government first lied in the manufacture of the diesel engine by the public sector (MKEK - Machinery and Chemical Industries Institution). Later in 1976, it was granted to TUMOSAN by the Ministry of Industry held by the National Salvation Party, a coalition member of the 1976 National Front Government. TUMOSAN is classified as a workers' firm

15) Turkish Union of Chambers, Economic Report, 1979, pp. 200-1.

16) For details see Cihat Iren, "The Growth of the Private Sector in Turkey", in Turkey's and Other Countries' Experience with the Mixed Economy, I.U., Economics Faculty, Istanbul, 1979.

corporation but it is wholly publicly owned, about 85% of its capital is supplied by the Ministry of Finance, and the rest by various SEE's and public banks.

~~49% of total shares.~~ TÜMOSAN has yet to start manufacturing operations due to financial problems. These and similar decisions such as for the case of tractors, chemical fertilizers, etc. were responsible for creating production bottlenecks, blackmarkets and for rising import requirements.

iii) Again, there was a rapid acceleration in inflation since 1971. The inflation reached peak levels particularly in 1974 with 29,8 % and later in 1978 with 52,6%. Since we use the wholesale price index of the Ministry of Commerce in which weighting of commodities is outdated and blackmarket prices are not taken into account, the true consumer index ~~must~~ have risen ~~much~~ more. In the 1974 inflation, the rise in the prices of oil and other imported basic materials and intermediary goods as well as the increased expenditures due to the Cyprus military intervention decidedly played a considerable role. But, inflation in 1974 and since was mainly the result of increases in domestic expenditures and consequent money supply. To cite, the losses of the State Economic Enterprises (SEE's) reached 19 billion liras in 1977 and together with the investments programmed of 62 billion liras, their financial requirement reached 81 billion liras. During the course of the year, increases effected in the prices of commodities manufactured by the SEE's and some cuts in the investment program brought the financial requirements down to 58,8 billion liras. In 1977 money supply increased by 38,9 billion liras or 44,2% (17).

The Central Bank has to-day become virtually the financier of the public sector only. Note, for instance, that in 1977, out of total Central Bank credits of 175,4 billion liras, 119,6 billion liras or 68,2% went to general budget administrations and SEE's, 21,2 billion liras or 12,1% went to agricultural sales and credit cooperatives for the financing of support purchases, and only 34,6 billion liras or 19,7% went to the private sector (18).

2. Economic Policies Pursued in 1975, 1976

Economic policies pursued during the years 1975 and 1976 also contributed to the economic ills faced to-day. In these years inflation rate was slowed down from 29,8% in 1974 down to 10,1% in 1975 and 15,6% in 1976. The rate of GNP growth, on the other hand, was held at considerably high levels of 8,0% and 7,7% respectively. Yet the foreign trade deficit continued to expand in absolute terms from 2,2 billion dollars in 1974 to 3,3 billion dollars in 1975 and 3,2 billion dollars in 1976. This deficit was financed by various sources. Foremost, the 1970 devaluation and the acceleration of remittances of workers abroad had enabled Turkey to accumulate foreign exchange reserves which began to be used since 1974. The reserves went down from a peak

17) Union of Chambers, Economic Report, 1979 pp. 519, 420

18) Turkish Central Bank, Monthly Bulletins.

of about 2,1 billion dollars in January 1974 down to 1,6 billion dollars in December 1974, 1,2 billion dollars in December 1975, 1,1 billion dollars in December 1977 and 0,6 billion dollars in December 1978 (19). But, since these were not enough, the Turkish government resorted once more to short-term bank credit in the form of DQM's (döviz cevri- lebilir mevduat - deposits transferable to foreign exchange). DQM's quickly rose from 145 million dollars in the last quarter of 1974 to 1,2 billion dollars by the first quarter of 1976 (20). They were later criticized because of their high interest cost and the precarious nature of being called back at a crisis time. Another criticism leveled to DQM's were that they were used by private banks to the private sector discriminately. But, foreign exchange obtained through the DQM's, in addition to workers' remittances, use of foreign exchange reserves, foreign aid and credit, enabled the Turkish economy to foot the imports bill and thus kept both investments and the GNP growth rate at considerably high levels, during the said years.

Yet, the Ministry of Industry and Technology held by the National Salvation Party continued its antagonistic attitude towards FPC, joint ventures and the big private entrepreneurs in the metropolises, preferring to foster provincial entrepreneurs and corporations open to public. It was during these years that TUMOSAN and other projects launched and FPC and joint projects were tightly squeezed, their applications for expansion and new investments, were often refused price rises in view of increasing costs, delayed or denied. Tourism was, in general, very much neglected. The Ministry of Industry also tried to follow the principle of "developing heavy industries by the state", embarked on too many thinly spread investment projects that could not be materialised and hence led to waste of financial sources. By 1975, 1976 the Turkish industry had indeed reached a level which made the development and expansion of many "heavy" industries, comprising many investment and intermediate goods sectors and basic industrial and agricultural materials both necessary and viable. But the said Ministry dwelt on projects that were in conflict with the principle of dynamic comparative advantage and went to waste financial resources by spreading them thin. Furthermore, by resorting to such organizations as the public sector and semi-public corporations open to public, the said Ministry also refused to use the potential of the private sector and of FPC flow in many of the sectors that could have been viably developed. The NSP also held a rigid stand with respect to the EC as well as with respect to the Cyprus issue. Thus, Turkey's relations with the EC were virtually frozen. Peace negotiations concerning Cyprus were also prolonged and Turkey's relations with the USA deteriorated to lowest levels.

19) Union of Chambers, Economic Report, 1976, 578

and TUSIAD, ibid, p. 1976.

20) TUSIAD, Turkey, An Economic Survey, 1976, p. 62.

3. Economic Policies Pursued in 1977 and Since

The development strategies and economic policies pursued since 1977 did not alleviate the economic problems, but added considerably to the already existing difficulties. Had the RPP government formed by the joining of some M.P.'s from the Justice Party immediately made an adequate devaluation and at the same time put a viable and consistently implemented austerity program to curb inflation, it would also have satisfied the conditions of the IMF and obtained external aid and credit in time. Thus it could have perhaps overcome the major part of economic problems by the end of 1979. Instead, it resorted to devaluations and exchange rate adjustments that were too late, too little and technically deficient. Neither were these devaluations and adjustments accompanied by any substantive anti-inflationary measures. On the contrary, many of the economic and social measures taken by the RPP government actually accelerated the rate of inflation. To wit, employment in the public sector and SEE's was increased considerably, thus increasing disguised unemployment and budgetary deficits. Total employment including salaried personnel and workers in the SEE's (excluding, therefore Ministries municipalities and general budget administrations) in 1973 was 426 thousand; in 1978 it reached 706 thousand (21). The implementation of full-time for doctors also increased and hospital personnel the financial burden on the budget. Reliable estimates on this latter is lacking. The tax reform bill on the other hand, was inadequate both from the point of view of tax equity and for increasing tax revenue to fight inflation. At any rate, the RPP government could not pass the tax reform bill through the parliament. This time the influence of the radical left as opposed to radical right in the NF governments led to attempts at expansion of the public sector at the neglect of utilizing the potential that lied in the private sector and in FPC flow. To cite, in the field of petroleum, energy and mining, drastic steps were taken. The ATAS refinery owned by FPC companies was purchased by the government while the distribution activities of FPC's were also effectively reduced and that of the public firm (Petrol Ofisi) expanded. The law on mining (enacted in 1954) had given the priority in mining to the public over the private sector. But since 1954 private sector was allowed to operate many of the smaller lignite and chromium ores the title for which belonged to the state. The operation licences of the private mining firms were all cancelled in 1978. The expansion of the public sector was not confined to petroleum, energy and mining. Allegedly for the purpose of regulating the market, many other projects were also undertaken by the state, such as TANSA in the field of retail distribution, which in the opinion of the author of this paper, proved unsuccessful. Likewise, on the pretence of eliminating speculative profits and blackmarkets, the government took over part of foreign and internal trade in

21) Union of Chambers, ibid, p. 516.

developing

iron and steel and recently in livestock. The 4. FYDP (1978-82) aimed at the heavy industries by the public sector and targeted a rise in the share of public investments from 50.1% in 1978 up to 57% by 1982. It is interesting that these targets were drawn in a period when the financial burden of the SEE's reached about 60 billion liras in 1977. Again, instead of devising a reform of SEE's to increase their productivity and efficiency as was badly needed, disguised employment was continued to be increased and schemes were drawn for workers' participation in management in them. It was argued that workers' participation in the management of SEE's would improve their productivity. Such an argument is, however, very debateable. To curb the budgetary deficits of SEE's and hence fight inflation -- that would arise through continuously increased expenditures and money supply -- prices of the commodities produced by the SEE's were raised drastically. Since, however, these commodities mostly formed basic materials for industry and agriculture, the result was again inflation, this time, however, cost inflation occurring every time the prices of commodities produced by SEE's were raised. Further squeezes were put on the private sector through credit and finance. The share of Central Bank credits going to the public sector, including the general budget, the SEE's and support purchases of agricultural commodities were increased at the expense of private sector credits (22). Foreign aid and credit was also allocated more to the public sector as opposed to the private compared to previous periods. This was partly concomitant with the rise in the share of project credits from the USSR and COMECON countries which went into public investments. But the share of World Bank credits going to the public sector also increased. There was some relaxation in the granting of price rise permissions in view of rising costs, devaluations and exchange rate adjustments and this was of some help to the private sector. But, foreign exchange shortages, financial difficulties and political instability caused manufacturing operations to fall generally below 50% of plant capacity. Drastic falls were also registered in the rate of increase of private investments and employment. Throughout the RPP government period the negative attitude towards FPC remained the same as in NF government periods, if not intensified. In fact, some decreases were witnessed in the total absolute volume of FPC and the number of joint ventures in 1977 as many firms, particularly those in pharmaceuticals, left the country (23). Although the need for Turkey of encouragement of FPC was stressed by Western and the EC countries as a way to raise investment and employment opportunities at home, to alleviate balance of payments problems and obtain greater bank credit from abroad, and the government paid lip service to the encouragement of FPC flow, no definitive and effective steps were undertaken to encourage FPC in any substantial way. This was presumably because of the influence of the radical left wing factions of the RPP. In addition to public investments, state interventions were also increased while accelerated inflation caused further

22) TOSIAD, ibid, p. 229.

23) Statistics on yearly flow of FPC firms and their distribution published by the Ministry of Commerce are also reproduced in SPO, Annual Programmes.

deviations from the market economy and the market price system. The economy lost normality and became one of continuous inflation shortages, rationing, blackmarkets, speculative activities and illegal transactions. The rate of growth of GNP decreased to about 4% in 1977, and 3% in 1978, just a little over the population increase or about 2,5%. The IMF agreement and external aid and credit, under the circumstances, came too little and too late. Government negotiations with both the IMF and the EC displayed many inconsistencies while the IMF stipulations for controlling inflation was certain to be considered as too strict depending on which sector the credit squeeze would de facto fall, most likely the private sector. In the opinion of the author of this paper, it was a mistake to ask for a five-unilateral freeze of Turkey's customs tariff reductions obligations, which was granted by the EC on a bilateral basis, concomitant with the suspension of time schedule for free movement of workers.

balance of payments difficulties that Turkey faced to-day made it impossible to meet her obligations with respect to lowering of customs tariffs and that in major part the balance of payments difficulties stemmed from external causes, such as oil price rises and wrong economic policies pursued by the previous NF governments. But, in fact, the balance of payments difficulties stemmed more from wrong economic policies pursued since 1973, 1974 till the present day than from external causes. Secondly, small, gradual reductions in customs duties are not so effective steps as to cause any substantial deterioration of Turkey's foreign trade. In fact, other measures such as import restrictions, devaluations, curbing or accelerating inflation are much more crucial weapons either way. Thirdly, application for full-membership to the EC now would have given plenty of time to Turkey to alleviate her present economic problems and develop and expand many viable industries before full-membership date arrives. And finally, the application for a five-year freeze by the Turkish government does not seem to be accompanied by a blueprint of economic policies that would steer the Turkish economy in the right direction; away from balance of payments problems. On the contrary, expansion of the public sector, negative attitude towards the private sector and towards EPC, inability to curb inflation, if continued would place the Turkish economy in a much more difficult position vis-à-vis the EC after the expiration of the five-year freeze.

The RPP government was relatively successful, however, in expanding first after the 1964 Cyprus crisis and lately, after the 1974 Cyprus crisis Turkish-USSR economic relations that had first received a boost after 1974 and during 1975, 1976. It was also relatively successful in expanding her international relations with other COMECON Balkan countries. Efforts to form close liaison with the Third World countries, however, seemed to bear little fruits, mainly because Turkey, in principle, retained her organic ties with the West, such as her military-defensive ties with NATO.

D. BASIC MISTAKES OF ECONOMIC REGIME AND DEVELOPMENT STRATEGY BEHIND TURKEY'S CURRENT PROBLEMS.

1. Mistakes of Economic Regime and Development Strategy

In a more systematic rather than a chronological approach, the balance of payments deficits, inflation and other problems the Turkish economy faces to-day as well as most of the recent change in recent her international relations, in particular her inability or unwillingness to use the full potential in her relations with the Western countries, including the EC and the USA, can be attributed to the following basic mistakes of economic regime and development strategy:

1. Deviations since 1971, 1973 and 1974 till this day ^{or the price} from the market [^] mechanism ^{as well as from} ~~and~~ the underlying principles of the mixed economy. ^{The latter} ~~These~~ deviations, in turn, manifested themselves in:

- i) Excess government interventions and regulations.
- ii) Excess reliance on public investments, not only in petroleum, energy and mining, but also in the manufacturing industry, particularly in the heavy industries as well as some fields in trade and distribution.
- iii) The concomitant restrictions of the private sector and private investments, unwillingness to use the full potential of the growth of the private sector.
- iv) The negative attitude towards FPC companies and unwillingness to the use the full potential of FPC flow.

These not only added substantially to Turkey's balance of payments problems and reduced her growth rate of GNP and employment, but also directly caused her international economic relations with the Western countries to remain at levels below its full potential, in the sense that, although Turkey's economic relations with the EC and Western Countries are predominant, they could have flourished even more to mutual satisfaction. In turn, as a "residual" effect, Turkey's relations

with other countries, particularly the USSR and COMECON countries tended to rise above the economically optimal levels.

2. But, in the expansion of Turkey's relations with the USSR and COMECON countries, there were factors beyond the "residual" effect. There was, in the opinion of the author of this paper, an explicit and deliberate effort to subdue Turkey's relations with the West and expand her relations with other ^{country groups} ~~countries~~, such as the USSR and COMECON countries, the Middle Eastern and Islamic countries and the Third World, beyond the "residual" effects and the "normal" levels in view of détente and changing economic and political conditions in the world. This stemmed from the US arms embargo, and what were interpreted as negative attitudes of the USA, the Ec and the IMF. It also arose basically from the influences of the radical left and radical right ~~doctrinaire~~ movements. The deliberate change in Turkey's international economic relations was phrased in 1975 as "more flexibility in the era of détente" but in the more recent years it embedded a desire for "independence, (or less dependence) economically as well as politically". It was presumably conceived that greater weight of non-Western country groupings could go some way in attaining less dependence, particularly less dependence-- or eliminating over-dependence-- on Western countries. Had Turkey fostered her economic relations with the Western countries she could have eliminated those increases in her economic relations with the USSR and COMECON Countries that went beyond the boundaries of economic efficiency. Her economic relations with the Middle Eastern Countries, particularly her exports as well as foreign aid and capital flow, however, would have benefited from stronger ties with the Western economies and EPC companies.

