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TURKISH INDUSTRY AND THE FIVE YEAR PLANS

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DESPITE THE political turbulence which developed in the months following the election of October 15, 1969[1] and continued into 1971, Turkey is continuing along its chosen path of planned development. This made its first appearance under the republic founded in 1923 under the leadership of Mustafa Kemal, the great Atatürk, and has been a marked feature of the republic developed under the constitution of 1961.

Although Turkey has always been primarily an agricultural country as it still is, Islam teaches believers to revere the life of the mind, and to respect above all others those who profess learning. Under the Ottoman Empire, the state, and its large numbers of military and civil servants, were also highly esteemed. With this background, the Turks developed a somewhat condescending attitude toward business and industry. As a result, minority groups, Armenians, Greeks, Jews and foreign businessmen became the owners and managers of such industrial enterprises as existed. The foreign entrepreneurs operated under a system of capitulations,[2] which eventually became so abused as to make the Turks, with reason, look askance at foreign business and investment.

The Mixed Economy

After Turkey had been welded into a republic, its goals were Westernization, defense and industrialization. With the departure of the major part of the minorities before and during the population exchange of 1922 with Greece,

1. The various political and economic crises of Turkey occurring in 1971 had not changed the Development Plan or the basic problems of the economy by June 1, 1971.

2. Under the capitulations, which were first granted in 1535 as a friendly gesture to encourage foreign trade, and which continued throughout the life of the Ottoman Empire, foreigners were not subject to Ottoman law. Disputes involving them were tried in their own consular courts, and according to their own laws. Foreigners paid no taxes, their businesses were inviolable, and they could be arrested and deported from Turkey only by their own ambassadors. The system of capitulations became so subject to abuse that it became a symbol to the Turks of their own decreased power. Geoffrey Lewis, *Turkey,* New York: Frederick A. Praeger, 1965.

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the Turks found themselves lacking in capital, entrepreneurship and technical training, and still looked to the state for leadership as they had during the Ottoman Empire. Despite the end of the system of capitulations in the aftermath of World War I, foreign interests continued to dominate industry, the ports, mines, most important public utilities and all but a small percentage of the railroads. The number of Turkish businessmen was small, and most of them could not afford—and in some cases were unwilling—to buy these industries. So "an underdeveloped backward village economy, weakened by half a century of foreign control and smashed by a decade of war was the economic legacy handed down to the Republic of Turkey, the point at which Kemal and his colleagues started to build a modern economy."[3]

Although Turkey had both private and public industry even before the republic came into being, Atatürk wisely made no clear choice between them, and so the new Turkey was launched early on its subsequent path of mixed economy in which both state and private enterprise operate side by side. In 1927, a law was enacted which it was hoped would assist the development of Turkish private industry. Two years later the first stones were laid in the wall of protective tariffs. Meanwhile the state had bought a number of foreign concerns and added them as state enterprises to those inherited from earlier times.

As the country has had chiefly a raw materials producing economy, the world depression, reaching there in the early 1930s, hit with particular force. Unlike some developing countries, Turkey is not poor in natural resources. Its chief deposits are coal, lignite, iron ore, chromite, copper and wolfram. Most of these have been mined in greater quantities than can be used at home and so Turkey has always exported a good-sized volume of minerals. Although oil has been discovered in commercial quantities in the southeastern part of the country, it is nevertheless insufficient even for Turkey's own needs.

Étatism

The world economic depression strengthened the belief that government must take a lead in the development of the economy. In 1932, with the establishment of a State Office of Industry, the state entered the industrial field with plans for new state enterprises. Capital for the first project was provided by the USSR, which made a loan of $8 million to import machinery. When a state-owned holding company, the Sümerbank, was set up in 1933, followed by the Etibank in 1935, the policy of *étatism*—somewhat vaguely defined as state leadership and responsibility in industry and other parts of the economic

3. Richard D. Robinson, *The First Turkish Republic*, Cambridge: University Press, 1963, p. 101.

field—was really under way.[4] With the amendment of the Constitution 1937 and its legislative reinforcement the next year, *étatism* was included one of the six cardinal principles of the republic, and so became official gove ment policy.[5] But private enterprise also continued to develop slowly.

The Mixed Economy from World War II until the Republic of 1960

After World War II, national economic policy began to give individ enterprise an important place in the economy, thus stimulating investors a giving them new impetus and courage to go ahead. So private industry gr apace. In the 1950s, the need for infrastructure had become clear in a coun where electricity was lacking in all but the larger cities, water supplies a irrigation projects were insufficient for a territory in which so many parts w barren, while roads were poor and, in many places, particularly between sm villages, non-existent.

The then-dominant Democratic Party took great strides forward in the matters, and in many ways changed the face of the countryside and the of farmers, who became its strong backers. But an important pattern of t era was a *laissez-faire* approach to industrial development, so that by the e of the decade, the increasing private enterprise was unplanned and inflati was serious. With the coming of the new republic in 1960 (often referred as the Second Republic), private industry continued to forge ahead but plannin came into the picture.

