

Turkish Economic Policies and External Dependency

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By

Hasan Saygın and Murat Çimen

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P U B L I S H I N G

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by Hasan Saygin and Murat Çimen

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To the 90th anniversary of the foundation of the Republic of Turkey

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PREFACE

Since the 1950s, the Turkish economy has been facing crises periodically. Decisions taken after the crisis had not only economic but also social, political and diplomatic consequences.

Total independence was considered the main principle; economic independence was one of the substantial criteria of that main principle, and economic policies were based on it.

In this book, economic independency level at which governments can take independent decisions is defined in terms of macroeconomic variables based on which a model is developed.

The book aims to analyse the economic policies of Turkey from an economic dependency perspective, identify the macroeconomic variables affecting economic dependency, and develop an alternative economic policy considering all of these.

Therefore, for structuring the model to be proposed and define the policies, it is crucial to discuss economic policies particularly in the post-1980 world and their consequences, together with their impacts on Turkey, crises and main variables of the crises, and also compare the economic policies of the Republic period and their consequences as well.

In the book, it is intended to develop an independent economic structure where Turkey can act in her own interests.

CHAPTER ONE

TURKISH ECONOMY: AN INTRODUCTION

From an economic history perspective, human communities have bought and sold goods to each other for a long time, and in this way, various capital accumulation processes and centres were established. In this book, economic dependence is analysed from this perspective, and it is not defined as totally self-enclosed or an internal economic system. In the historical process, it is not perceived as possible. Buying or selling goods to other nations within the economic system (export and import) has not been directly assessed from a dependency perspective, but dependency has been assessed in the perspectives of foreign trade and current accounts, capital movements, industry and energy resources.

From an applied economic policy perspective, Turkey, with the establishment of the Republic in 1923, has followed policies different from its successor, the Ottoman Empire. In the War of Independence, full independence was put forward as the primary condition of living, development and existence with the sixth article of the National Pact, which objected to political, legal, financial, and all limitations that would hinder the development of the country. It was the prevailing view in the first years of the Republic that Ottoman Public Debt Administration, capitulations, privileged foreign capital and foreign borrowing were considered as the main reasons for the loss of the country's financial and political independence. While Ottoman administration was held responsible and foreign borrowing was avoided; and while foreign capital investments were regarded positively with the condition of their compliance to the sovereignty rights of the country, all the privileges requested by foreign capital were rejected (Cosar, 1996a). However, in post-World War II era, Turkey was placed in the West both in political and economic terms, adopted international free trade doctrine, released protective measures, and rearranged foreign exchange rates.

The Republican People's Party abandoned statist policy after the 1947 Party Congress, also foreign borrowing was perceived positively more in

this period, and military aid by Truman Doctrine (1947) and economic aid by Marshall Plan (1948) were received (Cosar, 1996b and 1997). After 1950, in order to benefit from the Marshall Plan, a growth policy based on the branches of light industry and agriculture was envisioned and a perspective claiming that planning is not essential was prominent (Cosar, 2005). Although aimed at limiting the role of the state in Turkey, development through increasing public investments and private sector development was targeted, policy based on foreign aid and foreign capital was perceived in the years onwards. Despite some methodological differences, this policy is still relevant. After 1960, the import substitution model, which is also the prevailing perspective in the world, was adopted in order to overcome trade deficit stemming from the economic model based on fixed exchange rate regime and external sources (Ural, 2003, Soyak and Eroglu, 2008). In the import substitution industrialization model, increase in demand for durable consumer goods was met within the country through the contribution of foreign capital, but these manufacturing branches became externally dependent on basic inputs (Yurdakul, 2001). Three main reasons of external dependence in the economy were defined as increase in the weight of industry which was founded externally dependent and called as assembling industry, external dependence in energy due to oil and agriculture being dependent on weather conditions (Yurdakul, 2001). Near the end of the 1970s, the import substitution model blocked by rising prices in energy and growing external debt and trade deficit was abandoned in 1979-1980 with the emergence of neo-liberal policies, called the Washington Consensus comprised of deregulation of the economy via foregrounding market economy, downsizing the state in the economy, and liberalisation of trade and capital movements (Yurdakul, 2001, Mangir, 2009, Ural, 2003). Turkey, adopting neo-liberal policies with the 24th January 1980 decisions, liberalised the trade through free market economy and export substitution model; in 1989, financial liberalisation was also realised through liberalisation of foreign exchange transactions and capital movements with the Decree No 32 on the Protection of The Value of Turkish Currency. From 2000s onwards, the economy is fully integrated with the global economy. Despite the fact that Turkey was ranked as the 17th biggest economy in the world by the end of 2008 in Gross Domestic Product (GDP) figures, trade and current account deficit has become chronic in the country, and economic growth became dependent on external sources after 1980 and particularly due to the economic policies following 1989 (World Bank, 2009, Treasury, 2008a, 2008b, 2008c). Turkish economy, with its outward oriented economic policy and externally dependent industrial

