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THE INDUSTRIALIZATION OF TURKEY IN THE MEDITERRANEAN REGIONAL CONTEXT

by

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Final version of a paper submitted to the Conference on "Problems and Policies of Industrialization in Opening Economies" organized by Bogaziçi University, Istanbul, August 1981.

April 1982

IAI/7/82

The purpose of this paper is to analyze the future of Turkish industrialization in the Mediterranean regional context. This context is a sub-system of the wider international economy, and our attention will focus on those variables that are mainly determined by regional developments and will affect the Turkish economy either positively or negatively.

As this is not the most common approach, it may be useful to state initially why the regional context is important and distinct from the broader and more commonly used category of the Rest of the World, and in what sense the Mediterranean can be considered a regional dimension in which the development of Turkey may be appropriately discussed (as opposed to possible alternatives, such as Western Asia, the Middle East or Southern Europe).

The tendency to consider the International Economy as one undivided unit in which each country faces a homogeneous Rest of the World rests on the assumption that international trade is free, that there is monetary stability, that transportation costs are only marginally relevant (possibly affecting relative specialization, not the level of industrialization as such). These assumptions are easily challenged in the contemporary world. Protectionism is a growing threat affecting trade between industrializing and industrial countries, and within both groups. Monetary instability has led to an increasing number of attempts to limit capital movements and restrict convertibility. New conditions, especially in rela-

tion to energy, will increasingly influence the localiza tion of industrial production.

On one hand it is true that there are countries that experienced a process of industrialization based on exports of manufactures to distant markets, with very little connec tion to the regional environment. On the other hand there is no need to deny the possibility of expanding economic relations with countries that are geographically very distant to recognize that, at the same time, developments in the regional context of each country may exert an important influence over the direction of her industrial growth. The fact that some countries did not develop important regional economic ties is often connected to the circumstance that the region is politically hostile. Each country may choose to isolate herself from her regional context, but this is more likely to happen if it is expected that in the regional context fewer opportunities will be found than in the wider global market.

Once it is accepted that the regional dimension is im- portant in designing the industrialization strategy of a country, the question arises what is the relevant definition of the region in which the prospects of that country should be analyzed. A simple geographical criterion is not the best solution, because political differences often act as a bar- rier to the development of economic ties.

In the case of Turkey, relations with CMEA countries are bound to be less important than relations with other

OECD European countries and with the Arab countries of the Middle East and North Africa. On the other hand, consideration of only one of the latter two groups would be restrictive, because Turkey has important relations with both. It is in this sense that we propose to analyze the problems of Turkish industrialization in a Mediterranean context.

The Mediterranean is not, in itself, a homogeneous region: it is, to the contrary, highly fragmented both in economic and in political terms. Also, the Mediterranean region should not, in this context, be defined narrowly as comprising only those countries that border on the Mediterranean sea. It should, instead, be understood more loosely as the geographic focus of interplay between the countries of the EEC, the other Southern European countries and the Arab countries in the Middle East and North Africa. In this definition, the concept of a Mediterranean region is useful for descriptive purposes, but should not be understood as having any specific analytical character. Depending on which variable will be discussed, reference will be made to subregions within the extensively defined Mediterranean.

This paper is largely based on research that I completed in connection with the preparation of the Blue Plan for the Mediterranean. The Blue Blan is one of the initiatives undertaken within the framework of the Mediterranean Action Plan, itself established by the Barcelona Convention on Mediterranean environment, to which nearly all of the riparian countries of the Mediterranean are signatories. The purpose of

this exercise is to elaborate scenarios of Mediterranean social and economic development in the coming two decades that will affect the regional environment. It is hoped that this may become the basis for wide-ranging cooperation among all Mediterranean countries.

Energy supply and industrialization in the Mediterranean.

It is convenient to start our analysis from developments in the field of energy. The price and availability of energy has played a paramount role in determining the pace of industrial growth in the individual Mediterranean countries in the last decade, and will certainly continue to be a very important factor of change in the distribution of industrial activity in the region.

The rapid increase in the price of oil has affected macroeconomic equilibria in all countries in the region, thereby affecting industrialization processes. Thus it is necessary to discuss what expectations we may have on the future evolution of oil prices. Possibly more important, the new realities of the international oil industry are stimulating changes at the microeconomic level:

- a shift from the consumption of oil to other sources of energy;
- a shift in the patterns of transportation of oil;
- a shift in the location of downstream operations;

- and finally a far greater interest in the utilization of natural gas resources. Each of these affects the prospects for industrialization of each Mediterranean country, including Turkey.