The Development Plans

Although there had been industrialization plans under Atatürk in 193 1939 and from 1937-1942, the first was chiefly a scheme to upbuild the sma state industry of the era, and the second came to little because of the problem engendered by World War II, and because the mentality for real developmen planning had not yet evolved in Turkey. With the domination of the Demo cratic Party in the 1950s, "almost inherent in the new semi-laissez-faire eco nomic policy was a studied disinterest in any sort of economic planning."[6]

It was not until the revolution of May 27, 1960 that the importance o

4. See Robert N. Kerwin, *Etatism and Industrialization of Turkey*, A Study of Turkish Na tional Economic Policies and Attitudes (1933-1950), Dissertation for the Ph.D. degree in th School of Advanced International Studies, Johns Hopkins University, 1956, manuscript, *passim* Nuri Torun, "Re-organization of the State Economic Enterprises in Turkey," *Planning and Growth under a Mixed Economy*, Istanbul, Economic and Social Studies Board, 1966, esp. pp 332-351.

5. Law No. 3460, the Law on the Administration and Control of State Economic Enterprises See also Law No. 440 of 1964 for amendment and changes.

6. Robinson, *The First Turkish Republic*, p. 148.

national[7] economic planning was clearly recognized with the establishment of a State Planning Organization on September 30, 1960, even before the adoption of the new Constitution.[8]

After nearly five years' work, the First Five Year Development Plan became effective in March 1963. It was designed as the first of three five year segments in a total plan period of fifteen years for economic development[9] by rapid industrialization of the country. By the end of the First Plan period an exceedingly creditable record of accomplishment could be seen in various fields, particularly in the physical upbuilding of the country. The rate of GNP increase had been less than five per cent a year at the beginning of the Plan, but five years later the rate was 6.5 per cent and so the target of seven per cent had almost been attained. Although the public sector's investments were about 16 per cent below expectations, those of the booming private sector were about nine per cent ahead. Agriculture, on which the Plan laid much stress, was below expectations, but farm exports remained the backbone of Turkish exports.

While not neglecting agriculture, the Second Plan turned primarily to industry and its development, with the aim of strengthening the position of the weak Turkish balance of payments sufficiently to be able to dispense with foreign development aid during the Third Plan period which will begin in 1973. During the years of the Second Plan, emphasis will remain on the difficult problems of increasing industrial exports and increasing agricultural production. Public investments and public consumption are expected to rise faster than GNP during the Second Plan, and only a moderate increase in the welfare of the people may be expected by 1972. It remains for the Third Plan's impact to better their position markedly.

The most far-reaching innovation of the Second Plan was the greatly enhanced rôle given the State Planning Organization and especially to its Department of Encouragement and Implementation to carry out policies and enter into the actual process of administration.

Industry and the Republic of 1960

The roots of the mixed economy were planted deep by its recognition in the Constitution of the new Republic in 1961, and in both the First and Second

7. Despite Turkey's serious regional problems, planning has been carried out on a national scale only.

8. The State Planning Organization was set up by Law No. 91, 1960. From 1960-61, laws were enacted by a Committee of National Unity, composed of officers headed by General Cemal Gürsel. The Constitution was approved by a Constituent Assembly on May 27, adopted by referendum July 9, 1961, and promulgated by Law No. 334 on July 27, 1961. See *Constitution of 1961,* translated for the Committee of National Unity, Ankara, 1961.

9. See *First Five-Year Development Plan,* 1963-1967, Ankara: 1963; *Second Five-Year Development Plan,* 1968-1972, Central Bank of the Republic of Turkey, Ankara: State Planning Organization, 1969. Preliminary work on the Third Development Plan was begun in 1970.

Plans.[10] The First referred to the public and private sectors as "the two component parts of a whole and not two separate sectors with conflicting interests,"[1] and indicated it was difficult to draw a clear line between the two. The Firs Plan and legislation of the year following its inception laid stress on publi sector investments[12] but the Second Plan leaned somewhat more toward private enterprise.

Public Enterprise Today

Approximately 40 per cent of the capacity of all manufacturing and 80 per cent of the mining industries are owned by the state, as they have been since the 1960s. The kind and variety of public sector activities have grown like Topsy. A large variety of others exists in addition to state enterprises inherited from the Ottoman era, or set up to break foreign monopolies. Some are public services, such as post, telephone, telegraph and radio; others are meant to conserve important natural resources such as minerals and forests;[13] some are intended to provide state control of such dangerous industries as the production and sale of opium and its derivatives, explosives and firearms; still others are manufacturing concerns. In various fields, private enterprise operates in competition with public but in some, private entrepreneurs have found costs too high and rewards too small. Some, such as textiles, welcome state industry as its high prices allow plenty of room for profit by the private textile companies.

Each industrial sector therefore contains different proportions of private and public enterprise. *Sellüloz ve Kagit* (SEKA) controls all the paper industry, while the Sümerbank participates in manufacture of most of the heavy chemicals, half the cotton and wool textiles, etc. The Etibank, producing sulphur, bituminous coal and copper, is also the largest chrome and lignite producer in Turkey.

A new type of public enterprise has developed as a result of a credit agreement between Turkey and the USSR made in 1964 and supplemented in 1967 for the latter to finance certain industrial projects in Turkey amounting to some $200 million. Under a trade agreement dating back to 1937 Turkey had built up a large favorable trade balance with the USSR because of exports of surplus Turkish hazelnuts, raisins, tobacco, etc., for which no Western market

10. Constitution of 1961, Sec. Three, Art. 40, *First Plan,* "Rules of the Mixed Economy," pp. 53-56, and *Second Plan,* Sec. III and Sec. V, pp. 109-112.