3. As a third factor, we should note that the aim of reducing inequalities in the distribution of income and wealth gained considerable influence since the late sixties. But, what is pertinent, the policies for attaining this goal were erroneous and, in fact, resulted in accelerating inflation and reducing the growth rate. For instance, the unduly high agricultural support prices, excess employment practices of the SEE's and government offices, full-time for doctors ^{and hospital personnel} ~~have~~ all added to increases in budgetary deficits and money supply. On a more general level, the expansion of the public sector, discouragement of EPC flow, joint ventures and big private

capital concentrated in the metropolises and, in ^{contrast,} ~~turn,~~ ^{public} encouragement of corporations and ~~corporations~~ ^{these latter} open to public, including TUMOSAN, even though they may not operate efficiently for the industrial sectors in question, were advocated by many authors as helping both to increase the rate of growth of GNP and to reduce inequalities of income and wealth at the same time. The actual results, however, were balance of payments difficulties, reduced growth rate, decrease in the rate of growth of investments, increase in labor surplus and accelerating inflation. Increase in unemployment and accelerated inflation meant, on the other hand, that as a final result the distribution of income was worsened in the recent years and not improved.

2. Measuring the Impact of Policy Mistakes on Turkey's Balance of Payments

The main contention of this paper is that the present balance of payments crisis stems from the mistakes of economic policies and mismanagement of the economy particularly since 1971, 1973 and 1974, rather than from external factors such as oil prices rises by OPEC. This can be demonstrated with the aid of the following figures. In 1978 the total import bill was 4.6 billion dollars and exports were 2.3 billion dollars. Imports had gone down from 5.8 and exports had gone up from 1.8 billion dollars in 1977. The improvements in both directions are misleading. This is because the 1977 export figure was a somewhat low figure with large stocks of export commodities left over to 1978. Due to unavailability of foreign exchange at the Central Bank, on the other hand, a greater bulk of imports was carried on by overly expanded blackmarket foreign exchange operations. This, in fact led to the concomittant rise in the black-market rate of foreign exchange and hence forced further devaluations in a year when foreign trade deficit, on the surface, seemed to improve substantially. Looked at from another angle, despite the fall in the investment rate, the Turkish economy could hardly have operated in 1978 at less than 6 billion dollars of official imports plus a "normal" level of blackmarket imports.

Normally exports would have stood at about 2 billion dollars without the left over stocks from 1977 (disregarding this time, contraband exports to border countries, such as live animal, meat, vegetable oil to Iran.) This meant a foreign trade deficit of about 4 billion dollars in the official transactions. Now, if proper economic policies had been pursued since 1971, 1973 and 1974 the following foreign exchange earning or saving items could have more than met this trade deficit; as follows:

i) Curbing inflation and pursuing a policy of equilibrium rate of foreign exchange could have brought in a yearly flow of remittances from workers abroad through official banking channels of about 1,5 billion dollars -- with still considerable sums flowing through the unofficial or black-market depending upon the deviation of the "free" from the official market rate of foreign exchange. The true official foreign exchange remittances of workers in 1978 stood at about 830 million dollars, and as sales of domestic cars and other automotive vehicles were made in foreign exchange to workers abroad, the latter transactions brought the total figure up to 983 million dollars. In explaining this decline in workers' remittances from 1,5 billion dollars in 1974 to 0,8 billion dollars in 1978, many economists and the Ministry of Finance argue that the Turkish workers in the EC have taken all their families abroad, are to a large extent alienated from their home country or else do not feel the necessity for remitting as much a volume of their income as they did in the earlier years. In fact, however, the issue is more complex. Firstly, we can observe that even at present Turkish workers abroad preserve their very high propensity to save, and alternately still live in sub-standard and slum conditions from the Western point of view. This may mean that they still consider to transfer these savings to Turkey eventually or are actually sending a considerable part of these savings back home through the unofficial channels. They may have temporarily somewhat reduced their remittances -- both official and unofficial--

after 1974 due to increased unemployment in the EC countries or fear from such. But, more important than the above factor, in the more recent years the very high margin between the official and the free market rate of foreign exchange must have induced them to reduce their official remittances through regular banking channels and to increase substantially their unofficial remittances at the very high free exchange rates. This is also suggested by the drastic fall in the volume of official imports from 5.8 billion dollars in 1977 down to 4.6 billion dollars in 1978. Although figures on investments and the fall in the rate of investments in 1978 are not yet available, it is hard to visualize whether the Turkish economy, with no change in her structure in 1978 compared to 1977, could have operated with a fall in imports as great as 1,2 billion dollars. Alternately, the first hand observations of the author of this paper with the market suggest that there was considerable increase in 1978 in the tendency to resort to unofficial business transactions and imports and the main supply for foreign exchange in the free market or demand for Turkish lira should have some from workers abroad. As for the alienation of Turkish workers from their home country, one should explore carefully whether they want to live abroad permanently or are only delaying their return. In this connection the effects, in particular, of dwindling opportunities in employment, accelerating economic and political instability, mounting anarchist activities must be looked into first before reaching definitive conclusions.

ii) Tourism is a field very largely neglected. In particular, flow of FPC into tourism which seems essential to boost this sector was, in many instances, de facto discouraged. Had a long-range plan to develop tourism been properly implemented since the early seventies, it could have brought in a net gain in tourism income of anywhere between 0.5 to 1 billion dollars or more per year, depending on the scale of the A further proof of mismanagement of monetary policies and exchange rates as affecting the volume of workers' remittances is witnessed in 1979. During 1979 a high premium over the official exchange rate was paid to workers' remittances (and for other foreign exchange deposits to banks). Workers' remittances (plus other foreign exchange deposits to banks) are expected to reach 1,7 billion dollars by the end of 1979. This suggests that mismanaged exchange rates caused a shrinkage in workers' remittances of about 0,5 to 0,7 billion dollars during the recent years, 1977, 1978.

program, external factors such as income growth in the European countries, political stability in Turkey, etc. In contrast, the net tourism balance of 35 million dollars in 1977 and 145 million in 1978 was attained largely by restricting tourism abroad rather than by attracting tourists from abroad.

iii) An important item of foreign exchange savings lie in petroleum imports. In 1978, the total crude petroleum import bill amounted to 1.044 million dollars and total fuel oil bill reached 1,439 billion dollars while a negligible sum of petroleum products was exported. There were shortages in electricity, natural gas and oil in 1978, so the total consumption and imports must have been ^{considerably} below the actual needs of the economy. The above volume of imports contained, on the other hand, some spot purchases at higher prices. This means that in normal balance of payments conditions, long term contracts for oil imports and meeting these contracts duly, aversion of spot purchases could have brought in some additional savings. What is more important in this field is the pursuance of policies that effectively discouraged EPC companies since 1973. If antagonism towards foreign petroleum companies had not risen to critical levels, priority not given to the public sector in exploration and production, if properly high prices were allowed for domestic production, and if refinery activities of EPC and the private sector not discontinued, it would have induced EPC companies to continue their exploration, drilling and production activities and investments. Investments and high expertise is particularly important for Turkey because petroleum reserves are still largely unknown and much deeper under-ground explorations are required compared to Middle Eastern countries. Such proper policies would have prevented the fall in domestic production from 3.6 million in 1969 to 2.7 million tons 1978 and hence reduced the import bill that amounted to 10.4 million tons in 1978. But, it is not possible to estimate with any degree of accuracy the

increase --or the slower decrease-- in domestic production of crude oil. Assuming 1978 domestic production remained at the 1969 level, this would have reduced import bill of crude oil only by about 87 million dollars. But, domestic production was on the increase particularly since 1964, having jumped from 0.9 million tons in 1964 to 1.5 million tons in 1965, reaching 3.6 million in 1970, or an increase of 2.1 million tons during 1965-69. If we assume that the same absolute level of average increase continued throughout 1969-78, this would have decreased the import bill of crude petroleum by about 469 million dollars. There would have been further adjustments due to savings from spot purchases, increased exports of petroleum by-products, avoidance of electricity shortages so important for the industry, and profit transfers of FPC companies. It is also significant that very recently a domestic private entrepreneur volunteered to enter into petroleum exploration, drilling and production provided adequate guarantees and tax encouragements are granted by the Turkish government. Carrying through of thermo and hydro-electric energy projects, prevention of delays in the several concrete projects that have already been undertaken ^{in the latter fields} (24) elimination of small-size generators completing the inter-connection system could have eventually reduced the imports of petroleum and electrical energy still further and would have also contributed to an increase in exports.

iv) Similar foreign exchange savings from the imports bill lie in many other-substitute sectors which, due to the negative attitude towards the FPC flow and joint ventures and the private sector--and private capital concentrated in the metropolises showed acute domestic production shortages in 1978, and for that matter since 1974.

(24) For details on these projects, refer to SPO, Annual Programmes and Union of Chambers, Economic Reports, of recent years.

The following sectors showed the most acute shortages: the diesel engine and engine parts, the transmission system, other component parts of the automotive industry, tractors, various components of other assembly-line industries, savings in value added by developing and expanding the fertilizers industry, and intermediate materials in the chemical and pharmaceutical industries. If the domestic production and development of these industries by the private sector, FPC and joint ventures were properly encouraged, it could have brought an additional net savings in the import bill of at least 750 million dollars in 1978 and even more in the longer run. Further reduction potential in the imports bill as well as increase in exports lied in the development --preferably by encouraging FPC-- of the shipbuilding industry; increasing the tonnage of ships and thus reducing the freight paid, or the invisible account in the balance of payments.

v) If exports were encouraged properly by means of curbing inflation, following an equilibrium exchange rate policy and also through better market research, better planning of export production and investments, better quality control and a better export channelling organization, including the reduction of bureaucratic formalities and shedding of the negativistic attitude of bureaucrats towards exporters, the total volume of exports in 1978 could have reached easily 2.5 billion dollars; an increase of 500 million dollars over the adjusted figure of 2 billion dollars.

vi) We may assume that under more normal balance of payments conditions, with closer ties with the EC and Western countries and ability to present a viable economy and viable investment projects, Turkey could have obtained a net foreign aid in terms of both project and program credit as well as short-term bank credits minus backpayment and payment of interest of more than 750 million dollars per year. For the sake of comparison, the actual figures for 1978 were as follows: project credits 497 million dollars program credits (excluding extended credits) 110 million dollars, use of SDR's 179 million dollars, short-term capital movements 558 billion dollars, infra-

Note, however, that critics of FPC argue along exactly the opposite direction. They claim that the real effect of FPC flow on Turkey's balance of payments was negative when import bill for inputs of import-substitute sectors to which FPC has flown is taken into consideration. Based on this, the critics argue for non-entry of FPC; while the author of this paper advocates further entry of FPC to increase the domestic production content of import-substitute industries. structure and offshore 3 million dollars all amounting to 1.347 million dollars.

Payment of interest was 199, project credit servicing charges 56, backpayments of loans 199 million dollars, amounting to 654 million dollars. This brought the actual net flow of aid and credit in 1978 to 693 million dollars.

vii) The actual balance of payments effects of FPC had been negative in the more recent years. The gross yearly flow of FPC from 1973 till 1978 were 79, 88, 153, 27, 67 and 47 million dollars^{*}. This meant that for 1976 the net effect was minus 56 million dollars, for 1977 minus 49 million dollars and for 1978 zero.

A proper strategy of encouragement of FPC would decidedly have turned their net balance of payments effect into positive. But what is important in this regard is the of the transfer of technology enabled by FPC, faster development of various export and import-substitute sectors and the favorable balance of payments of FPC flow through increased exports and reduced imports. [The above figures are highly tentative and assumptive. But they do demonstrate that had Turkey followed optimum economic policies--despite the rise in the price of oil and imported industrial materials-- she could have entirely avoided the balance of payments crisis that she faced in 1978 and 1979. Falling somewhat short of optimal policies, however, she could have still faced a much less severe balance of payments problem which she could have easily accommodated by obtaining foreign credit more easily and by making less painful adjustments to her already not too adverse economic policies. We should stress here that making future predictions in this regard is even more difficult to make. For, changing economic policies in the right direction say from 1979 on, will not bear immediate results. Its result will depend in the case of the private sector and FPC flow upon a return of confidence about the consistency and constancy of the change in the attitude of Turkish governments and may take several years. In other cases which necessitate changes in the allocation of investments, it will need a

^{*} consecutively while profit transfers amounted to 35, 71, 36, 83, 116 and 47 million dollars.

gestation period for public investments and whatever time that it takes the private investments to be encouraged and channelled to particular sectors through various tax measures, building of infra-structure, etc. . In the short-run future, further rises in the prices of oil and of imported industrial goods will make it more difficult for Turkey to cope with her economic problems. To cite, oil prices have already been increased by OPEC in mid-1979. What is important, however, the economic policies outlined above are the proper policies to be pursued by Turkey whether oil prices rise and whether rises in the prices of Turkish imports accelerate or not.

historical *in Turkey*

3. A Brief Survey of the Development Strategies Pursued and Their Effects on the Performance of the Economy

A brief survey of the history of Turkey's economic development also suggests that when she follows an optimal mixed economic system this raises her rate of growth of

GNP and investments. An optimal mixed economic system is defined here as an economic regime in which the market or price mechanism, though intervenes, is still basic and in which the private sector and FPC is properly encouraged and the public

and private sectors are considered complementary rather than substitutes or rivals(25).

In addition to pursuing an optimal economic regime, other factors such as wars or world recessions, political instability or uncertainty at home, availability of foreign exchange also affect the rate of growth of GNP in any given period. To wit, during the period 1939-49 the rate of growth of GNP was 0,6%, with a population growth rate of 1,5%, this meant a per capita growth rate of GNP of minus 0,9%. The average yearly price rise during this period was 14,6%, using the implicit GNP price index(26).

(25) For details see: ed. Mükerrrem Hic, Turkey's and Other Countries' Experience with the Mixed Economy, Istanbul 1979.

(26) The basic sources for the statistics used in this section are the following: SIS, 1938, 1948-1967 National Income, Total Expenditure and Investment of Turkey (Publication no: 536, Ankara 1968); National Income of Turkey, 1972-77 (Ankara, January 1978); Population Censuses and SPO, Annual Programmes 1977, 1978, 1979.

Another difficulty will be the political pressures at home in carrying through anti-inflationary policies persistently. To wit, just prior to replacement elections in October 1979, agricultural support prizes have already been raised to critically high levels.