Developments in the international oil market since the beginning of the 1980's have led to the appearance of a persistent excess supply of crude oil, resulting in price weakness. While this situation is to a large extent determined by short-term factors, such as the reduction in the stocks maintained by the oil companies and a delay in the expected upswing of economic activity in the United States, it is now widely accepted that oil demand is price elastic in the long run. Coupled with more pessimistic expectations on the rate of growth of GNP in the OECD countries, the new estimates on the long-term price elasticity have led to a sharp reduction in the expectations for the growth of demand for oil. Thus it now appears unlikely that crude prices will again rise steeply in the coming two decades, as they did in the 1970's.

While it is necessary to spell out our assumptions on this, because they affect the macroeconomic outlook that we will discuss in the following paragraphs, the behavior of crude prices is not properly a regional variable, even if the widely defined Mediterranean region includes the world's largest reserves of hydrocarbons.

The microeconomic tendencies that we hinted at above are, on the other hand, strictly regional in character, and

deserve greater attention.

The shift from consumption of oil to other energy sources has important consequences because no other energy source is as flexible as oil - although at current relative prices it may well be cheaper. Thus, coal utilization on a massive scale poses huge logistical problems for all utilizers that are distant from coal mines. Hydroelectric energy is by far the cheapest and most convenient alternative source of energy, but electricity is costly to transport over very long distances. Natural gas has many advantages, particularly from the environmental point of view, but again its transportation requires either extensive pipeline networks or a costly process of liquefaction and regasification. Finally, solar energy is an attractive proposition only in those countries where meteorological conditions are appropriate.

In short, of all alternative energy sources for industrial utilization, it is only nuclear energy which is geographically as flexible as oil. But it is a well known fact that the development of nuclear energy has met with widespread and persistent resistence in the industrial countries, leading to a considerable scaling down of the expectations on its future importance.

Thus we should expect that the location of potential sources of energy will again become an important attraction for industrial activity, as it used to be in the past, before the advent of oil as the allpurpose flexible energy source.

Within the Mediterranean this will favor countries that have hydrocarbon reserves in the first place; but it will

also greatly favor countries that have large untapped resources of coal and hydroelectric energy. Solar energy and solar exposure rates will become increasingly important, but are unikely to be so in the coming twenty years. Turkey stands to benefit from these tendencies, because of her orography and geology. According to the IEA, Turkey is endowed with a considerable hydroelectric potential, evaluated at about 10 TWh per annum. Between 1973 and 1978 hydroelectricity production more than tripled its share in total energy production, rising from 3.8% to 11.3%. This was mainly due to the completion of the Keban Dam. Turkey also has important coal reserves, although mostly of poor quality (lignite). According to the IEA, proven reserves stand at4123.2 million metric tons, of which 3937.0 are lignite; while total reserves (including probable and possible reserves) reach 7849.3 million metric tons of which 6492.3 are lignite.

Furthermore, the distribution of indigenous energy sources other than oil should be seen in connection with the shift in the patterns of transportation of internationally traded crude oil. Continued political volatility in the Gulf region and the experience of the war between Iran and Iraq, whose memory will last for a long time even after the conflict has been brought under control, will stimulate the long-term tendency to redirect international oil flows in order to decrease dependence on the Strait of Hormuz. Iraq and the other Arab oil producing countries of the Gulf will increase their loading capacity outside the Gulf - either in the Mediterranean or in the Red Sea. This will enhance

the prospects for industrial development for the countries that will necessarily be crossed by the new routes, i.e. Turkey, Syria and Egypt (because of the increased utilization of the Suez Canal).

In the case of Turkey specifically this tendency is already concretely manifested by the pipeline connecting the Iraqi fields with Ceyhan on the Mediterranean coast. This pipeline undoubtedly is a factor in the intensification of economic relations between Iraq and Turkey that has taken place in the last couple of years. This link is bound to become more important in the future. Furthermore, plans for the construction of a pipeline connecting the Iranian fields to the Black Sea (or the Mediterranean) across Turkey - that were actively considered in the past and dropped on the basis of purely economic considerations - might be revived.

The redirection of international oil flows appears even more relevant if seen in connection with the desire of the oil producing countries to integrate their oil operations downstream into refining and petrochemicals. This tendency is bound to change the geographic equilibria of the latter two industries. In the past both were mostly located in proximity of the markets; in the future a growing share will be located closer to the sources of the raw material.