11. *First Plan,* p. 53. See also Ibrahim Öngüt, "Guidance for private enterprises in a planned mixed economy, Turkish Problems," *Planning and Growth under a Mixed Economy,* Istanbul: Economic and Social Studies Conference Board, 1966, esp. pp. 268-269. The annual Programs indicated the sectors of industry in which it was hoped private enterprises would invest.

12. Public Law No. 440 replaced Public Law No. 3460 in 1964 and provided the framework for the State Economic Enterprises. Public Law 440 applied only to enterprises aimed at formation of investment capital and excluded monopolies.

13. Private exploitation of both [illegible]

could be found. Rather than take a large number of high-priced Russian industrial products in return, Turkey entered a special type of credit arrangement. The USSR contracted to construct large new enterprises in steel, aluminum, sulphuric acid and fibre board for the Turkish public sector. Production is expected to begin in 1972. Credits not already accumulated will be repaid by further exports through clearing arrangements between the two countries.

State Economic Enterprises, the SEE's

Few state activities except the State Monopolies Administration and a number of the State Economic Enterprises, the SEE's, are even theoretically commercial-type industries aimed at production for profit. Some of the State Monopolies, controlling the manufacture of matches and alcohol (excluding wine and beer), and the sale of salt and tobacco[14] make a little profit. There is a difference of opinion—and to a certain extent of political party stand—as to the true functions of the SEE's. While the Second Plan and many businessmen believe that the SEE's must become profitable concerns, others see the function of all state enterprises as social. As a result of this concept,[15] many SEE's employ large numbers of workers who otherwise would be without full or even partial employment; various state industries are located in remote and backward areas of the country, such as Eastern Anatolia, in which private enterprises as yet find it difficult to make profits.

Financially, economically and politically, the SEE's are of the greatest importance, and have now reached increased levels of fixed investment in the public sector.[16] There are definite legal limits, however, to the SEE's. To be constituted a SEE, an enterprise must be specifically named *as such* in the law establishing it as a joint company, and more than half its capital must be supplied by the state.[17] Even then, the law setting up a joint stock company

14. The activities of the Monopoly Administration come under the Annexed Budgets instead of the general State Budget, which allocates sums to the Annexed Budgets to finance investments and help meet current expenditures. The only Annexed Budget activities from which the State Budget got any return in 1968 were those in which indirect taxes accrued from the sale of monopoly products or those of the Monopoly Administration which made a certain amount of profit. *Turkey*, OECD Economic Report, 1969, pp. 36-37.

15. For social factors, see arguments in Prof. Besim Üstünel, "Problems of Development Financing: The Turkish Case," *Planning and Growth in a Mixed Economy*, "Discussion," pp. 193-195 and pp. 226-231.

16. The public sector includes the SEE's, the General and Annexed Budgets Local Administration and the Revolving Funds. The SEE's share is increasing at the expense of the Budget and the Revolving Funds. *The Annual Program*, 1970, p. 12.

17. See Law No. 440, 1964. The capital structure takes various forms in which: (1) the entire capital is furnished by the state; (2) 51 per cent is owned by the state, but the enterprise is specifically set up as a corporation; (3) 51 per cent is owned by the state and the SEE, and often by foreign capital. See Sadullah Aygun, "Problems of Financing State Economic Enterprises," *State Economic Enterprises*, Istanbul: Economic and Social Studies Conference Board, 1968, esp. p. 214.

may specifically give it the status of a private industry. Many such enterpri[ses,] however, bemoan their lack of SEE advantages, particularly financial.

The only profitable state enterprises are the publicly owned banks and [the] pension and social security funds.[18] They have accumulated such substan[tial] amounts of money that they have been able to build and finance various *de lu[xe]* well run hotels and tourist projects, such as summer camps. But the pensi[on] and social security funds use a very large share of their balances to help finan[ce] the investment program of the other SEE's. Most of these have such hi[gh] operational costs that they end each year with operating deficits and thus cann[ot] themselves pay for needed capital expenditures. "There is no time to be l[ost] in taking the necessary action to improve the financial results of the SEE's a[nd] their efficiency in general. Meanwhile, it seems that the Social Security a[nd] Pension Funds will be expected to continue to bear the brunt of the financi[ng] of the SEE's."[19]

The Plans and the Annual Programs have been able to lay down mo[re] definite guidelines for the SEE's than for private investment. Decisions co[n]cerning individual projects were formerly made in theory by the SEE's the[m]selves but in practice all too frequently were the result of political pressu[re] by various ministries or individuals. During the early part of the First Pla[n] project preparation was reported as poor,[20] and this was one reason why t[he] SEE's never reached more than 80 per cent of their targets under the Fi[rst] Plan. Now feasibility studies are prepared for individual investment projec[ts,] then turned over to the State Planning Organization to work on jointly wi[th] the ministry which supervises the particular project. This may be the Minist[ry] of Agriculture in one case, the Ministry of Industry in another, and so on. Fin[al] approval comes through the Planning Organization's Department of Encou[r]agement and Implementation.[21] When a project is approved, the Ministry [of] Finance prepares a document commonly known as "General Investment a[nd] Financing Program for State Enterprises." Then further investigation a[nd] another decision are made by the State Investment Bank, a public enterpri[se] established in 1964 to make long-term investment loans to the SEE's,[22] a[nd]

18. In addition to these, the special Army Pension Fund takes part in financing various priv[ate] sector projects.

19. *Turkey*, OECD Economic Survey, 1968, p. 23. "The target in the Second Plan of TL [illegible] billion in 1972 at 1965 prices from this source seems quite feasible given the rapid increase in t[he] number of persons covered by social security law and by the pension fund."