This was a period in which excess étatisation was implemented and at the same time World War II affected the Turkish economy severely. In contrast, both the private sector and FPC flow was encouraged while public investments were considered as complementary during 1950-59. The average rate of growth of GNP during 1950-59 was 6.9%, with an average population growth of 2.9% per year, per capita rate of growth of GNP was 4.0%. During the two years of military intervention 1960-61, the rate of growth of GNP fell down to an average of 2.7% and in per capita terms down to 3.2% with a population growth of 2.5%. During 1962-65 when political uncertainties still existed, no bold economic programmes were put into effect; economic policies pursued were less growth oriented, more reform oriented and there were less encouragement of the private sector. During this period the average rate of growth of GNP was 5.7% and with population growth rate of 2.5% per capita GNP growth rate stood at 3.2% while the average price rise was 5.8%. During 1966-70 the strategy of vigorously encouraging the private sector and FPC was resumed, and the average rate of growth of GNP reached 6.8% and the rate of growth of per capita GNP rose to 4.2% with an average population growth rate of 2.6%. The average price rise during 1966-70 was 7.2%. The period since 1970 is a resultant of more complex factors. The Military Memorandum was submitted in March 12, 1971; subsequently and till 1973 various reform bills were put in force, including Land Reform, Petroleum Reform and the 3.FYDP. But from 1970 till 1973, excluding the first reform government, generally moderate policies were implemented towards the private sector and FPC. Furthermore, the military intervention was, at that time, interpreted as an indication of political stability of Turkey rather than instability. And finally, the large-scale devaluation successfully implemented in August 10, 1970 had helped increase Turkey's exports and in a much more significant manner, remittances of workers abroad. Hence, the restraint of foreign exchange on Turkey's growth seemed to be removed. Therefore, despite the pursuance of adverse economic policies during 1974, the Cyprus intervention, the rise in oil prices, continued negative attitude towards FPC continued till

present day we still witness an increase in the average rate of growth of GNP to 7.6% for the period 1971-76. With a 2.6% population growth rate, the per capita GNP growth rate went up to 5.0%. Inflation, however, increased considerably to an average of annual rate 20.4% both due to external factors and rises in the prices of imports and also due to internal inflationary policies. The problem of balance of payments deficits were rided through by means of use of accumulated foreign exchange reserves and recourse to DCM's. But continuation of adverse economic policies, inflation, inability to remove production bottlenecks, to reduce imports and increase exports, unwillingness to use the full potential of the private sector and FPC flow finally forced the rate of growth of GNP down in 1977, 1978 and 1979 while the rate of inflation accelerated drastically. Thus, history of Turkish economic development, if carefully interpreted, does provide us with clues that implementation of a "normal" or proper mixed economic regime in which the private sector and FPC is encouraged will, ceteris paribus, tend to increase her growth rate. (27)

4. Compatibility of the Development Strategy Turkey Recently

Pursued with EC Membership and EC Relations

Wrong development strategies and economic policies pursued since 1971, 1973 and 1974 till the present day not only caused inflation, balance of payments crisis, slowdown of GNP growth rate and investments, increases in labor surplus and unemployment but it also prevented the optimal development of Turkey's economic relations with the Western countries, in particular the EC. The above analysis should show clearly that the recent changes in Turkey's international relations cannot be explained in terms of such external factors as changing economic and political conditions of the world, increase in oil prices, etc. . Surely some changes in Turkey's international economic relations are "normal" in the sense that they have arisen due to a set of

27) The Turkish inter-temporal experience with excess étatism versus liberal economic regime conforms with the findings on inter-country comparisons of growth rates: those countries which apply the market economy have, on the whole, faster growth than the centrally planned economies. See: Bela Balassa "Proposals for Economic Planning in Portugal", *Economia*, Vol. II, No. 1, January 1978.

changes in external factors. But a greater part of the actual change can be explained in terms of wrong economic policies pursued by Turkey having a "residual" effect on Turkey's relations with the USSR and COMECON countries, as well as others. Still another factor is the deliberate choice Turkey seemed to have made in trying to be "independent" or "less dependent on the West".

The wrong economic policies pursued by Turkey have another direct bearing on her relations with the EC; these policies are simply not compatible with EC membership. In particular, the highly inflationary tendencies, undue enlargement of the public sector, discouragement of FPC, lack of adequate encouragement of the private sector, overly administered prices, ^{and inward-orientation of the economy} autarchic tendencies have not only produced in Turkey a balance of payments crisis and slower growth but are in direct contradiction to the economic regime and principles of economic policy accepted by the EC.

E - BASIC POLITICAL FACTORS BEHIND

CURRENT ECONOMIC PROBLEMS

The political factors that have led the Turkish governments since 1971, 1973 and 1974 till the present to deviate from the mixed economy, the market mechanism, Atatürk's principles of étatism and social democracy may be considered root factors but should be tackled by political scientists rather than economists. I shall, therefore, contend with only a few pertinent observations concerning recent political development in Turkey:

1. The two mass political parties the Justice Party (JP) and the Republican People's Party (RPP) did not possess the ability to draw the absolute majority ^{held in 1973 and 1977} of the electorate during the later general elections. Hence, since the 1973 elections,

governments were formed by short-lived coalitions, extra-parliamentarians and by majorities obtained through transfers of M.P.'s from other parties or from independents.

2. The radical left doctrinaire movement started gaining ground in Turkey since the late sixties. As a reaction to the radical left, the radical right, including both radical nationalist right and radical religious right started gaining ground in the mid-seventies. The rivalry between the two major mass political parties, the JP and the RPP led to the support of the radical left by the RPP and the support of the radical nationalist right by the JP. Thus, the radical movements were always represented in the governments established since 1973 with the exception of Sadi Irmak's extra-parliamentarian government which had not gained a vote of confidence in the parliament and had to stay in power within a short period, till a new government was voted in. The radical left formed particularly strong factions within the RPP while several minor political parties further left were also established. The radical nationalist right was organized into the Nationalist Action Party (NAP) and the radical religious right into the National Salvation Party (NSP). In 1974 a RPP-NSP coalition was formed which went on to intervene in Cyprus militarily. It was dissolved mainly by the initiative of the RPP which sought to obtain the absolute majority in an early general election. ~~It~~ was followed by Sadi Irmak's government and subsequently, the establishment of the 1. National Front (NF) government coalition comprised of JP, NAP, NSP and the Republican Reliance Party (RRP). In the 1977 general elections the RPP gained ground while other parties further to the left were wiped out as their constituencies voted nearly en masse for the RPP. But the RPP still mustered about 41.5% of total votes cast on the right or center, the Democratic Party diminished and JP expanded, mustering about 37% of total votes; the NAP gained while NSP lost considerable ground

since the "successful" Cyprus military intervention had increased -- at the time -- the prestige of the RPP and its leader in the home front. But, all other parties prevented an early general election. The RPP-NSP coalition government

compared to 1973. What is important is that in the governments formed since 1973 the radical movements of right and/or left were always present and they exerted an undue influence on decisions and policies devised and implemented. Both the NSP and the radical left shared a common economic denominator: antagonism towards the EC, US A, and EPC. They both advocated expansion of the public sector and development of heavy industries by the state. The NAP was similarly antagonistic to west and in favor of expanded public sector in its party programme but showed considerable restraint and moderation in the actual ^{economic} policy discussions of NF governments.

3. The bureaucrats as a social pressure group gained ground as a separate force, with the majority lining in favor of the RPP. They stood to gain power and influence through expanded public sector and increased government interventions and regulations. Hence, the excess étatisme and centralist tendencies of the bureaucrats were in the same direction as the state capitalism of the radical left and right movements. Indeed, many bureaucrats may have harbored left of center and radical leftist tendencies as well as RPP sympathies. For politicians and political parties in power, on the other hand, excess étatisme came in as an easy way to reward their constituencies, such as by increasing employment in the SEE's, and by increased and centralized interventions and regulations on the economy which they used for partisan purposes. In short, mismanagement of the economy became too strong a political temptation. Indeed, it seemed an easier way out to short-run political benefits compared managing the economy properly, curbing inflation, easing balance of payments problems through tedious measures and waiting for the results of these proper policies to show at long last their positive effects on the preference of voters at large.

4. The extra-parliamentary pressure groups proliferated; most of all the

professional organizations and associations fell victim to radical movements and they exerted a great deal of pressure both on the public opinion and on government decisions.

5. The rivalry, including personal rivalry of leaders of the two major parties, the RPP and the JP, tugged by strong overtones of radical-left and right clinging to them and vice versa, reached such proportions that any sensible dialogue --least of all any possibility for a grand coalition-- between these two parties seemed to disappear completely. As of now from the perspective of the short-run tactics of each party such a coalition seems to offer no advantages compared to going it alone. Besides both accuse each other ^{rightly}, -- of lending support to radical movements. ^{This} ~~which~~ means that for reaching any real understanding they would have to shed their overt or covert support of the radical ^{the two major parties} movements. But they seem unwilling to risk the alienation of the radical movements and find themselves having lost votes and political support. The future general elections scheduled normally in 1981, would most likely diminish the votes of the smaller political parties and radicals with some expectations and increase that of the major mass parties. Indeed an absolute majority by one of the major parties may likely be attained. But it still remains doubtful as to whether such a government can effectively tackle all the political and economic problems of the country. For tackling these problems would meet strong opposition from radicals even if these radical movements are squeezed out of government decision-making and government coalitions. In addition, a long time will be needed for the proper policies to bear fruits while some mistakes made in the past may never be corrected due to already rooted vested interests. In the meanwhile, the effects of further increases in oil prices inflation and recession

in the West may make matters still worse for the Turkish economy.

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'Turkey's Place and Possible Developments
in her International Economic Relations
in view of Changes in Economic Structures
on the World Scene'

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Introduction

This paper deals with world economic developments and their impact on Turkey's foreign economic relations in the seventies and the eighties.

A study of Turkey's internal economic, political and social evolution cannot be dissasociated from her foreign economic relations, which are themselves directly affected by changes in the international economy. The way and the extent that Turkey is affected by these changes is determined by:

- (i)- the acuteness of Turkey's internal economic, political and social problems
- (ii)- her geographical location
- (iii)- Problems specific to Turkey and to her foreign economic and political relations.

To elaborate on these points one may say that the negative political, social and economic effects of insufficient foreign exchange reserves being paramount, the significance of those factors contributing to create foreign exchange shortages is accentuated.

Due to her geographical location Turkey, to a large extent, is affected by the economic and political developments in the region. Oil revenues, the developments in Iran, the Egypt - Israeli agreement and the rapproachment between Irak and Syria, all have an impact on Turkey, direct or otherwise.

As to Turkey's problems in foreign affairs the Cyprus crisis and the relations between Turkey and Greece stand out prominently. As a consequence the reflection on Turkey of changes in the international economy are intensified.



2

- For example the events in Cyprus have been influential in not obtaining credits.

The main headings that we will deal with in this paper regarding the international developments are:

- changes in the oil prices
- regional economic cooperation and attempts for integration
- the new international economic order
- the impact of problems specific to Turkey on her foreign economic relations.
- the impact changes of the attitude of the U.S.A. and the U.S.S.R. vis à vis the problems of the region.

These factors which affected Turkey to a great extent have been undoubtedly interrelated: For example the rapid increase in the price of crude oil, and the changes in USA and Soviet policies to the problems of the region, as well as the institutional changes in the international arena.

We will deal with the impact of these factors separately below.

1. The Impact of the Increase in Crude Oil Prices on Turkey's Foreign Economic Relations

The rapid increase in crude oil prices starting in 1973 has resulted in a 'World Economic Crisis'. Since crude oil is one of the basic rawmaterials and holds a large share in total world trade, the rapid increase in its price caused the greatest economic crises in the post war period.

The crisis, has produced negative results regarding the:

- the rate of inflation
- the growth rate of the world economy
- distribution of international income
- the volume of world trade
- unemployment
- balance of payments deficits.

The above mentioned developments have been especially felt in the 'less developing countries who import oil'.

Turkey, as a developing economy which has to import oil, belongs to the category of countries that are badly hit. The present structure of the Turkish economy is heavily dependent on oil. The share of oil in total energy consumption increased from 43.3 % in 1962 to 65.2 % in 1977. In spite of this increase, however, per capita oil consumption can still said to be very low in Turkey. A comparison of per capita consumption in various countries is given in the table below:

<u>Country</u>	<u>annual per capita oil consumption (tons)</u>
Turkey	0,35
Brazil	0,36
Mexico	0,53
Romania	0,65
Argentina	0,96
Greece	1,18
Spain	1,32
USSR	1,46
Ireland	1,63
W. Germany	2,25
Denmark	3,29

Even though per capita consumption is low the share of oil in Turkey's foreign trade and in current transactions in 1974 had reached high proportions.

The share of oil in Turkey's import bill is given below:

1972	% 8,0
1973	% 9,6
1974	% 13,7
1975	% 16,4
1976	% 19,5
1977	% 20,4

Due to excessive price increases for crude oil in 1979, the value of the imported crude oil and its by-products is expected to equal the export revenue.

After this brief summary of the difficulties facing the Turkish economy as a result of oil price increases we shall proceed to assess the impact of these price increases on Turkey's foreign economic relations.

Turkey's economic relations with the oil exporting countries of the region, notably Irak and Libya have grown closer as a direct result of the oil price increases. The share of these two countries in Turkey's total oil imports has been very high in the last few years, owing to the credit facilities and special low prices they have granted Turkey.

In the period 1972-78 the share of Irak and Libya in Turkey's total imports are given below:

<u>Yıl</u>	<u>Irak %</u>	<u>Libya %</u>
1972	1,9	
1973	1,6	
1974	8,7	0,2
1975	10,6	1,6
1976	12,6	4,6
1977	12,0	4,8

Further more economic relations with S. Arabia and Kuwait as well as the Arab Emirates have gained an impetus.

Turkey signed a series of commercial and economic agreements with the Middle Eastern countries: (1)

Turkey - Iran (1975), Turkey - Irak (1976-1978), Turkey - Libya (1975, 1977, 1978), Turkey - S. Arabia (1979).

(1) For detailed information see E. Manisalı, "Foreign Economic Relations of Turkey" Istanbul University, Faculty of Economics, 1979, p. 29.

Turkey felt the need to develop economic relations with the oil producing Middle Eastern countries in the face of increasing difficulties in importing oil. Apart from this direct impact there is also an indirect one, namely the growth potential of the oil producing Middle Eastern countries. This factor caused Turkey - as it did other countries too - to take an active interest in the region. In other words due to the increased share in the world trade of the Middle Eastern countries, a concomittant increase in their share of Turkey's foreign trade also took place.

These factors which help to determine the relations between Turkey and the Middle Eastern countries are exogeneous.

- A re-assessment of the policies regarding foreign economic and political relations in the recent years
- The Cyprus crisis and the Turco-Greek relations have been and still are influential in Turkey's efforts to develop close relations with the Middle Eastern countries.

The increase in oil prices and difficulties in importing it have similarly affected the relations between Turkey and the USSR. According to the agreement concluded between the two countries in 1978, Turkey started importing oil from the USSR, which consequently led to an expansion in the trade volume between the two. The agreement not only provides for the importing of the oil but also for technical and financial cooperation in oil prospection.

On the whole the increase in oil prices have caused Turkey's foreign economic relations with various countries and even with regions to undergo change. As Turkey developed relations with the Middle Eastern countries and with the USSR.

In the years to follow this tendency is expected to increase even further. It is anticipated that economic and

commercial relations with Irak, Libya, S. Arabia, Kuweit Iran and the United Arab Emirates will be developed. The same is true for the USSR and Romania though crude oil exports from the USSR will be limited in the 1980's because of a reduction in production surpluses.

The rapid increase in oil prices in 1973 and the renewal of this tendency in 1979 led to the expansion of the Middle East Market. The outcome of this development has been Turkey's attempt to reorientate its exports.

The share of Turkish exports to Arab countries and to Iran in Turkey's total exports has been 6.5 % in 1969, 6 % in 1971 and 7.5 % in 1972 whereas the average figure for 1976, 1977 and 1978 has been above 13 %. Though limited this implies a reorientation of Turkey's export activities.

The expansion of the Middle East markets coincides with Turkey's need to promote her exports in order to meet demands for oil imports.

In other words:

- on one hand the expansion of the market in the Middle East which makes it attractive to the exporters
- and on the other, the necessity for Turkey to export more to the region in order to meet the increased import bill for which oil is mainly responsible, both these factors led to an increase in the role of Middle Eastern countries in Turkey's foreign economic relations.

The impact of the increase in oil prices on the re-orientation of Turkey's foreign relations has been all the more intense because of the fact that Turkey is a developing country and is located in the Middle East.