It is likely that this tendency will spread from the producing countries themselves to the region surrounding them, especially if the transportation system for crude oil takes on more of a regional character. Some of the political considerations that affect the transportation system will

affect downstream installations as well. Furthermore, on ecological grounds as well as on the basis of considerations related to manpower supply, a tendency to avoid excessive concentration of downstream installations will soon emerge. Finally, the weakness of the oil producing countries in venturing downstream lies in their very limited domestic markets, and the option of establishing joint ventures with neighbouring countries that have, on the contrary, potentially large and captive domestic markets should appear rather attractive.

To all the above considerations we should add the issue of economic development of natural gas resources. Non-associated gas resources in the Middle East have not been extensively researched, and only a few fields are well known: enough to tell us that the potential is very great. The economic development of these resources has been discouraged by the very high cost of trasportation to the European or Japanese markets. Insistence on the part of the producers on a price for natural gas that is equal to that of crude oil per BTU may very well lead to very serious delay in the development of these resources both for export to the industrial countries and for local utilization as inputs in various industrial processes. If, however, we assume that the producing countries will be willing to price natural gas competitively to encourage both local transformation and exports, then the immediately neighboring countries will find themselves in a position of advantage. Whatever the price of the gas at the well-head, its price for the

consumer is highly influenced by transportation costs, and industrial transformation based on gas will be considerably more attractive in locations which are closer to the sources. This advantage may be minimized if the liquefaction technology as adopted for all exports. But in the assumption that at least part of the gas exports from the Middle East will be transported to the European markets via pipeline, countries crossed by such pipelines will gain an advantage the closer they are to the source. Again, this is in particular the case of Turkey, whose geographic position is such that no pipeline to Europe could be built from anywhere around the Gulf without crossing it.

The macroeconomic environment for industrial growth in the Mediterranean.

The pace of industrial growth in each country is significantly affected by the behavior of macroeconomic variables in her regional context. In the case of the Mediterranean, there are three main transmission mechanisms: 1) GNP growth in the region affects the potential for exports of manufactures from each country in a wide range of sectors(1); 2) It affects the intensity and direction of migratory move

(1) GNP growth outside the region typically affects the potential for exports of a limited number of manufacturing subsectors in which the country's industry has a global relative advantage.

ments; 3) in relation to the above two factors as well as through other mechanisms, it affects the balance of payments equilibrium of each country, and the stability of her exchange rate.

The three mechanisms are more or less important, depending on which country in the Mediterranean we take into consideration. They are most important for some of the Southern European countries, and certainly so for Turkey.

The difficulty of proposing quantitative estimates for GNP growth in the Mediterranean is to a large extent connected to the fact that the current supply of econometric models does not include any model which is specifically designed to deal with the Mediterranean region. However the "Interdependence Model" that was submitted by the ENI (Ente Nazionale Idrocarburi) at a conference in Rome between OAPEC and the European Mediterranean countries in April 1981 comes close to our needs and provides a satisfactory quantitative framework (1).

The model considers the complex web of economic interconnections between oil exporters and importers utilizing in particular data for six OECD countries (among which are France and Italy) and ten OAPEC countries (among which are Algeria, Egypt, Libya and Syria). Therefore, this model excludes numerous Mediterranean countries while including others which do not belong to the region. However, it also

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(1) "The Interdependence Model", Chapter I, in: "Development through Cooperation", Vol.II, pagg. 13-26, ENI 1981.

takes into consideration certain global linkages, in order to obtain a limited number of coherent quantitative estimates for other regions of the world. It is therefore useful as a point of departure for making some rough estimates.

This model has been utilized by ENI to formulate two main scenarios - a "trend" scenario and a "cooperative" scenario. The first scenario assumes a continuation of the current conflictual relationship between oil exporters and importers, both as far as the pricing of oil is concerned and with respect to the international division of industrial labor. The second scenario assumes, on the other hand, that there is a degree of cooperation both between exporters and importers and among each of the two groups. It assumes in particular that oil prices will increase at a moderate, gradual and regular pace; that the industrial world will accept the consequences of technology transfers and will not erect barriers against industrial exports coming from the oil producers; that political conflict will not damage growing inter-Arab cooperation at the economic level e.g. effecting migratory movements within the region.

On the basis of the above assumptions, GDP is expected to grow at an average annual rate of 6.2% for the OAPEC region, and 3.3% for the OECD region. If, on the other hand, the conflictual scenario prevails, rates of GDP growth of 3.8 and 2.3% respectively are predicted.