20. *Planning Development in Turkey*, mimeographed SPO document, undated. See also Osm[an] Nuri Torun, "The Investment Policies of State Economic Enterprises and their Role in the Rea[li]zation of the Turkish Development Plan," *State Economic Enterprises*, p. 173, "Discussion," p. 2[illegible]

21. In reaching a decision, the SPO studies the project's possible contribution to the nation[al] economy, its possible foreign currency earnings and savings, effect on employment, and, final[ly] comparative costs.

22. Law No. 441, 1964 established the bank. Its interest rates are fixed by the Ministry [of] Finance between 5.6 and 8 per cent. The bank's investigation is based purely on financial criter[ia] to determine whether the project may become profitable enough to enable the SEE to repay the lo[an] within the project's lifetime.

which finances between one-third and one-half of all the SEE's requirements at lower interest rates than are usually available for private industry. Many SEE's have considerable history of not meeting their debts to the government but the creation of the Bank has brought improvement.[23] Although it has no authority to enforce repayment, it can refuse further credit demands or withhold payments for instalments of principal and interest overdue as authorized by the Cabinet.

When the Second Plan began, public revenues had increased since the institution of the First Plan, but the SEE's had failed to reach their targets. "The State Economic Enterprises did not improve their financial performance as much as had been hoped";[24] needed reforms in the structure and collection of taxes had not yet been made, and foreign aid was dwindling.

Despite the intentions set out in the Second Plan substantially to raise the profitability of the SEE's in general,[25] their consolidated debts have risen so high that in 1969 they were double those of the preceding year and the SEE losses remained a serious drain on the budget and an important factor in inflation.[26] Several SEE's are such heavy losers as to cause major difficulties in the whole centralized SEE investment and financing operation, and in the entire state budget as well. In 1969, for instance, the railroad, in trouble in Turkey as in other countries, cost the budget TL 800 million and the coal mines TL 400 million—both substantially more than the preceding year[27]—while at the same time, the Ministry of Education's entire budget was TL 2.7 billion and the Ministry of Health and Social Welfare TL 900 million. "Such discrepancy in the allocation of scarce public funds, if it were to persist would not fail to be prejudicial to Turkey's development effort."[28]

The respective rôles of the ministries through which each of the SEE's is responsible to the Grand National Assembly[29] lack clarity. Considerable political interference in investment and pricing, and above all in personnel policies, is still probably the most serious problem. In addition to the almost omnipresent overstaffing of many SEE's is the frustration of their Directors General because they are not responsible for the selection of their own staffs, and a resultant high turnover of top level administrators is inevitable. So "even though personnel expenditures have increased much faster than the volume of business,"[30] it is difficult to recruit trained employees.

23. In 1966, the bank collected 46 per cent of what was due, and in 1969, 79 per cent.
24. *Planned Investment in Turkey*, mimeographed SPO document, undated, p. 5.
25. *Second Plan*, c. (5), p. 112.
26. *Turkey*, OECD Economic Surveys, 1969, pp. 37-8.
27. In 1968 the corresponding amounts were TL 388 and 125 million.
28. *Turkey*, OECD Economic Surveys, 1969, p. 38.
29. *Turkey*, OECD Economic Surveys, 1968, pp. 31-33.
30. Ismail Ertan, "The Problems of the Reorganization of State Economic Enterprises," *State Economic Enterprises*, p. 141.

Various other reasons can be found for the SEE difficulties. Some of t same problems exist in private enterprise, such as lack of carefully worked o production plans and of adequate cost analyses. But there are especial pitfal in state industries, particularly in those so far protected from internation competition by all but unscalable tariff walls. The Second Plan itself puts finger on important causes of SEE problems: "the lack of responsibility ass ciated with ownership, failure to establish a clear relation between the risl and rewards of the undertaking and the deficiencies of the direct interferen of the state in economic life. The absence of dynamism peculiar to priva enterprise in the economic activities of the state causes bottlenecks in con munication and an increase in red tape which reduces administrative efficiency." Although defenders of the SEE's stress the losses of many of them as resul of tariff policies and limitations on their prices, government commissions s up from 1964 to 1969 to plan SEE reorganization have recognized that SE difficulties are more basic, as have the Grand National Assembly, and a larg segment of business public opinion. Even in 1970 needed reforms still remaine a major task awaiting action. But the improvements already made within variou state industries must be recognized, as must the great accomplishments of th SPO in lessening red tape and smoothing the path.

Mixed Enterprises

Hope may lie in the large and growing number of industrial ventures o the type called "mixed enterprises," in which state funds are joined with privat capital, foreign or domestic, in an industrial undertaking. In some, publi enterprise has the largest share and in others, private. Thus *Türkiye Demir v Çelik Işletmeleri,* generally referred to as Ereğli because of the place of it location, the largest steel producer, is a mixed corporation, 51 per cent privat and 49 per cent state owned.