structure became dependent on external sources and exporting to the same markets to pay back such sources (debts) (Yurdakul, 2001). Growth based on import and external sources instead of domestic sources or capital accumulation (foreign trade or current account surplus) created the dilemma of growth-balance of payments deficit (Ekzen, 2008). Such a structure led Turkish economy periodically go through economic crisis based on internal causes and also made it susceptible to crisis originated externally. Trade and current account deficit became chronic; however the budget had current account surplus in crisis years (as in 1994 and 2001) (Treasury, 2008a, 2008b, 2008c).

In these periods, achieving growth right after economic shrink coupled with growth in the balance of payments and current account deficit reflects structural problems in the economy. The need for external sources for economic growth appears to be the most significant cause of economic and political crisis. Economic dependency does not only lead to economic consequences, but also influences the decisions on domestic and foreign affairs about the security of the country in international arena. Likely to cause significant problems for the security of the country, such a situation prevents policy design, prioritizing national interests in foreign affairs, military and security issues.

Notwithstanding the aforementioned negative factors, Turkey is located in a geopolitically important place in the 21st century while the need for energy in the world has been increasing. Turkey is located on an alternative route to the Russian Federation in the East-West corridor that is the transit area for the transferring oil and natural gas, which are decreasing energy resources, from the producing to the consuming region. Except for Russian Federation, Turkey is the only country in the region ranked among the top 20 economies of the world (World Bank, 2009). Despite the fact that Turkey is not rich in fossil-based energy resources other than coal, and coal resources requiring special burning techniques due to high sulphur and low calorie, Turkey has a significant industry and economy in the region. Turkey's ability to mobilize the geopolitical potential is subject to the strong economic structure.

However, the current structure of the Turkish economy is dependent on foreign capital for growth, and considering the young population, it poses a problem. It will be hard for Turkey to use geopolitical potential with such an economic structure. Noting all of the aforementioned facts, it is critical to design economic policies changing the externally dependent structure of the Turkish economy. It can be realised only if the main factors of external dependency are defined and policies to eliminate them are designed and implemented.

Within such a framework, this book aims to analyse the economic policies of Turkey from an economic dependency perspective, identify the macroeconomic variables affecting economic dependency, and develop an alternative economic policy considering all of these. Therefore, for structuring the model to be proposed and defining the policies, it is crucial to discuss economic policies, particularly in the post-1980 world and their consequences, together with their impacts on Turkey, crises and main variables of the crises, and also compare the economic policies of the Republic period and their consequences as well.