2. The Impact of the Efforts for Regional Economic Cooperation and Integration on Turkey's Foreign Economic Relations

One of the main features of the international economy in the post war era is attempts aiming at regional cooperation and integration. Of these The Common Market, E. F. T. A., Latin American Free Trade Area (L.A.F.T.A.), the attempt for integration in Central America (C.A.C.M.), attempts for integration in Africa, Regional Cooperation for Development (R.C.D.) and others are the most outstanding examples. Even though economic considerations provide the basis for such economic cooperation and integration, political factors had been influential as well.

Turkey, in the post war period made her attitude clear in this respect by joining various organizations for economic cooperation in the western world. She became an associate member of the EEC with the coming into force of the Ankara Agreement in 1963.

This policy which was pursued in the aftermath of the war till the 1960's underwent change in the period 1960-70. This change, however, was not contradictory to the economic relations with the west. The establishment of the R.C.D. in 1964 with Iran and Pakistan, as well as the development of economic relations with the USSR after 1965 can by no means be considered as alternatives to economic cooperation with the west.

In the years following 1970 and especially with the oil crisis in 1973 and the Peace Operation in Cyprus in 1974 new elements were introduced into Turkey's foreign economic relations committant with the changes in her foreign political relations.

We will presently deal with the impact of attempts for economic cooperation and integration which occurred independently of Turkey on her foreign economic policy.

2. 1. Turkey vis à vis the Enlarged Community

The establishment and the enlargement of the EEC has affected Turkey's foreign economic relations directly. The Treaty of Rome signed in 1957 and coming into force in 1958 providing for economic and in the long run political integration affected Turkey to a large extent. Negotiations with the EEC officials started in 1959.

Turkey took the first step to full integration by signing the Ankara Agreement in 1963. In taking this decision it is more likely that political considerations weighed more. The Preparatory Period, which came into force in 1963 was followed by the Transitory Period which officially starts from 1973.

The share of the EEC in Turkey's foreign trade has, except for two years, been steadily increasing. It can by no means be asserted that the provisions of the Ankara Agreement, the Preparatory and the Transitory Periods are solely responsible for this. In the same period the share of the EEC in the world trade has also increased considerably.

The share of the EEC in Turkey's total trade volume is given below: ⁽¹⁾

<u>Yıl</u>	<u>% pay</u>
1964	38,57
1966	43,93
1968	46,26
1970	44,84
1972	43,45
1974	40,80
1976	48,64
1977	40,90

(1) Ministry of Trade, Publications of Foreign Trade,
Directorate General

Even if Turkey had not signed the Ankara Agreement with the EEC its share in Turkey's trade volume would still have increased, due to the increase in Community's share in the trade activities in the Mediterranean and the Middle East as well as in the world trade as a whole.

However, aside from trade activities, there has been other indicators that economic interaction between Turkey and the EEC had gained an impetus. These were:

- Private foreign capital movements
- Turkey's foreign debts
- Services and other transactions
- Transfer of technology

These factors clearly express the significance of the development of the EEC on Turkey's foreign economic policy. Especially, the recent agreement concluded between the EEC and Greece and the applications of Spain and Portugal have amplified the magnitude of this impact.

2. 2. The Impact of Inter-state Cooperation in the Balkans and in the Middle East on Turkey's Foreign Economic Relations

Cooperation and rapprochement in the Middle East and in the Balkans are political rather than economical. Those with an economic character are based on bilateral economic and commercial agreements. However this has not precluded oil producing Middle Eastern countries entering a multilateral agreement endorsed by OPEC. Since OPEC's zone of influence is far greater than the Middle East its impact on Turkey belongs more to the realms of international economy.

Leaving RCD aside, there are no substantial attempts for economic cooperation and rapprochement in the Middle East except the OPEC. The Islamic countries show some efforts for

economic cooperation. In the Istanbul Conference of the Islamic countries in 1976 it was decided to establish in common technical, financial and commercial institutions. In the period 1976-79 there were no significant achievements to this end. However in the following years if such cooperation is developed it would influence Turkey's foreign relations to a great extent.

Turkey's economic relations with the Middle Eastern countries, namely Libya, Irak, S. Arabia, Kuweit, Tunisia, Algeria and Iran have a bilateral economic and commercial basis'. Only RCD (Regional Cooperation for Development) is a multilateral organisation.

The Islamic Common Market is only a project at an elementary stage and its probability of its realization is very low.

- We can assert that Turkey is concerned with the economic and political cooperation and rapprochement in the Balkans. From the economic viewpoint a multilateral cooperation has not been attempted up to now though Turkey has always reacted positively to any initiative coming from the Balkan states for economic cooperation.

The fact that Bulgaria and Romania are members of the COMECON hinders multilateral efforts for economic cooperation in the Balkans.

In conclusion the developments in the EEC and in the Islamic countries regarding regional economic cooperation and integration are important in having a direct effect on Turkey's foreign economic relations.

3. The New International Economic Order (NIEO) and Turkey's Foreign Economic Relations

The NIEO has become an important field of study in the recent years. Re-evaluation of the role of the developing countries in the international economy is relevant in respect to the commercial, financial and technological problems of the developing countries.

The discussion on the NIEO which includes the developing countries who are not oil producers has also important implications for Turkey for the types of problems that are cited above are also valid for Turkey. These problem areas are:

- granting of favourite treatment by the industrialized countries and especially to their industrial products
- reduction and possible elimination of the losses arising from deteriorated terms of trade.
- increase in the aid supplied by the rich countries to the developing ones and the elimination of their debts.
- Providing easier access to developing countries in the technology transfers.
- development of economic cooperation among the developing countries.

Turkey took interest in the NIEO discussion especially after 1978. The motivation is not merely economic. Turkey's attitude vis à vis the NIEO has been influenced by the need to re-orientate her foreign policy after the Cyprus Crisis and by the need to diversify her foreign relations.

The failure to achieve any concrete results in the discussions on the NIEO is also reflected on Turkey's economic relations in the sense that no substantial change in the structure of her foreign policy.

Should the NIEO discussion result in agreement in the 1980's, there will be a concomittant impact on Turkey's foreign economic relations.

4. The Impact of the Evolution in International Institutions and the Changes in the International Money and Capital Markets.

The Impact the evolutions in international institutions and the changes in the International Capital and Money Markets has increased in 1975-79 due to the problems that Turkey faced both internally and externally.

As the balance of payments difficulties started after 1974 and foreign payments were largely covered by foreign debts the change in international money and capital markets had a drastic effect on the debt structure and the way it functioned.

The reduction in inter-state loans after 1970 and the strick stand taken by the international economic institutions after 1973 increased indebtedness to private banks and companies in 1976-78. In addition to this the adoption of wrong policies in external borrowing led to a dramatic increase in Turkey's short term in debtedness in 1977.

The share of private banks in the foreign debts of the developing countries without oil revenues like Turkey, increased to a great extend after 1973. Similarly the importance of IMF with respect to the supply of credits by the private banks has shown a corresponding increase. The IMF and the network of private banks have become more influential as suppliers to Turkey of foreign credits.

As the situation remained unaltered in 1979 Turkey become increasingly dependent on the IMF and the network of

private banks in obtaining foreign loans. In other words agreement with the IMF and with the private banks become a pre-condition for obtaining new credits.

Turkey's financial difficulties and foreign exchange shortages have resulted in the IMF and private banks occupying a preponderant position in Turkey's foreign economic relations, a situation which is valid for those developing countries in a similar positions.

In summary, the impact of the evolutions in international institutions and the changes in the international money and capital markets on Turkey's foreign economic relations has significantly increased especially after 1973. The following factors have been influential in bringing about this situation:

- (i) developments in the international money and capital markets.
- (ii) the channelling of the oil revenues into the international markets.
- (iii) Increased dependency of Turkey as well as other developing countries in similar positions on international credit markets.

This state of affairs seems likely to continue in the IV Five Year Planning Period.

5. The Impact of Problems Specific to Turkey on her Foreign Economic Relations

Alongside with the economic factors political ones are also influential in the orientation of Turkey's foreign economic relations.

Turkey which became a member in the aftermath of the W.W. II of western economic, political and military pacts aligned her foreign economic relations with the political and military ones till the 1960's. After this date the international economic situation underwent rapid change and political and especially military alliances stopped being a determining factor in international economic relations. Starting with the EEC countries many member countries of NATO entered into economic relations with non-member NATO states while the Eastern Bloc countries developed their relations with Western and less-developed countries.

The 1963-64 Cyprus Crisis was influential in shaping Turkey's foreign economic relations. In 1974 Turkey's foreign economic and political relations were re-assessed under the light of the Peace Operation to Cyprus. A policy aiming at developing close economic and political relations with Middle Eastern countries has gained an impetus. These two factors influenced Turkey's economic relations:

- (i) The Cyprus Crisis and the Turco-Greek Relations
- (ii) the US arms' embargo following the Peace Operation to Cyprus.

The world oil crisis which coincided with Turkey's balance of payments difficulties increased Turkey's vulnerability in her foreign economic relations.

In the next few years Turco-Greek relations and the Cyprus question will remain a determining factor in those issues concerning Turkey's foreign economic policy.

Turkey's quest for new avenues in her foreign economic relations such as developing closer links with the Middle Eastern countries are by no means an alternative to her relations with the West.

Turkey's present political and military links with the Western countries, the political and the economic system she has adopted, and her geopolitical importance exclude any possibility for a drastic change in her foreign relations. The decision to preserve the present situation appears to be, in our opinion, the only rational one.

6. The Impact of the Policies of the USA and the USSR with Respect to the Middle East and of their Relations with Turkey on her Foreign Economic Relations

The attitude of the USA and the USSR vis à vis Turkey and the adjoining region has been influential in determining the economic and political structure and the regional equilibrium.

The recent changes in international economic and political balance affects the Middle Eastern policies of the two big powers. These developments are:

- (I) The emergence of China as a world economic and political power and her policy of ouverture.
- (II) The expansion of the EEC's economic zone of influence.
- (III) The rapprochement between Israel and Egypt.
- (IV) The rapid increase in crude oil prices
- (V) The events in Iran and growing restlessness in the Middle Eastern countries.

Should the growing importance of Turkey in the USA's worldpolicy result in an increase of US military and economic assistance to Turkey this situation will in turn directly affect Turkey's foreign economic relations.

As to the USSR, the 1965-1979 period has witnessed a growing increase in Turco-Soviet economic relations. If no changes occur in the balance of power in the Middle East one may safely assume that the USSR will wish to further, in the next years, her relations with Turkey. However this policy depends also, to a great extent, on the turn that the Soviet and the USA relations will take in the future. The evolution of the situation in Iran and the possible changes in some Arab countries will also affect the policy of the USSR towards Turkey.

Turkey's foreign economic relations depend to a great extent on world economic and political conditions. Her geopolitical position greatly affects her sensitivity to these changes. As pointed out earlier the evolution of Turkey's economy and the problems which she will encounter will determine the magnitude of this impact. However Turkey's political, social and economic structure together with her memberships in specific alliances do not allow any possibility for a radical change in her foreign economical relations.

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TURKEY'S POLITICAL AND ECONOMIC RELATIONS
WITH THE U.S.A.
AND POSSIBLE FUTURE DEVELOPMENTS

By: Seyfi TAŞHAN

I believe there are four dates which signify turning points in the Turkish-U.S. relations. A review of what has happened on those dates would indicate the ups and downs of the Turkish-U.S. relations and how statesmen of both countries have addressed themselves to the issues.

The first significant date is January 18, 1927 when the United States Senate, by six short votes, rejected the Treaty of Lausanne under the pressure of strong Armenian and church opposition which prevailed under an atmosphere of partisan political struggle. The Treaty, which ran almost parallel to the other Lausanne Treaty signed between Turkey and her former enemies, sought to regularize Turkey's diplomatic relations with the United States, ended capitulations and brought most favored nation treatment principles. At that time the Turkish reaction was expressed by Kemal Atatürk. As quoted by Ambassador Joseph Grew Atatürk said there was no fundamental reason why the United States and Turkey should not exist in complete harmony. He could not understand, however, "how it was possible in a country where culture and civilization form the keynote of the social fabric of the nation, that a fanatical minority could impose its will on an enlightened majority."

This congressional attitude, however, did not prevent the establishment of diplomatic relations, nor did it assume a permanent character of hostility on the part of the U.S. Congress, although anti-Turkish propaganda has continued on and off to blacken the Turkish image in the United States.

In the subsequent years it was possible to maintain mutually satisfactory relations because the basic objective of the United States was confined to the protection of its traditional missionary, philanthropic, cultural and economic interests in Turkey. Since U.S. was politically disinterested until the Second World War in the Middle East, there was no conflict of interest. During the same period United States was a good trade partner for Turkey's traditional agricultural products. In the 1923-1941 the balance of trade between the two countries every year favored Turkey. From 1920s to 1939, the political non-involvement of the United States was a factor of great weight in determining the American role in the Turkish economic development. One interesting constant picture has been the nature of Turkish exports to the United States. Tobacco accounted for 73% of Turkish exports to the United States in 1938 and in 1976 it accounted for almost 90% of Turkey's exports to the same country.

The United States was in the second place as the purchaser of Turkish goods, and seventh as an exporter to Turkey. Capital goods constituted fifty per cent of American exports. Outside one or two still-born attempts, U.S. capital investments in Turkey were negligible. The reasons given for this lies more in the Turkish attitude towards foreign capital. The new republic which was still under the shadows of the Ottoman capitulations "tended to judge considerations of a national character from a political rather than from an economical standpoint." I believe this observation still maintains its validity.

In the international political scene there was not any major problem or conflict between the United States interests and those of Turkey. It might be worthwhile to mention, though, the United States attitude concerning the Turkish Straits. This attitude was initially formulated by President Wilson in his program for Peace of January 8, 1918. In Point Twelve dealing with the Ottoman Empire he said in part: "...and the Dardanelles should be permanently opened as a free passage to the ships and commerce of all nations under international

guarantees." In early 1930s when Turkey became rather concerned with the security of the Straits due to the rise of the power of the Axis and informed the signatories of the Lausanne Treaty of its intention to revise the status, it also informed the United States. The United States then thought that it had no treaty right, direct or indirect with respect to the Straits convention or any concern with the military and political aspects of the problem. U. S. maintained this position until the end of the Second World War.

The United States attitude towards the Middle East and Turkey began to change somewhat during the Second World War. By the beginning of the War, Turkey had a clear idea of the intentions and ambitions of Stalin concerning both the Turkish Straits and the revival of Tsarist ambitions to reach "warm waters". Turkey was also threatened by Mussolini and the expansionist danger of Nazi Germany. In order not to be dragged into the war from which Turkey had no chance of coming out intact and independent, Turkish leaders were forced to play the delicate policy of balance. On December 3, 1941 President Roosevelt extended lend-lease assistance to Turkey. In 1944 he declared that the United States had vital interests in the Middle East, although the British Government was held responsible for Allied actions in the area. The lend-lease was not made subject of an agreement between the two countries, but during the war Turkey continued to receive American defense material and services. An agreement was signed only on February 23, 1945 which stipulated that the aid would terminate at the end of the war, which was soon to come, and Turkey would be left only to whatever military aid she could get from Great Britain.

During the war against Turkish worries about Russia the U.S. interest was focused on the war with the Axis and Japan and a somewhat wishful-thinking prevailed about the Soviet Union. It is for this reason that the U.S. had a benevolent attitude at Yalta and Potsdam towards Soviet requests concerning the Turkish Straits.

Furthermore, the United States did not favor the entry of Turkey into active war against Germany. In 1944, the United States Chiefs of Staff indicated their approval in principle but warned that the United States should not be committed to military, naval or air support of any campaign in the Balkans. This was due to U.S. concentration on the Western front.