In the partial revulsion against *étatism* which took place in the 1950s, man such mixed enterprises were begun but those which were unsuccessful helpe bring the idea into ill repute. In addition, protagonists of public or privat industry felt their case for one or the other was weakened by a combinatio of both. By the time of the Second Plan, however, feeling had changed, an state enterprise was encouraged to enter mixed corporations. They came to b regarded as one answer to the problem of how to carry out such large projects as those involving $100 million or more without forming new SEE's, and s to increase the contribution of the private sector to development efforts. The Plan, furthermore, indicated a preference for this type of undertaking in new industries undertaken by the public sector. Thus a large mixed-enterprise copper complex has been planned near Samsun on the Black Sea.

31. *Second Plan*, p. 111.

Progress of Industry in the 1960s

Despite the problems of the SEE's, industry in general has been moving rapidly ahead. In the latter part of the 1960s, private enterprise was pushing ahead in seven league boots, and was already the fastest growing sector of the economy. Between 1948 and 1967, industrial production grew at an average annual rate of about 10 per cent. Although state economic enterprise had never reached over 80 per cent of its targets in the years of the First Plan, private industry had shot ahead of theirs by approximately eight per cent.

By 1969 and 1970, total industrial output was rising at an annual rate of about 11 per cent, and so was approaching the Second Plan's goals of 12 per cent.[32] If it reaches and continues at this figure, by 1972 Turkey may be said to have become a truly industrialized country, with industry the leading sector of the economy, as the Second Plan envisages it to be.[33] Manufacturing is planned to contribute about one-third of the total increase in GNP, providing over 40 per cent of the growth in employment outside agriculture. "This is a large amount, but if the growth of artisanal activities in food and clothing is allowed for, this can be achieved."[34]

Incentives for Private Industrial Investment

The most important reason for private industry's phenomenal progress is the drive and courage of Turkish businessmen. There is also a large range of incentives made available to both domestic and foreign entrepreneurs for investments in industry in Turkey. In view of Turkey's relationship to the Common Market (European Economic Community), no incentives are allowed any enterprise unless it has promise of international competitiveness.[35] Otherwise, the attractions offered a potential investor have been many and varied—general investment allowances; finances at lower than average rates; deferment and even partial or total exemption from custom duties on important purchases of such items as imported machinery; special priority in import quotas and deduction of investment costs from taxable profits up to 80 per cent of risk investment, and tax rebates on imports.

32. As a result, industry is expected to increase from a 16.3 per cent relative share of GNP in 1967 to 20.5 per cent in 1972. To achieve this, manufacturing is expected to rise to from 22.4 per cent of total investment as compared to 19.6 per cent achieved under the First Plan.

33. *Second Plan*, p. 3.

34. *Turkey*, OECD Economic Surveys, 1969, p. 26.

35. This criterion is suspended if an enterprise can show major secondary benefits to the economy, such as diffusion of new technology. In return, the undertaking must live up to certain standards of modern industry.

Private Investment and the State Planning Organization's Department of Encouragement and Implementation

Some changes were made by a Constitutional Court[36] decision in Octobe 1969 declaring unconstitutional some parts of the Second Plan law establishing the Department of Encouragement and Implementation. Responsible not onl for administration of the incentives program, the Department has had othe large responsibilities concerning private foreign and domestic industry an investment, and for decisions concerning investment priorities for the publi sector. It has nevertheless managed the complexities of administration well and when it was forbidden the exercise of some of its powers, the administrativ process in industrialization was again slowed down.

The Department has had sections dealing with foreign investment, project evaluation, and a bureau dealing exclusively with encouragement and implementation in industry. In its power to grant advantages to private industry for investment, the Department has had jurisdiction over all private investment projects requiring over $200,000 for financing. It has also managed the Development and Encouragement Fund established in 1967 to handle regular Budget allocations and make loans at concessional terms to private firms. Through its divisions, private investors, whether foreign or Turkish, may secure advice on investment prospects for their own and for Turkey's benefit.

A few years ago it was hard to find enough valid investments, but with the increasing boom in private industry, and the help given by incentives and the Department of Encouragement and Implementation, the reverse has come to be true. Thus in the first year of its existence in 1968, 365 projects to a value of TL 7.7 billion were submitted to the Department, of which it granted 183, amounting to TL 3.7 billion. In 1968-69, 418 domestic firms applied for investment aid, and of these 98 were refused, and 320 accepted. In the first quarter of 1969 alone, 96 projects were submitted to a value of TL 1.4 billion, of which 79 were approved, amounting to TL 1.3 billion.

In return for incentive aid, an undertaking must live up to certain standards of modern industry, such as plant construction of minimum size for efficiency and employment of principles of modern management.

36. On October 20, 1969, the Constitutional Court declared certain articles and subsections of Law No. 933 unconstitutional, *i.e.*, Article 1, concerning encouragement funds provided from the Development and Encouragement Fund (Art. 1); investment allowances increasing the upper limit to 80 per cent compared to the fixed lower percentages made available under earlier law (Art. 2A); certain customs duty exemptions (Art. 2B). Exemption from customs duty was again made available for pertinent projects by Decree No. 6/12585 on Oct. 28, 1969, issued in accordance with Law No. 474. A new bill to fit with the Court's decision but maintaining flexibility was pending in the Grand National Assembly on August 1, 1970. Investment allowances for land, buildings and machinery at the rate of 30 per cent for industrial, 40 per cent for agricultural investments and

Still another way in which private enterprise has been aided has been through the Industrial Development Bank, founded in 1950 jointly with the International Bank for Reconstruction and Development[37] as a pilot project to forward industrial growth through individual private initiative, and now a considerably expanded institution.[38] By taking equity participation and giving industrial loans running from five to ten years, the Bank has continued to give the recipient entrepreneurs time and means to modernize their existing industries or establish new ones which promise to be productive.