CHAPTER TWO

ECONOMIC POLICIES IN THE POST-1980 WORLD AND THEIR CONSEQUENCES

1980 was an important year not only for Turkey but also for the whole world, being the year of radical changes in economic mentality. Particularly, state intervention and the development plan model were recommended to the Developing Countries (DC) by the World Bank after World War II for development (Soyak and Eroglu, 2008, Yeldan, 2002). According to this model, recommended in 1980s, it was essential to increase savings and investments in order to solve underdevelopment, it was recommended to implement the development plan based on domestic demand instead of external demand in DC. Requirement to realise several projects for growth and deficiency of domestic savings in DC made foreign financing inevitable. Besides, the dependency approach perceived in the framework of the ECLA-The Economic Commission for Latin America, established under the umbrella of the United Nations in 1948, correlated underdevelopment with the world order and attributed to the external causes and structural dependency. In this perspective, free foreign trade was functioning to the disadvantage of developing countries, and it was recommended to implement an industrialisation policy based on import substitution for peripheral countries with a negative trade balance due to the integration to the free trade system based on comparative advantages and free foreign trade (Soyak and Eroglu, 2008).

Since the 1970s, major falls in the growth rates due to oil crisis and problems in the external debt repayments in DCs, the solution to the depression was identified as capital entering into the investment areas and capital globalisation (Yeldan, 2002).

By 1978, the International Monetary Fund-IMF, the World Bank and the United States of America (USA) reached a consensus on a reform package for Latin American countries, called the Washington Consensus by John Williams in 1990 (Ertuna, 2007, p. 28). Since the beginning of the 1980s, it is observed that the World Bank has changed its policy by the consensus with structural adjustment based on the theory of comparative

advantages. This perspective, called neo-liberalism, Bella Balassa, consultant to the World Bank in those years, and Anne Krueger supporting him, emphasized the failure of import substitution policies and argued for the abandonment of protectionism and integration of the world economy, in line with the comparative advantages. The World Bank recommended structural adjustment programs within this framework and cooperated with the IMF (Soyak and Eroglu, 2008).

The series of economic and political decisions, called the Washington Consensus, is a standard market-oriented neo-liberal reform package with 10 articles recommended for the developing or less-developed countries (Soyak and Eroglu, 2008). The main articles of the reform package are listed below (Ozdemir, 2009a, Soyak and Eroglu, 2008):

- a. Financial discipline,
- b. Public spending for high return and adjusting income distribution (healthcare, education, infrastructure),
- c. Tax reform (low rate wide tax base),
- d. Set interest rates in the market,
- e. Competitive foreign exchange policy,
- f. Free foreign trade regime,
- g. Liberalisation of foreign capital,
- h. Privatisation,
- i. Deregulation (eliminating the entry-exit barriers in the markets),
- j. Assuring ownership rights.

The precondition of financial aids by the IMF and World Bank after 1980 is the structural adjustment which is a set of free market-oriented economic policies consisting of the above-mentioned ten articles. Structural Adjustment, conditions of the credits given by the IMF and the World Bank within the framework of aforementioned policies is as follows (Soyak and Eroglu, 2008):

- a. Liberalisation of imports,
- b. Devaluation,
- c. Promoting exports,
- d. Eliminating or decreasing the support for agricultural sector,
- e. Arranging tax system,
- f. Decreasing public expenditure,
- g. Restructuring, privatisation, closing State Owned Enterprises (SOEs),

- h. Liberalising interest rates and reorganising monetary policy instruments.

IMF and World Bank policies were based on neo-liberal ground with the belief that problems in the economy would be solved within a free market framework, it was aimed at downsizing the public sector, liberalisation of the foreign trade and financial markets (financial liberalisation) and opening them for foreign capital, and brief structural transformation through the price mechanism with such policies (Soyak and Eroglu, 2008). It is asserted that an economic atmosphere to periodically pay back at least the interest of the external debts by the DCs and ensuring consistent borrowing phenomenon is targeted (Soyak and Eroglu, 2008).

The most crucial factor of such structure is short-term capital movements (hot money) aiming at benefitting from disequilibrium between the interest and exchange rate. Despite unavailability of a generally accepted definition for hot money, it is known that it has speculative, short term and fluid characteristics, and economic instabilities occur due to such characteristics. The most crucial point of such instabilities is overvaluation of national currency in an excessive foreign currency situation originated from short term foreign capital movements. Hot money movements are headed towards relatively high real interest in national markets resulting in short term foreign currency abundance, and this in return results in overvaluation of the national currency against foreign currencies. In this way, while importing gets cheaper, exporting sectors regress and the current account deficit grows. The economic growth attained under these circumstances is externally dependent and artificial.