The estimate of 3.3% OECD growth in the optimistic scenario is coherent with an estimate of relatively lower growth for the EEC, because growth in Japan and other non-

European OECD members may be expected to be comparatively higher. A widespread and credible estimate puts EEC growth at around 2.5% per annum in the coming years. This is a customary assumption in energy related scenarios on which current expectations of a relative stability of the price of oil in the coming years are based. It is also the figure that is utilized in the long-term projections of the EEC, although it is not clearly spelled out because of political preoccupations. Although political options and economic policies can change significantly and rapidly, it is warranted to assume today that inflation will remain a predominant preoccupation for the EEC countries. There is little reason to expect that the situation will improve significantly within our century, all the more so because the initial years of the present decade will probably close with an even worse record.

Further data derived from the ENI model put the growth rate of the non-OAPEC countries of North Africa and the Middle East at 7.2%. This growth rate would however not be applicable to Spain, Yugoslavia, Greece and Turkey whose rates of growth should be expected to be considerably smaller, although higher than the EEC average.

The above rates refer to GDP, not specifically to industrial growth. No estimates are available with specific reference to industry. However, some rough guesses can be proposed.

In the case of France and Italy the share of industry in the generation of GDP has shown a long-term tendency

to decline. In the other European Mediterranean countries, the share of Agriculture has been declining, while the relative shares of Industry and the Services have been oscillating, and fundamentally growing in parallel over the long run.

The trend for France and Italy may be assumed to continue in the future, meaning that industrial growth will be slower than GDP growth; if the latter is somewhere around 2.5% p.a., then a reasonable estimate for the industrial sector is a negligible growth of around 1% p.a.. A further consideration is that this growth will not be evenly distributed in the industrial sector. Some industries will continue to expand rapidly, because of the technology embodied in their products or because of the new needs they meet (such as environmental protection). Other sectors will necessarily decline, being hit by an adverse combination of insufficient demand, high interest rates and high energy costs.

Not all the "mature" sectors will be abandoned: in some cases technological improvements and upgrading will be applied to face competition notwithstanding increasing labor costs. It is debatable how fast new applications of microelectronics will enter into production processes and expel labor, but the combination of mediocre growth and labor-saving innovation potential points to a long term process of decline in the industrial workforce, and conditions of serious unemployment overall. The Mediterranean migration pattern will be affected, being increasingly motivated by job discrimination rather than mere overall

shortage of labor. Wages in advanced industrial countries will grow only slowly in real terms (however they might increase more rapidly for blue-collar industrial workers than for the average workforce).

These developments in the European "core" will affect the Mediterranean countries in a contradictory way:

- on the one hand the slow overall GNP growth will necessarily act as a limitation to GNP growth in the Southern European countries. Barring a policy of competitive devaluations, which would lead to disastrous consequences on inflation, as the case of Italy in the mid seventies has shown, the Southern European countries will be confronted with a balance of payments problem whenever differential rates of growth exceed a certain maximum limit. The maximum affordable differential is a function of the competitive potential of each Mediterranean economy.
- At the same time, the process of slow industrial growth in the advanced countries may leave relatively greater market space for industrial exports from Southern European countries. The extent to which this will hold true depends on a number of complex factors, among which:

a) the relative importance of anti-inflationary measures that affect demand or investment; if industrial investment is discouraged more than demand for industrial goods, then greater market space is created for imports;

b) the competition from industrial exports of countries outside the Mediterranean, mainly the Eastern European

countries and the South East Asian NICs;

c) the adoption of directly or indirectly protective measures in favor of domestic producers to alleviate social problems in the short term (1).

Thus, as far as the other Mediterranean European countries are concerned, it is rather clear that the path to industrialization will be uphill.

To some extent different growth rates may be accompanied by substitution of imports or large increases in exports, which may allow a growth differential to be maintained without a deterioration in the balance of trade.

Yet experience in recent years shows that the differential in growth rates that may be attained without incurring severe payments problems is limited and insufficient. All Mediterranean countries have resorted to policies aimed at widening that differential, but the results have proved unsatisfactory: governments are frequently obliged to adopt restrictive measures because of balance-of-payments considerations.