Imports

An aid—and an impediment—to industry is the high wall of protective tariffs under which Turkey has long operated and which have become higher in recent years. Due to the shortage of foreign exchange, imports are subject to severe limitations, designed to allow entry of only such goods as can be paid for by available foreign exchange, and as are in accordance with Five Year Plan requirements. Foreign exchange shortages have been primarily responsible for the growth of a policy of import substitution, or domestic manufacture of many articles, regardless of cost, to prevent their importation. Such arrangements are apt to encourage inefficient operation and to result in high profit margins, especially for monopolies.

Frequently the limitations on imports are so great as to constitute virtually total prohibition.[39] Despite the high prices for goods made within Turkey, domestic demand has been so pressing that, as living standards rise, all production is bought up at home. The overvalued exchange rate[40] prevailing until devaluation on August 9, 1970, resulted in abnormally low cost for such imports as were allowed to enter the country. There are heavy import duties, taxes and other charges, but these were more than offset by the low prices. So both importation of goods for sale and the protected import-substitute industries

37. *Türkiye Sinai Kalkinma Bankasi,* A.S., Industrial Development Bank of Turkey, *Statutes,* 1967, *passim.*

38. With aid from the World Bank, the European Investment Bank, the USA, Western Germany and Turkey itself, especially by flotation on bonds within the country, still small but significant. See Türkiye Sinai Kalkinma Bankasi, A.S., "Activities of the Bank in 1968," *Annual Statement for the Year Ended December 31st, 1968,* Istanbul, 1969, iii. pp. 59-65. See also *Turkey,* OECD Economic Survey, 1969, pp. 38-9.

39. "Goods of which internal production quantitatively and qualitatively is sufficient to meet internal requirements at fair prices should not be included in the import lists." *First Plan,* p. 495. The manufacturer of previously imported products now made in Turkey receives total protection if his new domestic-made products, as appraised by the Chamber of Industry, meet certain quality and price standards.

40. Inflation resulted in an overvalued currency. Until the devaluation of August 9, 1970, the official exchange rate was TL 9 to $1 but the government authorized a special rate of TL 12 to $1 for tourists, diplomatic personnel, and American servicemen in Turkey, but not for business importers, while the free market rate was TL 14 to $1 or higher. At TL 9 to $1, imports tended to be underpriced, while exports tended to be overpriced. With devaluation, the official exchange

became exceedingly profitable. This in turn brought about an increasingly n competitive industrial structure, and great pressure on the already weak bala of payments.

Despite the profitability of importation, the difficulties of private industrial under the prevailing import arrangements are manifold. As new plants co into production, and as manufacturing capacity rises, it is limited in turn the need to secure enough foreign exchange for importation of raw mater lacking at home, and of machinery not made in Turkey. Thus, for exampl steel industry needs iron ore which necessitates mining equipment, not produ domestically. Import shortages and tight credit remain great and the wait period to complete foreign exchange requirements has often been so lo as to discourage many Turkish entrepreneurs and foreign investors. Beca of the delays, a manufacturer must keep a larger than normal inventory raw materials on hand, thus unnecessarily tying up working capital. But mi has been done by the State Planning Organization to simplify procedures si the law of 1967 took effect with the inception of the Second Plan.

Another difficulty for industry is the high cost of basic products manufactu in Turkey, which has a domino effect. For example, the high cost of tin pl at the Ereğli *Demir-Çelik Işletmeleri,* the Ereğli Steel Mill, causes a high c for tin cans which, in turn, increases the cost of canned food products.

It appears probable that domestic demand will not always support a grow rate of 11 to 12 per cent and that the country must eventually meet the t of international competition to sell more goods. With this in mind, Tur became an associate member of the Common Market in 1964 and is n approaching the end of its "preliminary period" of membership and is ready itself for the "transitional period" of some 12 years before the accomplishm of a limited customs union with the Market.[41] Many Turkish manufactur are girding their loins and looking ahead to the change. Ineffective produc are already being driven out.

Private industry has made progress in the face of other serious proble Although the largest number of industrial firms are still small, family bu nesses,[42] many industries are moving ahead both quantitatively and qualitative are increasing in size, and using more modern technology, professional ma agers, and an increasingly skilled labor force to make a growing list diversified products.

Various private investors, however, still prefer gold, real estate and luxu type apartments to the risks of industry, so that a great deal of private indus

41. After the completion of the "transitional period," an additional ten years are required achieve full customs union and economic integration into the EEC. Problems of Turkey and EEC are beyond the scope of this discussion.