Disruption of the critical equilibrium between real interest and foreign exchange rates causes a sudden breakdown in the economy and it does not leave room for central banks to follow an independent monetary interest and exchange rate policy. In an economy completely open to international capital movements without any restriction, interest and exchange rates turn into a single financial factor through combination, and it disables implementing an independent development strategy consisting of strategic investment and trade targets. Neo-liberal policies and “developing countries” concepts occur in the literature and they are replaced by the “emerging markets” concept. The development model formed within this framework is an outward-oriented structure providing high financial return through tight monetary and financial policies, with lowered devaluation risk. In this structure, the central bank with independent form is only assigned to the duty of protecting the national currency value, and

financial policies are directly targeted to the budget with primary surplus. While the borders of public sphere are downsized through cuts in public consumption and investment, all traditional non-profit social infrastructure activities of the public sector become the field of private sector activity (Yeldan, 2002). The above-mentioned economic structural change implementations actually form the stages of the New World Order. The three stages for establishing the New World Order are as follows (Ertuna, 2007, p. 28):

- a. First stage, adopting liberal market economy in the world and particularly in underdeveloped and developing countries,
- b. Second stage, incorporation of rules and institutions of the capitalist liberal market economy serving for the interests of wealthy countries,
- c. Third stage, transformation of economic ideals into political dominance.

Stages do not follow a time sequence, and they can occur in the same time period simultaneously. After 1980, the new economic thinking began to be adopted in the world by World Bank and IMF, and within this framework, free market economy was spread through the requirements of the aforementioned stages in return for financial aid.

Dissolution of the Union of Soviet Socialist Republics (USSR) after 1990, the collapse of socialist economic regime and popular wisdom on the victory of the liberal market economy offered great opportunities for the World Bank and IMF to implement market economy rules, and the main principles of the Washington Consensus, such as liberalisation of foreign trade, liberalisation of capital markets, privatisation and adoption of the principles of the free market to be implemented in former Eastern Bloc countries (Ertuna, 2007, p. 30). One of the crucial steps in these policies is privatisation. In developing countries, SOEs work in strategic manufacturing fields which generally consist of investments in infrastructure sectors, namely transportation, telecommunications or energy. High capital cost requirement of investment in these fields prevents the private sector, particularly in developing countries, from making such strategic investments in these fields. The aim of the privatisation strategy is strategic infrastructure investments and privatisation is the most important instrument used by global companies to dominate infrastructure sectors such as energy, telecommunications and transportation in developing countries. In privatisation of high cost infrastructure investments, global companies have sufficient capital power (Ertuna, 2007, p. 31).

In the second stage, incorporation of rules and institutions was realised by the enactment of the GATT-General Agreement on Tariffs and Trade in 1994 and the World Trade Organisation (WTO) was established for the execution of the agreement. Final negotiations before its signing took 7 years, and in the meetings, known as the Uruguay Rounds, negotiations were located on two main points (Ertuna, 2007, p. 31):

- a. Waiving the quotas on the products of textile sector,
- b. Restricting agricultural subsidies.

Countries split in half on these issues. Despite the fact that required quotas in textiles was not an implementation hindering foreign trade, while the USA defending liberalisation in trade was against the removal of the quotas, DCs requested the removal in order to sell more textile products. Although the USA adopted completely the opposite attitude in agriculture and asked for the removal of subsidies, Europe and Japan were against that. After all, the main factors in the GATT agreement are as follows (Ertuna, 2007, p. 32):

- a. Free movement of goods and services between countries were held; all the barriers in inter-country movements of goods and services were eliminated.
- b. A complete agreement was reached in the liberalisation of inter-country capital movements.
- c. No decision was reached on free movement of labour.
- d. Intellectual property rights were entirely protected. These rights are brand, design, printed circuits, copy rights, local images, etc. and they provide monopolistic advantage to the owners.