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The second date which marks another milestone in Turkish-U.S. relations is March 12, 1947 when President Truman announced his famous Doctrine in a joint sitting of the U.S. Congress. The proclamation of this Doctrine not only marked a change in U.S.-Turkish relations but in the global policies of the U.S. as well. I need not outline here at length the details of the developments that led to this change, but refer briefly to several points which culminated in the reassessment of the U.S. policies:

It was as far back as in 1940 Soviet Foreign Minister Molotov had proposed Germany as the Soviet price for collaboration with the Axis, a new regime for the Turkish Straits, with bases and provision of joint defense and had declared that the center of gravity of Soviet policy and interest lay in the area south of Baku and Batum. The Soviet policy did not change after the war.

During the Potsdam Conference, Soviet Union wanted to have the question of Straits and Soviet territorial demands on Turkey to be taken up directly between Turkey and the Soviet Union. While President Truman disagreed with the first, he agreed that the latter could be resolved between the two countries.

The change in the U.S. credence in peaceful intentions of the Soviet Union did not come abruptly. First, change came in 1945 when the United States came close to Turkish view regarding the Russian demands on the Turkish Straits and in 1946, U.S. began to be interested in the territorial integrity of Turkey. On April 6, 1946 on the occasion of the Army Day, President Truman expressed U.S.

interest in the Middle East area where he stressed no country had interests which could not be reconciled with those of other nations through the United Nations. The same day U.S. battleship Missouri was paying a visit to Istanbul. As early as in January 1946 President Truman was convinced that the Soviets intended to attack Turkey. Unless they were "faced with an iron fist and strong language, another war was in the making."

Soviet pressures on Turkey, which were conducted in keeping with Lenin's famous teaching: "In a bayonet attack when you hit mush continue; when hit rock withdraw," did not disappear but rescinded in the face of the resolute attitude of the Turkish Government and people, and the reaction of the United States and Great Britain. The change of attitude of the United States did not originate from Soviet menace on Turkey alone. The Soviets had probably overplayed their hands in the entire area. Greece was immersed in a civil war, where the Communists seemed determined to take over, and in Iran they were attempting to set up pro-Soviet regional governments. It was the regional character of the Soviet challenge that actually led to American action to defend Greece, Turkey and Iran.

For a while there was a division of opinion in the United States concerning military support to Turkey. Britain had expressed its decision to abandon their military aid to Turkey. George Kennan, one of President Truman's major foreign policy advisors was of the opinion that emphasis should have been placed on "firmness of diplomatic stance, not on military preparations." His fear was that U.S. military aid might provoke Soviet aggression. However, the United States did in the end decide to come to provide military aid to Turkey. Kennan suspected that "what had really happened was that the Pentagon had exploited a favorable set of circumstances in order to infiltrate a military aid program for Turkey in what was supposed to be primarily a political and economic program for Greece."

Nevertheless in his message to the U.S. Congress on March 12, 1947 President Truman was announcing his Doctrine by declaring that the

United States was prepared to assist both Greece and Turkey in defending their independence. If Greece fell under the control of an armed minority its effect on Turkey would be immediate and serious and confusion and disorder might well spread throughout the Middle East. For this purpose he asked an allocation of four hundred million dollars of aid to be spent for supporting the shattered economy of Greece and provide military aid both to Turkey and Greece. Deterrence against Soviet armed aggression had become one of the general goals of the United States foreign policy. Marshall Plan, Korean War, formation of NATO, CENTO and SEATO in the following years might be considered as concrete steps towards this foreign policy goal on which there seemed to be a general public consensus in the United States. As far as Turkey was concerned Truman Doctrine did not have the effect of an alliance which the Turks felt was necessary for two basic reasons: First, the deterrence quality of the Turkish-U.S. military cooperation would be enhanced, and secondly, the volatility of the U.S. public opinion on matters concerning Turkey might once again play a trick and Turkey might have been abandoned. Therefore, Turkey looked on to NATO as an instrument that would secure alliance with the United States. Disappointment was great when Turkey was left outside NATO when it was formed. The United States undertook only to "accord friendly and careful consideration to the security problem of the Turkish Republic." European partners of NATO were also against the extension of the Pact to include Turkey. The objections that are being advanced today in some European countries against the inclusion of Turkey in the European Community were put forward between 1949 and 1951 against Turkey's admission to NATO. These objections ranged from strategy to religion. However, Turkish participation in the Korean War and the skillful diplomacy that was followed culminated in the membership of both Turkey and Greece within NATO. Turkey looked towards NATO membership as establishing a definitely Western identity long cherished by Atatürk, considered U.S. alliance as the greatest and best support for Turkey's economic and security problems and in

fact gave predominance to Allied interest which were considered as Turkish interests as well.

The Americans were given almost a free hand, with bi-lateral executive agreements, in making whatever defense and security arrangements they deemed necessary, including permission to build military bases and allow U-2 flights and station nuclear warheads. The Turkish military forces were standardized on American patterns and the entirety of it were placed at the disposal of NATO. During that period Turkey and the United States cooperated for the conclusion of the Baghdad Pact, which became after Iraqi revolution, CENTO. Turkey tried, with the Balkan Pact to provide some security to Marshall Tito. It is admitted that while Turkey provided full support to and laid emphasis on its relations with the United States, it ignored the sentiments and feelings of its neighbours, especially Arabs, and its action to organise a regional defense system under the Baghdad Pact became counter-productive with the extension of Soviet influence to the Arab world by-passing Turkey.

In the economic field as from 1950 Turkey adopted the principles of liberal economy in the hope that integration with Western economies and the assistance to be provided by Turkey's allies would enable her to achieve rapid economic development and increase the welfare of the Turkish people who had long suffered economic deprivation.

While Turkey had obtained the military support and cooperation from the United States both in the form of Treaty guarantees and in actual fact, there was a difference of understanding and concept regarding the sense of alliance between Turks and Americans. As Ambassador Parker T. Hart points out "arkadaş" (the Turkish word for friend and ally, literally means 'the one who walks behind you' i.e. to protect your back.) For twenty five years the attachment of the Turkish people to the United States was that of the arkadaş, affectionate, grateful and ready for sacrifice." Yet, the United States looked on the alliance with Turkey not in this sense but

in the sense of cooperation with a basically alien country for limited purposes. This conceptual difference as well as inability of the Turks to measure politics in terms economy created a number of difficulties. The United States was not prepared to underwrite the financial cost of a rapid development of Turkish economy. It was ready to provide whatever economic assistance it had to in order to keep Turkey away from economic collapse. In 1950's Turkey's attempts to bring American private capital in substantial quantities failed, and Turkey was led from one foreign exchange bottleneck to another. For various factors the United States, instead of providing more assistance on a regular basis, pressured Turkey to reduce the rate of its economic development and change its priorities from more consumption to more exports and tourism. This basic attitude still continues to be a source of friction in the present decade.

The third date which is from the Turkish viewpoint a milestone and signify a change in the character of the Turkish-U.S. relations is June 4, 1964 when President Lyndon Johnson wrote to Prime Minister İnönü "...Furthermore, a military intervention in Cyprus by Turkey could lead to a direct involvement by the Soviet Union. I hope you will understand that your NATO Allies have not had the chance to consider whether they have an obligation to protect Turkey against the Soviet Union if Turkey takes a step which results in Soviet intervention without the full consent and understanding of its NATO allies."

Only seven years ago when Soviet Union was extensively arming Syria, Turkey had taken certain defensive military measures along her frontiers. These measures had infuriated the Russians and in an interview with James Reston on October 9, 1957 Krushchev had said that if a war broke out Turkish resistance would not last even for one day. U.S. State Department had issued a statement the next day in which the U.S. Government had pledged itself that "if aggression took place against Turkey, U.S. would fulfill its obligations within NATO and aid Turkey with all its power." Much had changed in the U. S. attitude.

Until the end of 1963 Turkey's leaders have not only maintained their fullfledged and almost blind support of Western Alliance but at the same time had rendered service to U.S. interests in the region even though some of these interests had clashed with Turkey's regional interests. Johnson's letter, obviously written in haste but reflected a shift in the U.S. priorities and in assessment of threat resulting from Kruschev's policy of "peaceful co-existence", brought certain perplexities to Turkish minds on the very nature of its ties with the West and even on its own identity card. Questions began to be asked loudly in the Turkish public opinion whether Turkey had been placing too much reliance on Western and U.S. alliance. There is no doubt that President Johnson's letter had initiated a chain of course corrections in the conduct of Turkish foreign policy, as well as certain new currents in Turkish domestic policies.

There are arguments that Johnson's letter might have been given more emphasis than it really deserves. It is quite clear that on the question of Cyprus the United States was bent towards supporting the Greek case, and President Johnson had chosen to blackmail Turkey to accept a de facto situation. On the other hand, the supporters of his action would claim that a Turkish-Greek conflict would in effect destroy the validity of the Atlantic Alliance in the region. Both arguments have certain justification. There is no doubt that there is a basic difference in the United States attitude towards Greece and Turkey. The existence and influence of the Greek community in the United States and intermingled economic interests, not to mention historical attitudes towards Greece establish a special bond of relationship between Americans and the Greeks. This added dimension had been neglected by the Turkish public opinion since many years. Turkey and Greece were included together in the Truman Doctrine, Marshall Plan, NATO and even were made associate members of the European Economic Community and they were treated equally. As regards Cyprus Turks had expected equal treatment too. Until 1964 U.S. attitudes had been equitable. Turks were realizing that Western attachment to

Greece was so dear that they might even put the position of Turkey into jeopardy.

Later on, I will take this subject once again within the framework of principles guiding the relations of Turkey and the United States.

The realization that both the United States and West European powers would not take concrete steps in resolving the Cyprus question in an equitable way, brought a shift in the conduct of Turkish foreign policy. By perceptible degrees Turkey abandoned its monolithic pro-U.S. and Western stance and entered into a phase of a multi-faceted policy. Turkey decided to respond favorably to Soviet overtures which had been continuing since Stalin's death in 1953 for a rapprochement between the two countries. Turkey tried to improve its ties with the Third World countries, the Arab World, and the Socialist bloc. I would call the period after 1964 a phase of disengagement in Turkish-U.S. relations. While NATO adopted the flexible response strategy, the United States began its low profile policies. In the process of détente that actually began to encompass relations in Europe, the American debacle in Vietnam, the advent of EEC, China and Japan, the changes in weapons technology, the rise of Soviet naval power were factors that changed the international climate and led to reassessment of international relations and strategic doctrines. In 1967 the renewed Cyprus crisis and the Vance mission partially satisfied Turkish objectives but these did not bring a solution to the question which flared up once again in 1974. I distinctly remember talking to an American diplomat on the day President Nixon signed Moscow declarations which initiated détente process in 1972. He asked me, "Now, that U.S. and Soviet Union ended the cold-war what will Turkey do?"

The last turning point I will mention is 1974. Not July and August 1974 when Turks landed and carried out two military operations in Cyprus, but December 18, 1974 when the United States Congress imposed an arms embargo on Turkey effective from February 5, 1975

Once again clock had been turned back to 1927. The United States Congress under the influence of the Greek lobby had dealt a heavy blow on Turkish-U.S. relations. Atatürk's incredulity in 1927 once again dominated Turkish minds. This time though, more effectively, because in 1927 there were no security relationship between Turkey and United States, and the two countries were not allies. In any event, the two situations had certain similarities. The Turkish reaction to the Congress' action this time was more profound also for another reason. That is the pluralist nature of this Turkish society. This character had reduced the freedom of action of statesmen in Turkey in overcoming the harmful political implications of the embargo. Nevertheless, it was up to the statesmen of both countries to overcome the effects of the embargo motivated crisis in our relations. I would say they have succeeded by their sober and far-sighted actions and cooperation to eliminate substantially the crisis stage of our relationship, although it must be admitted that it will never be possible to return to the days of euphoria that prevailed during the fifties and early sixties.

By referring to four dates which marked substantial changes in the Turkish-U.S. relations I tried also to give a rough idea of the history of these relations during the past fifty years. To put it briefly these relations turned from friendly relations between two distant countries, into a partnership and alliance which in turn became as George Harris termed it a "troubled alliance". There is no dispute in both countries on the vital necessity of this alliance, but outside that there seems to be many differences. It would be necessary therefore, to dwell on briefly on the nature of national aims and coincidence of interests, point out divergencies and try to explain inherent and artificial influences that cause distortions in our relations.

In a congressional document in mid-seventies the fundamental national security aims of the United States in the Mediterranean and Middle East were explained on the basis of the following constants: General Goals: - Deter Soviet armed aggression against the United States, NATO, Europe and the Middle East- -Project sufficient power to defend effectively if deterrence fails. Specific Goals: -Secure NATO's south flank - Encourage stability in the Middle East- Support Israel - Maintain free world supply lines in the Mediterranean - Ensure continued access to Middle East oil.

From the United States point of view what is the role of Turkey for the pursuit of U.S. national security objectives? Out of the debates complicated by lobby influences and public ignorance on details what should be clear ideas are somewhat blurred from time to time. I would like to quote a few excerpts from a speech delivered by Vice President Mondale when he was a senator in 1974. Senator Mondale was speaking in the heat of the opium debate. Proposing a total economic and military embargo on Turkey Senator Mondale invited the U.S. Government to give reconsideration to the strategic situation: "Our relations with the Arab countries have markedly improved" he said. "We are no longer clinging to the Northern edge of the Eastern Mediterranean. We are homeporting naval vessels in Greece which enables us to offset the expansion in the Soviet Navy's Mediterranean deployment. Our alliance in NATO has done nothing to curb the Soviet naval build up in the Mediterranean even though their life-line runs right through the Bosphorus.... It is important to recognize that we cannot use our bases in Turkey except when Turkey is at war with the Soviet Union. Otherwise they are worthless. During the Arab-Israeli war of October 1973, the Turks permitted the Soviet Union to overfly Turkey to resupply the Arabs, but would not let us use our bases to refuel our reconnaissance aircraft. This example of favoritism to the Soviet Union provides a measure of how much our so called

strategic position in Turkey is worth. In the remote case of a conflict with the Soviet Union, our bases would be used to support the Turks. We apparently do not consider this threat imminent since a good portion of the U.S. aircraft in Turkey are based half of the time in Spain. We do not plan to mount strategic attacks on the Soviet Union from Turkey. In terms of overall strategic nuclear deterrence our bases there are obsolete. Their real utility is to deter local aggression against Turkey. The Turks are not doing us a favor by letting us have the bases. It is the other way round. The alleged strategic value of Turkey should no longer control our decisions in this age of strategic missiles, intelligence satellites, détente with the Soviet Union and rapprochement with the Arabs. It is not worth the kind of bargain in which we give Turkey almost a quarter of a billion dollars in economic and military assistance." On the question of opium Senator Mondale and his colleagues did not succeed but at the end of the same year they succeeded to impose a military embargo on the occasion of Turkey's intervention in Cyprus using more or less similar reasoning.

In the military terms the value of Turkey for the U.S. is evaluated in a different way by military circles. Prof. Albert Wohlstetter considers Turkey's presence in NATO useful at least for the following reasons: Turkey's participation in NATO sharply increases Soviet force requirements for Bulgarian or combined Bulgarian-Soviet attacks on Greece. Even if Turkish forces were less actively involved, they would tie down considerable strength in the Black Sea, Balkan and Caucasus fronts. This could be true so long as the Soviets could not be sure of Turkish neutrality. As regards NATO's southern flank, he says, if flanks are neutralized by political or military action, an adversary can concentrate more massively against the center. The defense of the center cannot be separated from the flank. Referring to potential role of Turkey in the case of a U.S.-Soviet conflict

in the Middle East, Professor Wohlstetter points out that if the Soviets can overfly Turkey at will, they can cut out in half the time needed to deploy forces by air to an objective near the Gulf. Roughly the same time is true for deployments to the Lebanon and Israel. Regarding the military and intelligence bases in Turkey Professor Wohlstetter says:

"It should be stressed that we should not regard it as a choice so to speak, between technology and Turkey. Many advanced and continually improved technologies can be used to great advantage from facilities in Turkey." Military circles also point out that Turkey's presence in the Alliance, makes Russian supply lines to Middle East insecure.