42. In 1968, some 1,200 limited companies existed but under 100 non-financial firms had sto quoted on the Istanbul stock exchange. *Turkey,* OECD Economic Survey, 1968, p. 33.

is financed out of personal savings of the entrepreneurs. A capital market is just beginning to emerge with the sales of some industrial bonds and shares through the Development Bank and some commercial banks although most investments in industry are still made from profits or short-term loans by commercial banks. If an enterprise is large and well managed, it is able to qualify for loans from either the Industrial Development Bank or the Industrial and Investment Bank.

Under the Second Plan, in general, public industrial investment is to concentrate on essential infrastructure or basic heavy industries.

"In the long run," the Second Plan leaves manufacturing primarily to private industry[43] and the public sector will enter the field only if it would improve existing industrial capacity, or if private industry does not want to enter. In the 1970 Annual Program, manufacture was allotted a substantially larger share of total investment than before.[44] In the past, private enterprise has operated chiefly in light industry, or has produced consumer goods such as beverages, clothing, textiles and food products. It has, however, already begun to invest in the chemical, machinery, cement, vehicles, transportation equipment and metallurgical industries, and has a more important rôle in these sectors in the Second Plan period.

Although the First Plan's promise is reiterated in the Second that the state will ensure equality of opportunity and treatment for private and public enterprises working in the same fields of production,[45] this equality is not always achieved in practice. The Central Bank, for instance, gives credits to privileged borrowers in the public sector only.[46]

Foreign Private Investment

Having had its hands badly burned under the Ottoman Empire by the capitulations under which foreign investors operated, Turkey has become interested in the promotion of modern foreign private investment somewhat slowly. In the wave of international interest and of Marshall Plan Aid in the 1950s, attempts were made to attract foreign private capital but little was accomplished until 1954 when a new law for foreign investment became somewhat more successful.[47]

43. Private manufacturers include: machinery, processed food products (except those with a slow development rate) where the state is given a "pioneering role"; textiles and clothing (public investments are allowed for modernization or enlargement of existing state enterprises and for export potentialities not undertaken by private investors). *Annual Program*, 1969, p. 4.

44. Rising from 21.5 per cent in 1968 to 24.4 in 1970. *Annual Program*, 1970, Table 6, p. 13.

45. *Second Plan*, p. 111. Equal treatment does not apply to the interest rate on funds required for investment.

46. Such as the Monopoly Administration, the Sugar Company, and the Sümerbank.

47. The early attempts were made under Law No. 5583 of 1950. The more successful law was No. 6224 of 1954.

But delays and difficulties plagued any attempts at investment of for private funds. Any foreigner desiring to invest directly in Turkey not had to buck the age-old objection to foreign "interference"—as indeed it was—but had to go through the slow-moving mechanism of an inter-ministe committee. Although not nearly all foreign investment was American, the y of the First Plan were also ones in which the American position on Cyprus resented by many people as was—and still is—the presence of American tr on Turkish soil. For various reasons, therefore, from 1950-1965, a tota TL 491,115,000 of foreign funds were invested in Turkey[48] under these l

Industrial Exports

As Turkey has never turned its attention resolutely towards export a major part of its economic life, it has regarded the export market as a chan for surplus commodities rather than an end in itself. It is only recently the Turkish attitude towards exports has begun to change enough "to ad themselves to the exacting conditions prevailing on the world markets today So the agricultural domination of exports has remained for many years.

The First Plan therefore devoted its prime attention to increasing agricultu exports to bring in ever-larger amounts of foreign exchange. The attempt exceedingly successful, in considerable part because of the extraordinary weat during the first part of the period. At the end of the Plan, industrial expo were minimal[50] but necessary for a program of industrialization.

The Second Plan therefore emphasized the need for increased industr exports. Estimating the total increase of all exports at seven per cent a y (only slightly over the 6.5 yearly average during the First Plan), the Seco Plan realized that farm exports will still be dominant for some time but ho fully indicates the share of industrial products will rise from 17.8 per ce at the end of the Second. This rise involves close attention to quality a standardization, better methods of marketing, public relations, and a change the prejudiced attitude of a number of buyers in other countries.

Attempts have been under way since 1963 to improve the quality as w as the quantity and so change the export pattern. In that year a tax reba system was introduced[51] by which up to 56 per cent of taxes paid on vario

48. $68,617,998 in dollars. Of this total, American investment amounted to 30.35 per ce Swiss to 17.66 per cent, the Netherlands 16.02 per cent, West Germany 14.6 per cent, French 6. per cent and other countries 14.54 per cent. See Kazim Oksay, *Guide to Foreign Capital Inve ment in Turkey*, Ministry of Commerce, Ankara, pp. 6-7.

49. *Turkey*, OECD Economic Report, 1969, p. 20. The Report did not indicate much chan up to that time, but evidence exists to show a beginning of change.

50. In 1968, with agricultural exports amounting to $431.6 million, metals and other mi products accounted for $25.5 million, and "other exports," including manufactured goods, we valued at $38.3 million. *Ibid.*, p. 20.

51. By Law No. 261

exports are returned to the exporter. Although no rebates are given for traditional exports, the list of eligible industries has been made progressively more inclusive so that now even certain farm products are included, but at a lower rate. Exporters may be given credit throughout the manufacturing process up to the time of export;[52] they may have loans to buy the imported raw materials needed for export production; they are eligible for priority in importing such materials up to a limit of 50 per cent of their export earnings.