It should be added that in most European Mediterranean countries the process of relative decline in agriculture has

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(1) It is my opinion that a sharp increase in protectionism is unlikely because of its inflationary impact, which is well understood in many countries. However, it is worth noting that the issue of protectionism is constantly brought up when discussing NICs' development prospects. This was the case, for example, both at the Rome seminar on "Development through cooperation", and at a seminar on "International Industrial Restructuring and the EEC Periphery Countries" which was held in Sesimbra, Portugal, October 22-24, 1980 (reported in UNIDO/19.201 p. 5).

reached a stage in which it may be assumed to slow down and cease to be a significant factor. Turkey is an exception from this point of view, and we will come back to its case. Furthermore, these countries will face difficulties because of the rising income and welfare expectations of the labor force, leading to a deterioration in the terms of trade. Thus it is perhaps reasonable to expect that if we rather optimistically put the GDP growth rate at around 5%, industry will grow at a slightly slower pace, of around 4.5% - which, after all, is the historical average for the OECD in the good years prior to the seventies.

In the case of Turkey, on the other hand, we should expect industry to grow faster than GDP, because the share of agriculture is still very high and because industry should prove more attractive than agriculture. Therefore, and assuming that adequate international market conditions are maintained, an industrial growth rate of up to 7% p.a. is not to be ruled out for Turkey.

As far as the Arab oil producers are concerned, the speed of industrial growth should also be expected to be higher than GDP growth, especially in a scenario of moderate increases in the price of oil. The oil sector has a variable but generally large share of GDP today, and it is to be expected that this will decline in relation to industry. A GDP growth rate of 6% is thus consistent with a much higher rate of growth of the industrial sector.

In the case of the non-oil-exporting Arab countries, it may also be expected that industry will grow faster than GDP,

essentially because of the decline of the agricultural sector, but the differential should not be as large as in the case of the oil producers. As, however, the ENI simulations propose a GDP growth rate for these countries which is actually higher than that of the OAPEC countries, we may simplify our view by assuming a single rate of industrial growth for the Arab Mediterranean countries which may be as high as 10% p.a. if the political conditions are favorable.

Thus we are led to the following picture for Mediterranean industrial growth:

	Average annual growth rates of industrial value added
France, Italy	1%
Turkey	7%
Other Med. European countries	4.5%
Arab Med. countries	10%

On the basis of the above considerations we may conclude that Turkey will face a regional macroeconomic environment that will have contradictory consequences on her industrialization process. The chances for migration to the Western European countries will be reduced, while the occasion to export manufacturing products to the Arab countries in the Middle East and North Africa will increase rapidly. At the same time Europe will continue to offer for a long time the most diversified and promising market for manufacturing products,

in which Turkish industry might more easily gain a share which, although possibly small in relation to the size of the European market, may allow a significant growth in Turkish industrial production.Finally, it appears that the most immediate danger for the process of industrialization in Turkey comes from the difficult equilibrium in the balance of payments, which may lead to recurring exchange crisis.

Multinational corporations, Mediterranean industrialization and the case of Turkey.

A further point of view on Mediterranean industrialization from which the position of Turkey appears to stand out rather favorably is that of the multinational corporation.

Historically, multinational corporations have paid only marginal attention to the Mediterranean in the geographic distribution of their global investment policies. On the European side, multinational investment was concentrated heavily in the non-Mediterranean countries and regions. The best explanation for this pattern is that it is was attracted by the proximity of large, fast growing markets. On the Arab side, multinational investment was concentrated in the sector of petroleum and minerals, but was almost irrelevant outside of it. In determining this outcome a number of factors were at work: lack of infrastructure, insufficient market size, lack of supply of trained industrial labor, the role of state-owned enterprises in some sectors where multinational

also operate.

In recent years the multinational corporations which are mostly based on extractive activities have suffered serious setbacks. The large international oil companies have lost control of almost all their previous property in the Mediterranean. On the other hand, multinational companies that are active in manufacturing products for the mass market are thriving. The tendency to assimilate the consumption patterns of the more industrially advanced countries ensures that they will face a fast growing market in the Mediterranean.

There is no doubt that market-oriented corporations will be the most dynamic component of foreign investment in the Mediterranean, and it will affect all countries in relation to the size of their respective domestic market, i.e. population and population growth, and income per capita. Although considerations of political or economic instability may discourage investment in this or that Mediterranean country at some point in time, in a twenty-year perspective it would be most surprising if these corporations had not established a foothold in each Mediterranean country.

This type of investment will play a particularly important role in the case of Turkey and Egypt, because of the size of their respective populations and the speed of population growth; good access to the markets of their neighboring countries further increases their attractiveness.

The distribution of market oriented investment is influenced by: a) the economies of scale which are technically

possible; b) the extent to which adaptation of the product to the local market is necessary; and c) the transport costs. If adaptation is necessary and the cost of transportation is high relative to the sales price, investments will be made even in relatively small national markets. The larger are the economies which can be obtained by increasing the scale of production, the greater are the incentives to concentrate production in the larger national market and from these serve the other with exports.