Thanks to the GATT, developed countries holding intellectual rights like brands, fashions, designs and information had the opportunity to manufacture their branded products under this protection in any country where it could be manufactured at the lowest cost and they could sell them at any market in the world at the desired price to make the highest profit (Ertuna, 2007, p. 32).

Within the framework of the Washington Consensus, implementing free market economy rules in Asia, Latin America and former Eastern Bloc countries resulted in an inflow of debt and speculative capital, called hot money into the economies of DC, but growing trade deficits and the financing of such deficits through hot money caused crises in Turkey and Mexico in 1994; in Asia, Russia and Brazil in 1997 and 1998 and in

Argentina and again in Turkey in 2001. It is observed that these crises occurred due to the implemented economic policies and free capital movements.

Due to the consequences, one of the most important criticisms on the economic policies proposed by the Washington Consensus is that free markets are not a fundamental element of growth. It is argued that for sustainable growth and long term efficiency, equilibrium between state and market should be ensured, and companies and economies both should be controlled to a certain extent (Stiglitz, 2002, p. 276, 278). Consequences of main justification for the Washington Consensus, sustainable growth and “Stability Assurance, Privatisation and Liberalisation” implemented in 1980 onwards, are analysed in various studies. Results of these analyses are listed in five main topics (Rodrik, 2006):

- a. In the economies in transition from socialist to free market economy, unexpectedly large economic collapses occurred and even in a period exceeding 10 years, these economies could not reach their GDP in 1990.
- b. Despite significant improvements in major political reforms, political and external effects and continuing aid, no economic development occurred in Sub-Saharan countries and economies became more vulnerable compared to previous years.
- c. Due to unforeseeably rapid capital outflow in Latin America, Russia and Turkey, frequent and deep economic crises broke out.
- d. Improvement in the first half of the 1990s was short-term and despite abandoning state-based populist and protective regime policies, an increase in GDP per capita in 1990s remained below the average of the period 1950-1980.
- e. Argentina, cited as the best practice, encountered a very serious economic crisis in 2001.

As mentioned above, while crises occurred in countries with free market economy implementations in 1990s, however, contrary to expectations, China, India and a few Asian countries experienced just the opposite situation, and with the steady growth, the number of people living under the poverty line decreased both as a percentage and in absolute figures (Rodrik, 2006). These countries implemented policies contrary to the Washington Consensus features (Rodrik, 2006):

- a. High level of commercial protectionism,
- b. No privatisation,

- c. Extensive industrialisation policy implementations,
- d. Loose financial and monetary policy implementations.

All of these developments were a source of criticism for the recommended policies. Free market economy is now questioned, despite the fact that complete detachment from the system is not possible, a tendency to the new approaches is observed and it is argued that agreement on Washington Consensus is over (Cavanagh, 2009).

Studies are conducted on the problems faced during implementation to explore the causes. Main factors are listed as attempting to implement the same policies in any environment and disregarding differences; decreasing budget deficit, inflation and custom tariffs; increasing financial liberalisation and privatisation of everything; insistence on fixed targets, disregarding dynamic factors triggering growth due to predictions on efficiency if loss makers are shut down (Rodrik, 2006). In quantitative studies on the countries in and out of transition, it is reflected that structural changes mostly have a lower impact on growth (Olken and Jones, 2005). Also, effort on comprehensive structural reform may result in unrealisable and insistently implemented policy which has negative results. Russia and China are given as examples. It is indicated that the environment in Chinese investments, which is restricted and possible only in partnership with state enterprises, is more successful than the Russian investment environment which is similar to the European one. It is argued that the reason behind this is investors' feelings that investment and profits will be protected more when they cooperate with state enterprises in China, instead of being located in an insufficient and corrupt legal structure in Russia. It shows that the targeted goal (here it is the protection of the investor rights) sometimes should be reached by different means, taking environmental conditions into account (Rodrik, 2006).