From these two arguments which I tried to quote emerge some conclusions:

While there is some controversy regarding the continued value of Turkey to strategic interests of the United States, the primary cause of U.S. involvement is nevertheless a military one closely related to U.S. security objectives in the region, as well as those of NATO.

The compelling motive that forces the United States to support Turkey within the context of the global and regional U.S. objectives may thus be summarized as follows:

- From the military point of view Turkey's cooperation with the United States is essential for the defense of the South flank of NATO.
- From the point of view of U.S. interests in the Middle East i.e. defense of Israel and access to oil routes, unlimited Soviet passage rights over Turkey must be prevented.
- Since intelligence equipment and possibilities in Turkey are as yet needed for observing Soviet compliance with SALT agreements and for other military intelligence Turkey represents another asset which the U.S. military establishment wishes to preserve.

- Finally, Turkey's place within the Alliance makes Soviet supply routes to client states in Africa and the Middle East insecure.

These are the principal U.S. military and security interests in Turkey and others may be added by the experts. However, foreign policy formation in the United States is not always determined solely by military exigencies and Turkish-U. S. relations are affected generally from other overriding variable factors. These could be summarized as follows:

a) Perception of Threat:

The euphoria of détente of late sixties and early seventies passed away with post-Helsinki Russian attitudes and increasing Soviet military potential. But it is obvious that the Soviets are still unprepared to risk a major military confrontation with the West, even though they are nearing supremacy in strategic and conventional weapons. Short of direct and overt-menace it is not possible to secure a consensus in the United States on political aspects of military requirements especially under post-Vietnam conditions. In the case of Turkey, political opinion differs widely; so much so that the anti-Turkish lobby even challenges the military value of Turkey for the Western alliance.

b) Changes of Strategy:

In the global confrontation between the Soviet power and the West, new weapons, technological developments, political considerations, international climate have caused continuous changes in strategies of both the United States and the Soviet Union. As a consequence Turkey's role in the United States strategies also keep changing. I will not get into details of these changes because of the scope of this paper; but, let me suffice by mentioning the fact that the U.S. military thinking consider some Turkish military postures which were assets in the past no longer so, to the disappointment of Turks.

c) Perception of Turkey and the Turks:

Again there is no common perception of Turkey and the Turks in the United States. For the people of the United States Turks and their aspirations, character and culture are little known. Their image is continuously blackened by traditionally anti-Turkish forces which have ways of influencing U.S. public. In the absence of an effective Turkish lobby and propaganda in the United States and since the U.S. people do not consider Turkey as a "parent" country like the rest of Western Europe, the task of defending Turkey and Turkey's image is generally left to the executive branch of the U.S. Government in the hope that they will be able to defend Turkey because U.S. needs Turkish alliance. However, as we have seen in the past U.S. executive branch may often be over-ridden under tense domestic political climate or when anti-Turkish lobbies may become effective also in the executive branch.

d) Another negative factor has been the absence of a thorough appreciation of Turkey's non military role and capabilities in the region. The fact that Turkey has maintained a democratic form of government, respecting human rights, with an active free enterprise system, devoted to its economic and social development and full of peaceful intentions for her neighbours have received little attention in the United States, despite the fact that U.S. support of unpopular regimes in the world has led from one debacle to another.

e) U.S. has shown a definitive interest in the economic development of Turkey and has provided substantial assistance which I will refer later; but neither in the economic sense nor in the military sense policies recommended, the amount and quality of aid were adequate to meet actual requirements for rapid development. I am ready to admit that on this subject a great part of the blame falls on the Turks for not having followed rational economic policies.

f) There has never been, in the U.S. public and for a certain period in the U.S. Administration, too, an appreciation of the constraints imposed on Turkish foreign and security policy by the history and geography of the region, and Turkey was in a way forced to follow policies to support U.S. policy objectives which became from time to time counter-productive in Turkey's relations with her neighbours or caused resentment in the Turkish public opinion. Some of these constraints are still not appreciated by the U.S. public and when these are translated into political action there is an uproar in U.S.

Having referred to the advantages and the negative aspects of Turkish-U.S. relations from U.S. standpoint, I would like to tackle these relations from a Turkish stand point. I must caution, however, the assessment I will present may be considered controversial by other Turkish participants.

At the end of the World War II, Turkey was faced with the following situation: Soviets were threatening Turkey with their territorial and political claims; the country had come out of the war impoverished, even hungry, although it had not actually fought; the Western type institutions which Atatürk had introduced into the country had begun to take roots; Turkey's Western allies and the United States were the victors and they were destined to lead in reshaping the post-war world.

The U.S. had committed itself under the Truman Doctrine to support Turkey against the Soviet menace.

All these factors led the Turkish leaders to search for military and economic cooperation with the United States, which was very eager and with Western Europe, even though they were not so eager. Turkey was ready to make every sacrifice in order to achieve full admission into the Western camp and pay for this purpose whatever political price imposed on it, in the hope that thanks to assistance to be received such sacrifices would be more than compensated with rise of standard of living of the

Turkish people and security obtained. Turkey was also eager to turn its economy and political regime into Western patterns despite the reticence of the Turkish bureaucracy and historically rooted public opinion objections. U.S. advisors were brought in and U.S. military and economic aid was made available. Turkish Army was well equipped and trained on American standards and it was integrated in the NATO military structure. Turkey was admitted to the Council of Europe and NATO as a strong partner. Turkey was looked on as a bastion of the West.

In the field of economy, however, Turkey was constrained by several priorities she felt politically necessary to follow: with the exception of a brief period in 1930's and in 1950's Turkish "etatism" was the dominant economic concept which worked against and limited the growth of the private sector. This conceptual difference between Turkey and the United States may be considered as the primary obstacle for further development of economic inter-dependence between Turkey and the United States. I do not intend to try to explain the causes of Turkish "etatism" which has remained so strong and even grown until now. But, its use or misuse has substantially reduced the participation of foreign capital in the development of Turkish economy. In any event the Turks have always maintained their suspicion and dislike for American capital.

Until mid-sixties there was a complacency in Turkey regarding Turkey's alliance with the West and military and economic cooperation with the United States. It was taken for granted that Western aid would continue and the standard of living would keep rising in Turkey. This complacency and euphoria was so prevalent that Turkey ignored Russian overtures, cast a benevolent eye to what little advantages Greeks were trying to secure in the Aegean and took a distant view of the Middle East crisis to the chagrin of the Arabs.

In 1963 Turkey had signed the Ankara Treaty which, if faithfully carried by everyone, would give Turkey the right to become a member of the European Economic Community in 1995.

U.S. economic aid to Turkey began to phase out as from 1965. The Johnson letter which I mentioned earlier cast serious doubt in the Turkish minds regarding the automaticity of U.S. support and help in case of an aggression by the Soviet Union. The honeymoon period was over but our alliance had to go on basically for two reasons: The alliance still had an appreciable deterrance value; and Turkey was so much integrated with the West and relied so much on economic support of the West that a major shift of its foreign policy orientation was not feasible without traumatic domestic results, nor such a change was desired by the Turkish public. The "multi-faceted" foreign policy pursued after 1965, by its nature, began to bring several new constraints into Turkish-U.S. relations in areas where objectives of Turkey and the U.S. did not coincide. Turkey began to respond to Soviet attempts to improve relations by signing a cultural agreement and by accepting Soviet credits in order to maintain its industrial development in supplement to phasing-out Western credits. Turkey began to give political support to the Arab cause and prevented U.S. military bases in Turkey to be used for the support of Israel in an effort to improve its relations with the Arab world. While the developments during the decade that followed 1965 did not cause a major change of course in Turkey's objectives, the trauma of the military embargo which was imposed in 1975 and the ensuing alienation from the West in terms of political perception, led to an "identity" crisis in Turkey which is still continuing. The political spectrum in Turkey is sharply divided in the assessment of Turkey's place in the Western camp. While extremist parties are vehement on taking Turkey out of the West, the center parties, at least for public image purposes do not wish to appear as ardently pro-Western. Consequently, the following differences have become

vocal in specific Turkish-U.S. security and political objectives in the region:

Securing NATO's South Flank: There seems to be an identity of view in both countries as to the validity of the purpose. However, there are various conceptual and practical differences between the two countries. Several of these differences can be summarized as follows:

a) The defense of Turkey: In the Turkish view point forward defense in Turkey is the most efficient way of achieving the purpose of securing NATO's southeast flank. This can be obtained by maintaining an all round modernized and highly capable Turkish armed forces which could act as a deterrent. The allies therefore are expected to provide the necessary weapons Turkey need and assist Turkey in developing its arms industry. Otherwise, Turkey's contribution in this regards can be only in the measure its economy permits.

The Western support for Turkey in this regard has suffered a shock with the embargo and has been sparing ever since. This may have been caused by the U.S. political constraint to keep Turkish armed strength in par with if not inferior to those of Greece; to force Turks to a settlement with Greece on their disputes in Cyprus and the Aegean, and to their belief that an attack on Turkey is not the first item on the Soviet agenda.

b) Ever since automatism of NATO's support for Turkey has become problematical as a result of Johnson letter of 1964 and the military embargo which is an action not in conformity with alliance but hostile in character Turkey looks on to NATO as a factor of balance to the evergrowing Soviet power. Only such a balance can preserve conditions needed for the development of détente. Consequently, this concept constrains Turkey in supporting actions (a) that may not be fully attributable directly to NATO interests, and (b) may be considered harmful and provocative for the Turkish policy of détente and cooperation

with her neighbours.

c) U.S. Policy in the Middle East: The declared U.S. policy objectives in the Middle East, i.e. support Israel, encourage stability and access to Middle East oil are not entirely identical with those of Turkish objectives and unqualified Turkish support for these policies cause a number of problems for Turkey. Turkish policy in the Middle East since 1965 is based on political support to the Arab cause by insisting on the evacuation of all Israeli occupied Arab lands and recognition of the legitimate rights of the Palestinians to set up their own state. Turkey does not want to become involved in problems among the Arab states, in their domestic issues. In order to ensure her oil supplies Turkey heavily relies on cooperation with Iraq and Libya. It is known that there two countries are the opponents of U.S. policies in the Middle East. Today, the existence of Turkey's diplomatic relations, even at a low-key level, with Israel is subject of criticism in the Arab world. As a result, if U.S. oil interests and support of Israel in the Middle East involve confrontation with the Arab states, such a development is bound adversely effect Turkish-U.S. harmony.

d) U.S. policy to supply free world supply lines in the Mediterranean is in conformity with the Turkish interests also. However, there are several differences between Turks and Americans as to the role each must play. Turks feel that they must not rely solely on the 6th Fleet but they must also have a fairly strong open sea navy to carry out their missions while politically oriented U.S. strategists tend to confine the Turkish Navy to coastal defense capability. Furthermore, political thinking in U.S. differ on the role Cyprus has for keeping Turkish sea-lanes open. U.S. also seems indifferent to Turkish interests in the Aegean with specific reference for keeping Turkish supply lines open.

Before taking up the future perspectives of the U.S.- Turkish relations I must take-up Turkish-U.S. economic relations which should form part of the paper assigned to me. I must caution, however, that since I am not an economist my treatment of the subject will be very brief.

I believe economic relations between Turkey and the U.S. must be studied under three categories: "trade", "economic aid" and "investments".

Earlier in my paper I gave some figures concerning Turkey's commercial relations with the United States during the period preceding the Second World War. I now wish to refer to current trade patterns. The seventy percent of Turkey's imports are formed by crude-oil and refined products (30%), machinery (17%) chemicals (16%) and iron and steel products (9%). On the other hand about 70% exports are formed by cotton (17%), hazel nuts (15%), textiles (14%), wheat and other cereals (11%), tobacco (7%), raisins (5%). This traditional pattern of Turkey's imports and exports finds reflection in Turkey's trade with the United States. The United States received \$ 191.410.000 dollars worth of Turkish products in 1976 which represents 9.8% of Turkey's total exports. This share dropped to 6.9% in 1977. 1978 Estimate is 5%. U.S. share in Turkey's imports was 8.5% in 1976, 8.7% in 1977 and about 5.5% in 1978. Turkey's place in overall U.S. foreign trade is well under 1%. The U.S. has the third place in Turkey's imports and second place in exports.

There are significant difficulties in developing trade between U.S. and Turkey. Turkey is not in a position to provide industrial products in the quality and quantity required by the U.S. markets. Since U.S. is also an agricultural producer, there are very few basic Turkish agricultural products in which U.S. is interested chief among which is tobacco. The export of most of these products are also becoming object of competition with other suppliers. As regards U.S. industrial products, the

American prices are generally 20 to 30% higher than European and Japanese competition. Therefore, the import of capital equipment from the U.S. is more subject to provision of tied loans unless superior technology is involved. During the period when AID loans were available and Ex-Import Bank loans more readily available Turkish capital equipment imports from U.S. were higher.

In the period from 1946 to 1977 the United States provided Turkey with 2.7 billion dollars of economic assistance of which 1.2 billions were grants and 1.4 billion in credits. So far Turkey has repaid 648 million dollars of credits. Furthermore, from counterpart funds U.S. enabled Turkey to utilize 1.5 billion Turkish liras for economic development until 1963, when grant aid was stopped. On the other hand, the United States provided Turkey with about 336 million dollars worth of Ex-Imp Bank loans between 1946 and 1977.

In foreign capital investment in Turkey, the United States foreign capital invested in Turkey from 1954 to 1976 formed only 17.08% of the total foreign capital amounting to only about 20 million dollars under the Encouragement of Foreign Investments Law. Therefore, the amount of U.S. capital in Turkey is rather insignificant falls far behind European investments in Turkey. In the smallness of U.S. investments in Turkey one may notice several points: first is that Turkey has never been an attractive place for foreign investments despite periodic attempts of Turkish governments to improve the existing conditions and regulations. Secondly, Turkish-U.S. relations have not been stable for a long period. Thirdly, the vulnerability of Turkey in the international area have limited private U.S. capital interest.

One last point I would like to mention in this context is the possibility of cooperation between Turkey and the U.S. for military production. There are several areas where existing Turkish facilities may provide excellent opportunity for replacing

some Turkish military imports from the U.S. by local production with U.S. technological assistance. The economic implications of this cooperation will be significant.

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SOME CONCLUSIONS AND FUTURE PERSPECTIVES

- Currently the image of Turkey and the Turks is no so bright in the U.S. public opinion. This unfavorable image is created by a host of factors among which Greek lobby currently plays the biggest part and takes full advantage of the U.S. media.
- Similarly, the image of the U.S. in the Turkish public opinion has also been damaged in the past decade and a half. The principal cause for this damage is the perception of U.S. support of Greece against Turkey. The leftist and pro-Islamic political forces in Turkey have been markedly critical of U.S. behaviour all over the world, and embargo and other U.S. acts have also influenced the attitude of center forces in Turkey towards the U.S.
- U.S. interests in Turkey is basically security oriented and U.S. politicians, expect in return for minimal economic and military aid to support changing U.S. policies and doctrines unconditionally, disregarding Turkey's own constraints and and policy preferences. On the other hand, Turks expect the United States to provide full economic, military and political support for Turkey because of Turkey's geopolitics. In other words there seems to over-expectations from Turkish-U.S. cooperation on both sides of the Atlantic.
- It is obvious that in the formation of U.S. policies security considerations do not prove to be the primary factor once public opinion and the U.S. Congress becomes involved. In any event security considerations and concepts are not static and subject to the degree of threat perceived. This perception,

in turn is basically a combination of military and political assessment. Under the influence of domestic political factors potential threat is sometimes ignored or given low priority. This argument is valid both for Turkey and the U.S. In Turkey, security considerations still predominate, but they are now debated more than ever in Turkey's history.