Thus we may predict that market-oriented foreign investment will be important in all Mediterranean countries, but only a few will attract the full range of enterprises. This is today the case of Italy, France, Spain and Yugoslavia, and will in the coming years be the case of Turkey and Egypt. The one sector where economies of scale are most important is automobiles. Although assembly operations might be present in a large number of countries, actual manufacturing activities in the automobile sector will be concentrated in the countries just mentioned.

Local market-oriented investment will continue to be the predominant from of MNE presence,even more so than it has been in the past. Not only market-oriented corporations will essentially engage in this kind of investment; the same holds true to some extent for resource-oriented corporations and even more so for the technology-oriented companies.

All countries will attract this type of investment, and the amount of investment that each country will receive will

essentially be proportionate to her market size and expected growth. Shifts from this norm may take place in cases where a particular government is strongly hostile to foreign investment or there are dangers of political or economic instability. The latter however play a role only at the time of first entry, and are much less relevant thereafter.

One may therefore formulate quantitative estimates of the future importance of this type of investment for each country on the basis of past experience and expected growth in the domestic market size. This would give an acceptable estimate even if it would ignore the possibility that a "follow the leader" type of behavior might fuel a rush of MNE investment towards individual countries. Given appropriate political and economic conditions, a wave of foreign investment might indeed invest Spain already in the 1980s, Turkey in the 1990s and Egypt towards the end of the period under consideration.

Finally, we must consider the "export base" type of investment. Indeed, in all advanced industrial countries a tendency is already clear to decentralize those production processes that are most labor-intensive, and where the introduction of labor-saving innovations is either not very simple or just not extensively pursued.

While it is clear that both American and Japanese corporations would have no interest in decentralizing to the Mediterranean because of the availability of more convenient export bases in S.E. Asia or in Latin America, the question is: to what extent will the Western European companies decentralize to the Mediterranean?

The most likely answer is that, as has happened in the past, this kind of investment will remain a very marginal phenomenon except for a limited number of countries. It should be kept in mind that: 1) although many Mediterranean countries have a problem of chronic unemployment and their populations grow very rapidly, still the supply of industrial labor is not generally abundant if a comparison is made with countries in S.E. Asia, 2) although wage levels are low relative to N. European standards, they are not so in comparison with other LDCs; oil exports generate a tendency to a relatively high level of wages even in conditions of excess labor supply, and the same appears to be true with membership in the E.C. (in other words, new members tend to lose their wage differential advantage). 3) Finally, W. European countries have alternatives to the Mediterranean, most notably in the East European countries, in S.E. Asia and, to some extent, in Latin America.

The most likely outcome is that export-base investment will remain limited, and become a relevant factor only for a very few countries: Tunisia, Cyprus, Malta. It might become a relevant factor in Turkey and Egypt if these two countries are confronted with negative balance-of-payments conditions for so long a period that growth of their domestic markets is effectively interrupted. In the case of Egypt it might also become a relevant factor in the proximity of the Suez Canal, if plans for its further upgrading go ahead. Egypt, as well as Tunisia and to a lesser extent Turkey, might also be regarded as a regional export base by Japanese corporations

in fields such as consumer electronics.

In summary, we may reasonably expect that multinational corporations will play a greater role in Mediterranean industrialization than they did in the past. This is particularly true in the case of Turkey, which appears to be very well positioned to receive a wave of foreign investment in the 1990s.

At the same time, it should also be clear that multinational corporations will not be the driving force of industrialization. They will manifest greater interest for those economies whose domestic markets are sufficiently large and rapidly growing to provide a solid base for export operations to the surrounding region. The type of export-base investment that is common in some S.E. Asian countries, and a feature of the export-led industrialization model as it has been traditionally conceived, will be an exception in the Mediterranean environment, acquiring relevance only for the smaller economies. For the larger industrializing economies, such as Turkey or Egypt, this type of investment will necessarily play a marginal role, although possibly locally important (in certain districts or subregions).

Further microeconomic aspects of industrialization in the Mediterranean.

Before coming to a conclusion, I wish to point to three aspects of industrialization problems in the Mediter-

ranean which are of particular relevance to Turkey.

The first aspect relates to the role of State-owned industrial enterprises.