Another reason for questioning the Washington Consensus is that the global system and its regulatory bodies (IMF, World Bank, WTO) have the power of sanction on DCs, but not the power to determine and address the accumulated risks in developed countries. Like in 2008, not only people in developed countries but also in DCs had to bear the damage caused by the crisis stemming from financial market regulation deficiencies and public legislation weakness (Sak and Caglar, 2009).

CHAPTER THREE

POST-1980 TURKISH ECONOMIC POLICIES AND THEIR CONSEQUENCES

The oil crisis after 1970 and the embargo after the Cyprus Peace Operation generated a disruption in the balance of Turkish economy. In overcoming the 1980 crisis, significant structural changes were made in addition to the increase in interest rates and devaluation. The planned import substitution system implemented since 1960 was abandoned and transition was made to a neo-liberal economic system, called the Washington Consensus, elaborated in the previous chapter. With the economic measures taken on the 24th of January 1980, Turkey made changes in the economic policy and ensured liberalisation both in trade and capital movements through changes in Law on the Protection of the Value of Turkish Currency by Decree no 32 issued in 1989 (Yurdakul, 2001, Mangir 2009, Oyan 1999). Therefore, post-1980 Turkish economy is analysed in two periods, namely 1980-1989 and after 1989.

Turkish Economic Policies between 1980-1989 and Their Consequences

After 1960, Turkish economy entered a planned period and despite growth in trade balance, growth in borrowings from the USA saved the country from a foreign exchange bottleneck. Import substitution approach was adopted in the period and the demand growth for durable consumer goods was met by domestic manufacturing with the contribution of foreign capital (Yurdakul, 2001). Such manufacturing branches were externally dependent in terms of technology and primary inputs; moreover, lack of competitiveness reduced the foreign market availabilities. Growth in intermediate product manufacturing not parallel to growing investments increased the import, hence external dependency (Boratav, 2009, p. 120). In addition to that, increase in energy prices after the oil crisis in 1970s is a factor in increasing dependency due to excessive external dependency of Turkey in energy (Yurdakul, 2001).

Particularly, increase in oil prices in the 1973 began an increase in prices; national economies in general were confronted with crises. Western Bloc countries maintained exports via credits to DCs, but foreign debt increased due to increasing oil prices, and Turkey depleted foreign exchange reserves in this period and increased the foreign debt (Yurdakul, 2001). The Turkish economy choked at the end of 1970s, and transitioned from an inward-oriented industrialisation structure to an outward-oriented economic policy program after 1980 within the framework of the Washington Consensus explained in previous chapters (Yurdakul, 2001, Soyak and Eroglu, 2008).

IMF stipulated outward-oriented liberal economy policy as a precondition of the loans. It was the main pillar of the Washington Consensus and consisted of conditions such as the liberalisation of foreign trade, devaluation of foreign exchange rates, increasing interest rates, and restricting public spending, monitoring wages and salaries, and incentivising the foreign capital (Yurdakul, 2001). Turkey closed a deal with IMF and implemented stability decisions taken on the 24th of January 1980, abandoned import substitution industrialisation strategy and transitioned to an economic model focused on rapid increase in exports, promoting the cheap-to-produce and foreign exchange earning goods, based on world prices, opened for foreign competition and targeted a reduction in the weight of public sector in the economy (Soyak and Eroglu, 2008).

By Decree No 8/909 issued on the 1st of July 1980, interest rates were liberalised, reserve ratio on deposits were rearranged and a different interest rate implementation was introduced on export loans, and for the purpose of fostering and differentiating the exports, exporter manufacturers were allowed to benefit from customs exemption in input procurement in order to support and differentiate export. By Decree No 8/168 on the Framework of the Foreign Capital Incentives, particularly entrance conditions of foreign banking, was improved, and the stamp duty on imports was lowered from 25% to 1% to liberalise imports (Soyak and Eroglu, 2008). Liberalised interest rate policy increased the interest rates, while freezing the wages restricted the domestic demand and increased the savings. While the decrease in demand caused a fall in the prices of some products, due to the export of some goods, it caused a rise in prices in domestic market (Yurdakul, 2001).