- In view of the existence in the public opinions of both countries, of hostile influences which affect public policies when issues are presented to them, and since delicate security relations must be maintained a heavy burden falls on the statesmen, and diplomats of both countries to keep the relations on their track. It is necessary to recall the spirit that guided the Turkish and U.S. statesmen in 1927 and to accept the role of quiet diplomacy.
- While it is necessary to increase the Turkish public relations efforts in the U.S. it is also incumbent on U.S. administration to assist Turkey which does not have an effective lobby in the U.S. For example, in 1930's when Armenians in the United States wanted to prepare a film out of an anti-Turkish book, the U.S. Government could quietly pressure the film company to drop the idea. Today "Midnight Express" is even awarded an Oscar.

Let me now turn to the future of our relations:

There are several trends in the Turkish public opinion which may eventually guide the Turkish destiny and give their identity to Turkey of the coming decades.

The most likely trend is the continuation of Turkey's Western orientation. This trend may succeed only if Turkey becomes part of the European Community. In such a case it will be possible to give a healthy character to U.S.-Turkish relations on a long term basis, and increase the dimensions of our relations with the West.

What would happen if Turkey ceases to become a member of Western camp?

Ambassador Parker Hart thinks that if and when the spirit of NATO alliance is dead "Turkey gradually will turn leftward because only a regimented philosophy and discipline will be open to it. In the age of socialist polycentrism, it could decide to become a Yugoslavia, seeking accomodation with the USSR and security by neutrality and strengthened Third World ties. It would be counting on the U.S. to recognize... that is far preferable to complete absorption into the Communist bloc."

Dr. Scott Thompson of Tufts University on the other hand thinks that by the middle of 1980 Soviet Union might be able to take over Turkey by indirect means.

The third alternative discussed is that Turkey may be dragged into Islamic revivalism aligning itself with the Arab world.

I believe these observers are influenced by the tragedy of economic conditions and increasing political violence prevailing into Turkey. Although, both factors constitute bad omens for Turkey, the clock is not irreversibly advanced.

The greatest part of the Turkish people are determined to preserve their democratic and secular way of life and independence. If the United States and Western powers decide to show understanding for the assets that Turkey constitutes for Western interests and translate their understanding into political and material action by helping to ease Turkey's economic and security problems, they will increase their own power in this region and at the same time will make it easier for Turkey to continue to share common values with them.

THE FUTURE OF US-TURKISH RELATIONS: AN AMERICAN PERSPECTIVE

O. ELLIOT T. ZORPO (x)

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It is a fact that from the US perspective mutual security relations have been --and continue to be -- the crucial focus of US relations with Turkey. The political and economic aspects of US-Turkish relations have been and are, important to the relationship. But they have been complementary and secondary. Consequently, the state of relations between the United States and the Soviet Union, during the Cold War and the Detente, have been instrumental in shaping the priorities accorded Turkey in US foreign policy.

The NATO context of US-Turkish relations has broadened the scope of these relations by incorporating Turkey into the US policy outlook toward Western Europe, without however diminishing the central importance of the mutual defense concerns. The Cyprus conflict has acquired meaningful salience, in the minds of US policy makers, primarily in regard to the preservation of the political cohesion of the Atlantic Alliance so as not to weaken NATO defense.

The current emphasis in American policy toward Turkey, focusing; on the use of Turkish facilities for assistance in the verification of the Salt II agreements; on the rehabilitation of Turkish defense; and, on promoting Turkish political stability through economic assistance, is, therefore, consistent with prior US policies. The latter have been global in perspective and anchored into the requirements of the Soviet-American strategic balance and the East-West military balance, which together are the linchpin of the political rivalry between the Soviet Union and the US, in Europe and throughout the world. International economic relations and ideological orientation are very important determinants of policy. They can not be divorced from security and vital national interests of either the US or Turkey.

There is no way to escape the fact , however, that in the nuclear era a failure of security may not only spell the end of national independence but also of the nation as a phisical entity. This is surely true for the US and other nuclear powers. Turkey's history and her geopolitical situation makes it also true for Turkey. No European country , regardless of its foreign policy orientation, can isolate its fate from the East-West military and political balances in Europe and adjacent areas, and state of US-Soviet politival and military relations in the world. In deterrence or in war modern military technology makes such isolation of the European , and Turkish, destinies from that of the US impossible.

The security and the national survival of neutral Sweden and of unaligned Yugoslavia are as crucially dependent on the stability of the East-West military balance and the resulting detente between the US and the Soviet Union, as are the national security of West Germany, France and Turkey.

For militarily there can be strategic stability without detente. Politically, however, it is difficult to imagine detente without strategic stability. Instead of divorcing military power from politics the potential horror of nuclear war has brought them into more intimate relationship. Detente did not precede strategic stability between the US and the Soviet Union but a product of it. Detente is not automatic. It can not be assumed . It is potentially threatened by technological innovations that erode US-Soviet military strategic stability and it could be threatened by political conflict between the American and Soviet superpowers, or regional conflict between other nations that escalates to involve the Soviet Union and the US. Moreover, the relationship between the US and the Soviet Union is primarily competitive as a result of the fundemental differences in the American and Soviet world views and of conflicting global aims. The major interest held in common by the US and the USSR is the

necessity to manage their conflicting policies so that they do not precipitate a general nuclear war. The relaxation of tensions which has required holding in abeyance nearly irreconcilable ideologies takes meaning above all in this context. The fragility of the detente process and the essential nexus between nuclear deterrence and detente have been clearly illustrated at Vienna this month, and will surface directly in the debates in the US Senate required to ratify Salt II.

The centrality of security considerations that organizes US policy toward Turkey because of the US-Soviet global relationships is shared by Turkey because Turkey's geographic location, bordering on the Soviet Union and controlling the access routes from the Black Sea to the Mediterranean place it in the path of the expansion of Soviet influence into the Mediterranean and the Middle East. As the military power of the Soviet Union increases its global reach and continues to develop technological sophistication Soviet hegemonial tendencies are likely to be strengthened especially in peripheral regions. The Mediterranean has been the object of documented Russian aspirations that bridge Czarist and Communist regimes. The Soviet Government revealed its ambitions in the immediate postwar period. In recent years, it has repeatedly underscored the legitimacy of its naval military presence in the Mediterranean and the importance of this region to the Soviet national interest.

The costly and at times risky investments of Soviet political and military resources in the Arab East attests to the seriousness of the Soviet Union's commitment to the national goal of maintaining an expanding Soviet influence in the Mediterranean region and the Middle East. Since these hegemonial tendencies are not simply a matter of ideology and normally result from the nature of a super-power's international interests, they are likely to continue and even intensify if political circumstances permit their expansion.

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Turkey's foreign policy decisions will continue to shape, to an important degree, the Soviet Union's policies toward the Mediterranean region. The great disparity in aggregate national power between Turkey and the Soviet Union inevitably defines however, the significance of Turkish policy positions, for the Soviet leadership, in terms of Soviet relations with the United States and other nations members of Nato. In as much as this power disparity in favor of the Soviet Union has grown greatly. Since Turkey and the United States became allies, only Turkey's withdrawal from the Atlantic Alliance would free Turkish foreign policy from this referent. But then Turkey's position vis-a-vis the Soviet Union would become unquestionably like that which exists between Finland and the Soviet Union. In the case of Finlandnotwithstanding the Finn's great courage, military powers, and diplomatic skills - it is Soviet policies that virtually shape Finnish foreign, defense and even internal policies. From an American perspective, short of accepting Finnish type of relationship Turkey does not possess a viable neutralist option in its foreign policy. Turkey's location as a bridge between the Balkans and Mediterranean Europe and the Soviet Union and the Middle East removes the possibility of effective non-alignment. Finland is not in such a pivotal geopolitical location.

Security against a potential military threat from the Soviet Union was also a central concern for Turkey's leaders and best explains the rationales that led Turkey to look for an alignment with the United States before

the creation of Nato. The strategic significance of Turkey was perceived by the United States even sooner. President Roosevelt extended land lease assistance to Turkey in 1941, recognizing that the defense of Turkey was related to the United States national interest. However, American and Turkish foreign policies did not converge to establish a policy of common defense until Stalin's heavyhanded pressures against Turkey, at the Straits and on Turkey's eastern frontiers, led Turkish leaders to seek help from the United States. Turkey was one of the very first recipients of American assistance under the Truman doctrine in 1947, and the United States, surmounting some West European objections, sponsored Turkey's entry into Nato in 1952.

During the halcyon years of US - Turkish relations that ended with the 1964 Cyprus crisis, the mutual defense focus animated on harmony between US and Turkish foreign policies ruffled fleetingly only by the withdrawal of US Jupiter missiles in the wake of the 1962 Cuban missile confrontation. Throughout the 1950s Turkey's foreign policy was in almost total harmony with American foreign policy positions. Turkey participated in the Korean War. It supported US policy on Suez and the US intervention in Lebanon. Turkey was also a party, with Britain and Greece to the 1959 agreements which set up an independent

Cyprus.

During the same period, the United States provided an unqualified, strategic guarantee to Turkish security, a US military presence on Turkish soil for common defense purposes, and over \$ 6,000,000,000. in military and economic assistance to Turkey.

The primacy of security considerations in American foreign policy toward Turkey best explains the thrust of US policy on the Cyprus conflict as well. Although there is no question that ethnic congressional politics played a critically negative and detrimental role in US relations with Turkey after the 1974 Cyprus crisis, the basic rationales for US actions toward the Cyprus conflict are undoubtedly those that address the damage political and military conflict between Greece and Turkey can inflict on NATO cohesion, thus weakening deterrence and defense in the Alliance's Southern flank.

At the same time, the difficulties that have beset the formulation and especially the implementation of US policies toward Turkey, since the 1974 Cyprus crisis, are a prime illustration of the severe curtailment of Executive power in US foreign policy that has come in the wake of Vietnam and Watergate: compounded in this case by ethnic politics. Prior to Watergate the policy actions undertaken by three Presidents on behalf of Turkey would not have been thwarted repeatedly by Congress as they have been since 1974. Whether presidential leadership will reassert itself in US foreign policy might be decided in the years immediately

ahead. There is some evidence that changes in that direction may be underway. President Carter have got the embargo against Turkey lifted. The organization of a US intervention force is seriously underway. The debate in Congress on SALT II ratification and its outcome should give us however the clearest indication.

It may be said that the letter sent by President Johnson to Premier İnönü, during the 1964 Cyprus crisis, marks the beginning of the deterioration in US-Turkish relations. I can fully appreciate Turkish feelings in light of the qualifications about the US security guarantee the letter raised, and its unfortunate style. Moreover, it is clear, in retrospect, that the qualification voiced in regard to the US security guarantee to Turkey, were overdrawn. It would be misleading, however, to draw the conclusion from the Johnson letter actions toward or any subsequent US policy actions toward Turkey --- that the United States is cavalier about the security and the independence of Turkey? It would be equally misleading to conclude from the policies of the US government toward the Cyprus conflict in particular --- the more recent constraints of ethnic politics on Presidential will notwithstanding --- that the United States takes sides. It has attempted to mediate between Greece and Turkey, and except for 1974 to manage crisis conflict. Because of its responsibilities as a global power facing the Soviet Union and because it is the guarantor of strategic security for the Atlantic Alliance, the United States ~~must~~ must give priority to the East - West military balance of power and the

political cohesion of Nato.

It may be argued that in an era of detente the extent and the nature of a Soviet security threat is unduly emphasized if the United States makes a potential Soviet threat the focal organizing point of US policies toward Turkey. But this conclusion would be tenable only if it could be shown that: the Soviet Union does not value the relationship between military power and political goals there is no crucial connection between East - West political detente and the US Soviet strategic nuclear balance; and that conflict between Greece and Turkey does not relevantly affect the deterrent value of conventional forces in Nato's southern flank. In sum, that in an age of nuclear weapons no effective relationship exists between military power and foreign policy objectives. This is a doubtful proposition especially in the nuclear age when the potential threat rather than the use of forces is the cutting edge of the foreign policies of the major powers.

The political consequences of military power are fully appreciated by Soviet decision - making, and their advisers. Military power is seen by them as one of the most important instruments of foreign policy. Its role and effectiveness are, believed to be dependent upon the particular international political situation and upon the specific balance of forces developing in the world or a particular region. They believe, however, that international relations can be greatly influenced by conventional armed forces, used either independently or even in combination with nuclear forces. In their view, both forms of military power can be used not only in the process of military operations to establish military presence but also for applying pressure direct or indirect, during the course of negotiations to achieve political goals. Turkey as a regional power must always act in the shadow of outside forces usually the

political. and the economic aspects of policy are often inextricably and intimately related. The emphasis on security, I have stressed, was meant to take note of the priorities that inform the US policy outlook toward Turkey. In the case of US Turkish relations, US policies that address the political and the economic aspects of our mutual relations have been rationalized, historically, in terms of the US helping Turkey to develop a viable economy that would sustain the Turkish democratic parliamentary system. This was believed to be an indispensable foundation for an effective Turkish participation in the Atlantic Alliance. That the fulcrum of Turkey's participation in Nato has been always the US - Turkish bilateral relationship is explainable as much by the relative economic weakness of Turkey as a member of Nato as by the special security links that have existed between the United States and Turkey because of Turkey's geo-political situation

With all the malaise that has developed in US - Turkish relations during recent years, and in spite of the decisively negative past on the US foreign exchange balance occasioned by the energy crisis and the re-ordering of the international economic system, the United States remains the urgent single contributor of external aid to Turkey. At the May 30 session of the multilateral assistance program, the United States pledged \$ 198 million, plus about \$ 50 million in Eximbank credits (under specified circumstances). This was the largest potential contribution

x These Soviet views are best summarized in the concluding chapter of V.M. KULISH, Military Power and International Relations (Moscow 1972.)

(West Germany was second with \$ 200 million, with the next largest pledge being France's at \$ 70 million.) If the \$ 350 million in various forms, assigned by the US. Executive for military assistance to Turkey for Fiscal year 1980 is added - and it should be since particularly in the case of Turkey military and civilian sectors expenses are fungible - it becomes clear that the United States continues to be the source of major economic assistance to Turkey. Although Soviet economic assistance to Turkey has increased over the years, the Soviet Union, and Eastern Europe, cannot for the foreseeable future, replace the United States and Western Europe as major sources of economic assistance, technology transfer, and commercial partnership.

A somewhat less sanguine picture appears as regard to the US share of the Turkish import market. The US share of the Turkish import market has dropped from 30 percent in 1963 to 5.6 percent in 1978. During this same period the market share of EC countries has held steady at 40 percent. It has been suggested that the long term US loss of the market share can be attributed to a combination of AID - financed development projects being phased out, and a shift in US corporate supply sourcing from US plants to European plants. The recent downturn is attributable to the inability of

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US Department of State, Foreign Economic trends and
 for the United States & Turkey, March,
 1979.

US suppliers to compete with credit and government guarantees provided by European suppliers. Moreover, Turkey's failure to regularize outstanding commercial arrears explains the reluctance of US financial institutions' greater involvement in Turkey. (x) If Turkey continues to maintain its positive real growth rates, and is successful in implementing the measures required to stabilize her economy, this US ~~xxxx~~ Arena could reverse itself.