The public sector has played in the past a crucial role in the industrialization process of almost all Mediterranean countries, and will continue to do so in the future. Although some countries are gearing their industrial policy towards leaving greater opportunities to the private sector, the basic model of mixed economy is nowhere fundamentally questioned. Indeed one wonders if it could possibly be reversed even by the most private-business-minded government. State enterprises will play a leading role in the industrialization of the less advanced Mediterranean countries, particularly in the sectors that produce intermediate goods requiring large-scale facilities, the backbone of any process of industrial growth. In the advanced Mediterranean industrial countries state enterprises already have a dominant position in the sectors mentioned above, and are also engaged in technology-intensive sectors where excessive dependence on foreign corporations is feared. This creates both dangers of conflict and opportunities for cooperation; in a nutshell, the outcome will depend on: a) how fast state enterprises of the less advanced countries succeed in expanding production in the "backbone" sectors; and b) to what extent state enterprises of the advanced industrial Mediterranean countries will redeploy their resources from those same sectors to the technologically advanced ones.

In recent years public enterprises have come under

increasing criticism in numerous Mediterranean countries. Because they are involved prevalently in some of the sectors worst-hit by the global economic crisis, they have accumulated very large losses. The negative turn in their fortunes has fuelled accusations of inefficiency and mismanagement, and calls for a return towards private initiative. Italy, Turkey and Egypt are examples of countries where this change in public opinion is perhaps most apparent.

It is important to stress here that, although inefficiency and waste are often present in public enterprises, they still perform an essential role in the production of intermediate goods, and to some extent in advanced technology goods, which will not and could not be substituted for by private industry.

Indeed, private and public enterprise live in a symbiotic relationship much more than in a mutually exclusive one. In most countries, private enterprises are simply absent from the sectors in which public enterprises operate, or specialize in certain very specific lines of production.

Furthermore, in the experience of many Mediterranean countries it is not the large corporations which are the most dynamic section of the private sector. An increasing role in the industrialization process is being played by small and medium industrial firms that are not in any way competitors or alternatives to large state enterprises. As far as the large private companies are concerned, most of them are increasingly obliged to plead for public support

from their respective governments, and their private nature is more the outcome of deliberate government policy than an accurate description of economic realities.

The necessary function of public enterprises also raises a danger. This is that the development of those sectors in which their role is necessary will follow rigidly national lines. Besides the acute danger of conflicts which are implicit in such a development, one cannot forget that this would lead to an increasingly fragmented Mediterranean Community.

For this reason it is very important that a network of cooperative relations be established between public enterprises of different Mediterranean countries. The regional dimension is in this case particularly relevant because of the nature of the markets in which many public enterprises operate.

A second aspect relates to the role of smaller private enterprises. These are often forgotten in discussion on future industrial growth because there is normally little statistical evidence, while the investment plans and growth prospects of the large-scale industrial sector are generally best known, because of the abundance of data and the long lead times that most investment projects require.

There is also a traditional approach which tends to attach a negative value to a large relative weight of small-scale industry.

However, in some countries, and most notably in Italy, it has recently been increasingly argued that the small-scale

private sector may very well be an asset, not a liability. In relation to the rest of the Community, the average size of firms in Italy is considerably smaller, and contrary to the experience of other European countries the trend is not towards increasing concentration. Yet it is now clear that not all small-scale industry is backward: a section of it is indeed very advanced and capable of very high rates of growth.

Indeed, the tendency to locate giant plants in the less developed regions of the Italian South has been criticized because the result is the destruction of the complex tissue of small-scale economic activities. In the end, the large-scale steel or petrochemical plants became "cathedrals in the desert", and the life of the region of installment became highly vulnerable to a crisis in one sector or company.

Scattered data from other Mediterranean countries seem to show that the dynamism of the small-scale industrial sector and its growing contribution to industrialization is not only an Italian experience. Similar developments are taking place in Spain, Yugoslavia and Greece, to the point that we might hypothesize that this will become a characterizing feature of industrialization processes in the Mediterranean.

This development is not surprising in view of the fact that in most, if not all, Mediterranean countries there is a timeless tradition of entrepreneurship in trade and a sophisticated handicrafts sector. The return of blue collar migration from the advanced industrial European countries is

also an important factor in some countries.

It is very difficult to formulate forecasts on possible growth of small-scale private industry, but it would certainly be a mistake to forget about it. Indeed we must in general raise the question whether the structure of industry in the Mediterranean countries will necessarily replicate that of the U.S., Japan or the advanced industrial European countries. Quoting from G. Fuà, "there is a general reason for expecting that the structural evolution of the lagging economies will not be the exact replica of the evolution of the economies which have preceded them. Even if the endogenous forces of development were equal in both cases (a far-fetched hypothesis, indeed) the milieu with which these forces interact has been modified, if only because of the development which has taken place meanwhile in the advanced countries" (1).