The IMF and World Bank, with a liberal economy program, became determinant actors in the economic policies of Turkey, and prepared a development model with three alternatives for the period 1982-1988 requesting the implementation of a mild growth scenario based on export.

The most important institutional reflection of the liberal economic program on the development plan of Turkey is in 1982 Constitution. In the 1982 Constitution, development planning was taken out from the fundamental duties of the state and economic clauses were reorganised, and the State Planning Organisation (SPO) no longer held the status of constitutional institution. Thus, function and structure of the SPO became vulnerable to politicisation (Soyak and Eroglu, 2008). The 4th Five-Year Development Plan (FYDP), primarily emphasising public sector and industrialisation, was abolished in the first quarter of the 1980s and further development plans of the SPO were concluded according to the structural adjustment policies of the IMF and World Bank. In the Fifth and Sixth FYDPs; the goals were set as privatisation, removing state from the industrial sector to infrastructure investments (Soyak and Eroglu, 2008). In terms of the applicability of the development plans, the following sentence is a clear statement on the subject: “Since Turkish economy is mainly based on an outward oriented competitive market mechanism, one should not expect Development Plans determine the whole economic and social life in detail, and be forceful to realise its predictions” (SPO, 1995, p.21).

The new economic program targeting a liberal economy and envisioning a new trade structure aimed at opening up the domestic market to external competition and liberalising the imports, encouraging the exports and finding new markets outside the country. With the liberalisation of imports, industrial development policy was abandoned and an outward oriented economic policy was adopted after the new program aiming at combating monopolistic prices in the domestic market. Such practice was characterised as surviving with the foreign loans, and at the same time being dependent on exports to the same markets for paying the debts (Yurdakul, 2001). In liberal economic policy, some negative factors emerged as well. Due to overdependence on exports, negotiations in markets and fluctuations in foreign exchange rates had negative effects on the economy (Yurdakul, 2001).

In the main economic figures of the period (Table 3-1, Table 3-2, Table 3-3, and Table 3-4), it is observed that although the annual average increase in GDP in real terms was 4.8% (1970-1979 5.8%), the economy downsized during 1980, 1983, 1987 and 1988. Although the USD valued 1.7% annually on average in the period, it is observed that starting from 1985 onwards, TL began to value and moreover in 1989, TL valued 11.1%.

It is observed that the inflation, which was 50.8% on average, began to increase after 1986. Besides, after 1980, both exports and imports increased; the current deficit was persistent and reached an average annual

value of 1.7 billion USD. As a general characteristic of the Turkish economy, current account deficit turned into surplus due to the downsize in the economy in crisis years, but the effect of crisis in this period was reflected on foreign trade with a one-year lag.

In this period, budget deficits were persistent and the ratio of budget deficit to total revenue was 19.4%. Share of the indirect taxes, namely Value Added Tax (VAT) and Special Consumption Tax (SCT), in total revenue increased and reached 47%.

Table 3-1 Main Macro Economic Figures in Period 1980-1989 (SSI, 2001, Pakdemirli, 2003)

Years	GDP (Million TL-1990 Constant)	GDP (Million USD)	GDP Increase (%-1990 Constant)	USD FX Increase (% Real)	Inflation (CPI %- December)
1980	239	67,457	-5.27	14.4	93.7
1981	284	70,419	18.88	13.9	27.1
1982	298	63,485	5.15	16.6	26.3
1983	288	60,373	-3.33	1.7	37.1
1984	305	58,643	5.68	8.8	49.7
1985	337	66,410	10.6	-2.3	44.2
1986	376	75,018	11.38	-1.4	30.7
1987	354	85,638	-5.65	-17.4	55.1
1988	350	90,495	-1.30	-6.6	75.2
1989	365	106,123	4.23	-11.1	68.8