There continue to be problems with US policy toward Turkey stemming from the unresolved Cyprus situation that take the form of Congressional constraints on Executive actions to help Turkey in its current economic crisis. But the US President is fully committed to help in spite of these constraints. An example is the attempt to maximize purchases by the US armed forces of suitable items manufactured by Turkey. One must remember, nevertheless, that the last several years have brought some severe inflationary trends and other adverse effects in the monetary and trade fields of world economics that have negatively affected the American economy as well. They provide additional limits to US executive actions on behalf of Turkey. The courageous and timely decision to devalue the Turkish lira will surely help Turkey's economic relations with the United States and Turkey's other Western allies.

An additional important element of US - Turkish relations are Turkey's democratic politics and her choice of a Western parliamentary system. Except for the American encouragement to opt for a two party system in the early years of the US - Turkish partnership, the Westernization and the secularization of the Turkish State precede

US involvement by at the very least about a century, with Western Europe playing the major role as a model. Nevertheless, an essential aspect of Turkish - American relations relates to Turkey being a Western democracy, which shares a political ideology with Western Europe and the United States. It seems that Turkey's domestic as well as foreign problems may have raised questions about her Western European covation and created an identity crisis for the Turkish nation. (x) But until now an important asset in the relations between the United States and Turkey has been Turkey's democratic and parliamentary system. Few US policymakers are aware of Turkey's identity crisis, and security considerations do loom larger than the political relationship. It would be oversimplifyfing, however, to assume that Turkey's system of government does not play a positive and important role in the shared values that have made it possible for the United States and Turkey to remain allies, in the face of the sometimes acute policy differences that have afflicted relations since 1964. A healthy economy makes for a more stable political system strengthening Turkish democracy. And a politically stable Turkey is a stronger Turkey in terms of the common policymakers, and for most of the US Turkish alliance relationship has found concrete, operational ways to

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See Seify Tashan, Turkey and the West, Meydan, May 1? 1978,

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Anyone in Turkey who is well informed about the economic problems that beset the socialist countries of Eastern Europe and of the Soviet Union itself, would seriously consider a decision to opt for the socialist model on economic

articulate itself. The US Aid Programs of the 1950's and early 1960's in particular are a good illustration.

Turkey's democratic system does not only function in a positive way, in Turkish US relations. It facilitates Turkey's political, security, and economic relations with the democracies of Western Europe, especially West Germany; strengthening Turkish foreign policy options and additionally reinforcing her relations with the United States.

Neither Turkey's approachment with the Soviet Union and the countries of the Balkans, nor her close relations with the Arab states of the Middle East have proved to be, on balance, a cause of serious friction between the United States and Turkey. In case of the former because Turkey has not considered a withdrawal from the Alliance, casting her policies in term of detents. In regard to the latter her foreign policy orientation is shared, grosso modo, by most European allies of the United States. The United States would prefer to operate in Arab - Israeli conflict contingencies without the constraints on US operations placed by her European allies including Turkey. The tacit granting of overflight rights to Soviet aircraft during such contingencies is a matter of special US concern. On balance, it may be asserted, however that the changes in the Turkish foreign policy outlook of the last decade have not created serious frictions in US Turkish relations. The several re negotiations, regarding US facilities have been more trying experiences, for the United States.

Within this framework of US-Turkish relations, what may be expected to be the nature of future relations? Accurate prediction is obviously impossible, and the future cannot be gauged for more than the next five to seven years, with the thrust of the years immediately ahead.

Two distinct time periods are discernible framers for the domestic and external environments of US-Turkish relations has been characterized by the Cold War of the 1950's and early 1960's and the Detente of the late 1960's and the 1970's. The domestic environments of US-Turkish relations fall into approximate equal periods. The Cold War period characterized an American foreign policy of Democratic-Republican bi-partism with strong Presidential leadership supported by the Congress. The 1970's have been the years in which the Congress has strongly re-affirmed its foreign policy prerogatives vis-à-vis the President and has tended toward fragmentation and re-alignment on issues, with often little reference to party.

If 1963 is taken as the year that clearly marks the beginning of the Detente, the Cold War period, up to the 1960 intervention of the Turkish military into politics marks the development of a two-party system of Turkish politics, with Turkish foreign policy goals being supported by both the Demokrat Partisi and the Cumhuriyet Halk Partisi. Since then there has been a fast-paced polarization of Turkish politics left and right which has eroded the stability of the Turkish political system, passing into right- and left-wing terror terrorism. Correspondingly, the consensus on foreign policy has been weakened. Since the 1964 electoral campaign foreign policy issues have been contentiously voiced in Turkish internal, partisan debates.

It may be anticipated, therefore, that American and Turkish foreign policymakers will have to be keenly aware of, and sensitive to, Turkish public opinion and American congressional opinion when they frame agreements and in their diplomatic intercourse. Even with such awareness, our mutual relations will be more problematic because of the complexities that have arisen with the changes in the East-West military balance system. Moreover, the Cyprus conflict remain largely unresolved to further complicate US-Turkish relations. Nevertheless, the often painful experience of the last decade coupled with greater Turkish awareness of the limits of US presidential power and greater American sensitivity to the internal political and economic problems facing Turkish leaders should result in better US-Turkish relations in the years ahead.

The test of this newly-found realism will be made concrete by specific issues of policy. These are likely to arise in areas: mutual security; economic relations; Cyprus; and, Turkish relations with the Soviet Union and the Arab East. From a US viewpoint, the security relationship in the political context of the Atlantic Alliance will have primary.

The United States and Turkey have not yet finalized the necessary agreements for their common defense that will guide their relations in the security area for the next five years. I would tell that they will before the end of this year. A problem that has beset such negotiations in the past, which continues to complicate current relations, and could cause misunderstandings in the future is the result of differing US and Turkish perceptions in regard to Turkey's role in the security of the United States, and since the 1974 Cyprus conflict in the definition of the nature of the security threat against Turkey. One way to address this issue is to clarify the differences that exist in the definition of what is strategic for Turks and for Americans, from a US viewpoint.

At the beginning of the US-Turkish alliance, the differences were hardly worth considering. In the words of Nuri Ulrike many of the Western European members of the Alliance, Turkey, by virtue of its geography, is endowed with major significance in the Alliance's global military and ideological strategy which goes beyond the limits of her status as a middle power. Setting aside, for the moment the ideological aspect of the statement, there is no question that Turkish view is widely and strongly held by Turkey's leadership. Until nuclear ballistic intercontinental missiles, became the mainstay of US and Soviet strategic forces, US leaders could have accepted the statement without reservations. Currently, and even more in the future, the statement requires, from an American perspective, several important qualifications.

Turkish territory is not needed to target the Soviet Union either for nuclear war fighting or nuclear deterrence. For the United States strategic equates with nuclear and global. The global reach of nuclear weapon systems, already deployed and to be deployed in the 1980's make reliance on foreign territory and even the oceans, except for adjacent seas, not as crucial as before. For the Soviet Union this means the Baltic and the Norwegian Sea in particular; for the United States the North Pacific. In terms of strategic weapon systems, Turkey cannot be said to discharge a global, strategic function any more than West Germany does - for US national security.

An important caveat is in order. For the years immediately ahead, particularly but not exclusively because of the loss of US intelligence installations in Turkey could perform a useful service to US deterrence of the Soviet Union and to the Detente by helping to verify SALT II. That they are inadequate to achieve this alone is suggested by the United States' efforts to get Turkey's permission to resume U-2 flights. Technology will likely help decrease US reliance on

*Turkey, NATO and Europe: A Deteriorating Relationship?
The Atlantic Papers No. 34, (Dec 1977), p. 54.

the use of foreign territory for strategic verification after a few years. Meanwhile, it is surely as much in the Turkish as in the American national interest to effectively verify SALT II in order to make the treaty viable or even possible, since without SALT II the Detente may be in jeopardy. And without the Detente the security of Turkey and Turkish foreign policy options could be drastically reduced. It is, of course, difficult without the use of evidence that is hardly to be expected in the public domain to ascertain how critical the U-2 flights are to verification of SALT II. There is a heated debate going on in the United States between the White House and the supporters of the SALT II agreement on the one hand and on the other side the opponents of the Treaty that pivots precisely on the US' s capability to verify SALT II by US national means. The latter insist that it cannot be done adequately during the next 3 or 4 years, even perhaps with the U-2 flights. But let it be said that satellite reconnaissance is believed generally adequate to monitor deployments. By inference, what U-2's, based on Cyprus and overflying Turkish' air space in the Black Sea area and along the Turkish, Soviet border would furnish is data on Soviet testing of strategic weapon systems.* Because specific characteristics of some SALT-limited systems become apparent during the testing phase, monitoring of testing programs is an important aspect of verification. Such monitoring may involve collection of electronic signals (telemetry) used to transmit information about systems while they are being tested. These are relevant particularly to verify the testing of MIRV's (Multiple Intercontinental Re-entry Vehicles), and the testing of the Soviet SS-16 ICBM, whose further testing and deployment is constrained by the Treaty. * Potential SALT treaty violations by the Soviets are, therefore, more of the nature of a long-range than an immediate danger. Several years to go from the testing to the of strategic weapon systems.

One could argue that unless there is evidence that the Soviet Union is geared for an immediate program violations of the SALT II treaty, that a reasonable chance exists for the United States to close the existing gap in verification intelligence, during the next few years by technological means. If the treaty is not ratified by the Senate, there would be no inhibitions on US strategic weapons development and deployments. The US government would have to posit a worst case scenario and act accordingly to assure adequate nuclear deterrence. This situation would be likely to severely damage the East-West Detente and greatly intensify the arms race. In the wake of the ill-advised congressional refusal to endorse the \$50 million military grant aid to Turkey, General Kenan Evren's veto of U2 overflights understandable. But there is much more at stake for both our countries.

*International Herald Tribune, June 26, 1979, p. 4.

*US Department of State, The Strategic Arms Limitation Talks, Special Report no. 46, (May 1979) pgs. 6-8

Again speaking to the military aspects of relations, the Turkish viewpoint, quoted above, gains greater validity at the regional, non-nuclear or conventional level. But even in this context it remains what qualified in terms of an American perspective on European security. From the US point of view, the Keystone of Western European security is NATO's central front, or the defence of West Germany. And the linch-pins of the defence of Europe are the US nuclear guarantee, and adequate allied continental forces.

The East-West military balance in the Mediterranean has always been less clear and less stable because of the political as much as the physical geography of the region.

One illustration are the constraints placed on US naval and air operations by US allies in the Mediterranean during Middle East crises, - where the US role has not been that of an arbiter but that of a mediator and conflict manager. In no way does this imply that the allies of the United States must agree with US policies on the Arab-Israeli conflict at other times; nor even at the time of a crisis or conflict in the region. But rigid and permanent constraints on US operations risk being in the interest of no one including the Arabs.

What is then the military importance of Turkey to the Atlantic Alliance and to the United States? In the nuclear era, particularly for the Atlantic region which includes Western Europe and NATO's southern flank, deterrence of East-West conflict is the rational policy option. This is the case at the level of conventional and regional as well as the strategic, nuclear and global levels. In fact, in regard to the Atlantic Alliance and the Warsaw Pact a conventional conflict that does not risk early escalation to nuclear war at the European theater level and the US-Soviet intercontinental level has always been believed highly unlikely. In this assessment are included countries in the southern flank like Turkey.

Nevertheless, developments in recent years the US-Soviet strategic balance and in the Eurostrategic balance are cause for concern to most leaders of the Alliance and have reformed the importance of the East-West conventional balance.

The advent of US-Soviet strategic balance. This has resulted in the loss of US escalation dominance. Western European policymakers see in the neutralization of the superpowers strategic capabilities the consequent effect of decoupling Europe's conditions as a hostage to Soviet theater nuclear and conventional forces. The concurrent and unprecedented growth in technologically sophisticated Soviet and Pact conventional forces in Europe has led to a Eurostrategic imbalance that might severely undercut NATO's flexible response strategy. With or without SALT II the military and political risks for Western Europe appear to be increasing.

Turkey is the forward and key location for NATO southern flank defense in Thrace, for example. The loss of Turkey through "Finlandization" would shift the NATO defense line to Italy

and the "choke points" between Sicily and expose Southern Europe but also undercut the US position in the Middle East and the Persian Gulf. A militarily strong and politically cohesive Turkey reinforces deterrence and helps to maintain the East-West equilibrium in Europe. It also benefits the independent stance of Yugoslavia at a time when its future independence may become hobbled by a succession crisis in its leadership.

Turkey can neither be militarily strong nor politically stable without a viable economy. According to a report prepared by the US, Embassy in Ankara, Turkish economic performance in 1978 was mixed. Turkey continues to maintain positive real growth rates despite a severe foreign exchange bottleneck, requiring a retrenching of much of its external debt, leading to a 27 percent reduction of imports for the first 10 months of 1978. Trade and current account deficits were reduced, substantially and exports increased however.

It is believed that although Turkey faces several years of financial stringency and payment problems, that "Turkey possesses the natural and human resources to ensure a promising long-term outlook with proper economic management." Within the limits imposed by the economic problems that beset the United States itself, inflation, adverse foreign exchange, loss of strength of the US dollar, the United States, in cooperation with our West European allies, will assuredly help Turkey in her economic flight. Some friction may arise from Turkish expectations that may go beyond the level of aid the US President may be capable of getting the Congress to approve, or that may seem too sanguine from a general US perspective. For the immediate future this means that aid on the scale provided Egypt and Israel may be an unrealistic expectation.

Normalization of relations by Turkey with the Soviet Union and closer relations with the Arab states do not run counter to US national interest. Turkey would be in step with other European allies who have been involved in achieving these goals in their foreign policies. A militantly anti-American position on the Arab-Israeli conflict and Pan-Islamism in Turkish foreign policy would, on the other hand, cause difficulties in Turkish-American relations and undercut Turkey's position in US domestic politics. Similarly, principled alignment with Soviet positions any movement toward effective non-alignment would create major difficulties for US policies toward Turkey.

One of the most intractable issues that remains in US-Turkish relations, the Cyprus conflict, some pragmatic observations that do not enter into the merits of the case, may be useful. The nature of the geographic frontier between Greece and Turkey, and the overall military superiority that Turkey enjoys over Greece, make it difficult, from an American perspective, to see a substantial Greek threat to Turkish security. The threat to the security of Turkey will remain the Soviet Union, regardless of Turkey's political orientation.

On balance, it can be agreed that it should be Greece and Turkey to bilaterally resolve the Cyprus impasse. However, as long as Turkey remains in military occupation of a substantial portion of the island (even if legitimate), it will be difficult for a US president to aid Turkey to the degree that is required by our mutual defense and foreign policy relations. Americans and Turks together must find the required statesmanship needed to solve what has been a very damaging conflict to call concerned. Any Turkish initiatives that would help bring a peaceful solution to the Cyprus problem would be appreciated by those of us Americans who have been greatly disturbed by the damage caused to Turkish-US relations as a consequence of the Cyprus conflict.

Closing on a personal note, I believe that Turkey is not only important to the Atlantic Alliance for the security reasons I have analyzed but also for important political reasons. The continued maintenance of a democratic, parliamentary system throughout the vicissitudes Turkey has undergone since World War II, and continues to face is a tribute to Turkey's commitment to Western democracy. That this commitment is shared by the Turkish Armed Forces makes it all the more important to the Atlantic Alliance. If democracy fails in Turkey, it will have negative political repercussions far beyond Turkey's frontiers into Mediterranean Europe, and the Middle East. Turkish democracy is, in my view, as important a contribution to NATO as her contribution to the common defense.

I should hope, therefore, that my government would aid Turkey to rebuild and modernize its armed forces, to stabilize and continue its growth toward economic development, and to support Turkey's Western vocation.