Elsewhere (2), Fuà notes that there seems to be a trend for countries with lagged development to adopt policies favoring concentration rather than diffusion which he believes to be commonly irrational from the economic point of view.

He further argues that small firms are specially desirable because they play a useful role in increasing the flexibility of the aggregate productive structure,

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(1) G. Fuà, "Lagged Development and Economic Dualism", Banca Nazionale del Lavoro Quarterly Review, June 1978.

(2) G. Fuà, "Problems of Lagged Development in OECD Europe: a Study of Six Countries", mimeo, p. 41 segg.

and because of their irreplaceable role in providing employment. It is therefore very important to formulate policies aimed at sustaining the growth of small industrial firms.

A third aspect relates to the connection between industrial growth and migratory flows.

The prospects for migration in the Mediterranean are strongly different in Europe and in the Arab countries. While in the latter there is a widespread expectation that migration from countries with large population and little or no oil resources to the sparsely populated major oil producers, will continue to be a prominent factor (as it is now); in Europe migration will not be as massive a phenomenon as it was in the past. We argued elsewhere that industrial growth will be slow in the advanced industrial markets, and this state of affairs is likely to be coupled with a stabilization - or even a reduction - in the presence of foreign workers.

The stagnation or gradual erosion in the number of migrant workers will necessarily tend to change the structure of the balances of payments of the European Mediterranean countries, gradually reducing the importance of worker remittances. This will tend to exacerbate the "foreign exchange gaps" and the need for long-term international financing of the industrial growth of the European Mediterranean countries.

On the other hand, a flow of return migration will become more important. It is often complained that migration

subtracts from the country of origin the best part of its labor forces; and conversely, that the main advantage of migration for the country of origin is that migrants acquire skills during their stay abroad. Both statements are challenged on empirical grounds, but never wholly denied. In other words, it is a fact that sometimes migration leaves at home a population exclusively composed of women, elderly people and youngsters, whereby any chance of industrial development is lost. It is also a fact that some of the migrant workers, although possibly only a relatively small percentage of the total, acquire valid skills and are able, when returning to their country of origin, to contribute to industrial development.

It is of course impossible to quantify the net benefit that may accrue to the Mediterranean countries from a balancing of outward and inward migration; it is however important to underline that from the point of view of industrialization, and provided that the foreign exchange gap can be closed in some other way, the end of a net outflow of workers may be a positive development. This would tend to suggest that governments of the Mediterranean countries should not attempt to secure outlets to migrant workers in advanced Europe countries at all costs. They should rather try to "manage" migration in order to maximize the benefits of acquiring a skill abroad, which implies on the one hand trying to maximize the training of migrant workers, and on the other taking steps in order to stimulate the return of those migrant workers who have acquired useful

skills.

These considerations are important for the industrial growth of all Mediterranean European countries, but are especially important in the case of Turkey, because the issue of migrant workers is a difficult one with respect to the EEC, and both availability of foreign exchange and eventual accession to the EEC are very important to the future of Turkish industrial growth.

C O N C L U S I O N

Only too often, industrialization policies are discussed in terms of a sharp opposition between import substitution and export-led growth. This has also been the case for Turkey in recent years, and the regional environment that was discussed in the pages above provides, to a certain extent, an alternative point of view.

It seems to me that it has never been more clear that there is no contradiction between import substitution and export promotion, and that developing countries should do both. Indeed today all countries, including the industrial ones, are enacting policies to reduce dependence on oil imports; this is import substitution, isn't it? The literature has for a long time recognized the merits and the limits of the infant industry argument: protection is a necessary stage but has a tendency to last too long. What this means is simply that a badly conceived import substitution policy will not succeed - but the same is not true

for any import substitution policy. As far as export promotion is concerned, it may be a promising alternative if the country is endowed with the right kind of resources and has access to good markets. For both aspects the regional environment is essentially important.

The discussion that we proposed in the previous pages points to a qualitative change in the regional situation of Turkey, and overall a moderate improvement of it. But the qualitative change is more important (slower growth in Europe, faster growth in the Arab world, energy supplies, attraction for multinational corporations etc.) and justifies a redefinition of industrialization policies in which relatively more emphasis is laid on export promotion and greater selectivity is used in import substitution of manufactured goods through protectionist barriers to trade. The new policy is not right per se, it is right because the regional environment is favorable to its success. If the environment were to change drastically, the policy would need to be revised. This, however, is an unlikely occurence.

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