The administration of export incentives and allocation of the tax rebates, originally in the charge of an Export Tax Rebate Commission in the Ministry of Commerce, was taken over by the Department of Encouragement and Implementation of the State Planning Organization. They have made special efforts to initiate and promote export activities and have established some far-seeing ones such as the organization of regional companies for the export of fresh fruit and vegetables, and a transportation firm equipped with refrigerated trucks. Their efficiency and ingenuity have apparently been a chief reason for an export growth in 1969 of seven per cent over that of 1968, and which brought total exports to some $530 million in 1969.

While incentives make it attractive for a Turkish manufacturer to export, and while he knows Turkey's location gives it markets in both West and East, and the almost untapped ones of the Middle East, he may be held back by two particular factors. Turkey's own industry is booming so that the home market may absorb all he can produce, and he hesitates to expand his factory for an uncertain and untried international market. But, more importantly, his costs are apt to be so high because of the government's import-substitution policy that he could not compete successfully in the rough and tumble of international competition without drastic overhauling of his whole operation. Also realizing that Turkey's Common Market future will make it necessary for him to meet outside competition or wither away, an efficient producer must begin to reduce costs and streamline his operations. While many businessmen believe that lack of enough exports stands out as a major bottleneck in the future development of the whole Turkish economy, others see that the first foundations of an export tradition had been laid.

Tourism

Tourism in Turkey has such great possibilities that it is often called "Turkey's greatest undeveloped resource," and will be a most important industry. Anyone who has seen not only Istanbul with its superb Ottoman palaces and mosques but the breathtaking Greek ruins of the Aegean coast, such as Ephesus, Miletus, Didyma and Aphrodisias, to name only a few; the Greek and Roman remains

52. Bank credits are offered at a preferential rate of nine per cent. To encourage banks to give these credits, the Central Bank will rediscount paper for the loans at 5.35 per cent.

on the Mediterranean coast; the beauties of the Turkish past in green-surroun Bursa; or visited the rock churches and dwellings of Cappadocia 'spiralling cones from the Anatolian coast; or basked in the warm Turkish sun on Mediterranean beaches of Antalya or Alanya and on the Aegean beaches fr Izmir down to Bodrum has an idea of some of the country's tourist attractio Although Turkey was late in beginning to exploit them now much has b done to build comfortable and pleasant hotels, motels and camps.

Under both the First and Second Plans, roads, bridges and other basic inf structures have been provided by the government so that good roads now l to places which were inaccessible a few years ago. Although well-run a *de luxe* hotels such as the outstanding Büyük Ankara in the capital, and the f Büyük Efes in Izmir are financed by the social security and pension fun priority for investment in hotels and other tourist housing is given to priv enterprise, which is aided by long-term credits from the government at l interest rates.[53] With both government and private industry, the new empha is on simple and clean arrangements for large numbers of visitors rather th for a few large luxury hotels. The pension funds have built camps in southe Anatolia and private projects are under way for what are referred to as "in grated entertainment and hotel-motel type residential facilities." One of the in Antalya and the other in Muglia together are planned to have some 200,00 beds.

As a result of new facilities and a certain amount of publicity, the numb of tourists rose from 163,000 in 1963 to approximately 500,000 in 1969. Even with the planned new accommodations, there is need for still more. they are completed, the tourist trade better organized and more far-reachin publicity and promotion carried on, a great many more tourists can be expecte to come. But there is need for speed, before the tourist wave flowing towar Turkey begins to ebb. And there is still need for attractive small tourist hote for those uninterested in mass projects.

The Second Plan aims at increase of gross tourist earnings by over 40 per cen a year to reach $135 million in 1972, and a growth of net tourist receipts t $70 million in 1972. Tourist receipts were very low at the end of the Firs Plan primarily because of the bottleneck of foreign exchange. The overvalued *lira* had caused many tourists to use the black market, where they could ge 14 or more *lira* to the dollar instead of the official 9 which they received a the banks and tourist offices. So many Turks, furthermore, go abroad for business or pleasure, and especially for religious pilgrimages to Mecca that their

53. Land owned by the Ministry of the Treasury or forest lands are being leased for long term at low rates to investors with approved projects.

54. Those people driving their own cars formed 50.2 per cent, and arrivals by air around 42 per cent in 1968. *Development of Tourism in Turkey*, Ministry of Tourism and Informatio Tourist Departm

expenditures in foreign currencies have overbalanced tourist income in Turkey, despite a tax of 50 per cent on foreign currency sales in Turkey. So tourism has made no net contribution to foreign exchange. Improvement began after a change instituted on March 1, 1968, by which all tourists exchanging their money at authorized exchange offices received 12 *lira* to the dollar and should accelerate after the August 1970 devaluation.[55]

The Future

Turkey is facing many problems in agricultural development and production, the SEE's, export and import policies, its balance of payments, and its continued lack of enough capital and trained managers and technicians. These problems cannot all be solved during the period of the Second Plan, but the years of the Third Plan, extending until 1978, lie ahead. Meanwhile, in general during the First and Second Plans, the Turks have chosen wisely among various possible priorities in planning to launch them on their way toward ultimate solutions.

It is a sad commentary on the rôle of the developed countries that just as success appears for Turkey in its development planning, foreign assistance seems destined to be reduced. But there are many plus factors for Turkey. Under the Second Plan, streamlining of procedures has already begun so that not only increased domestic but also foreign private investment has already found its way in Turkey's inviting market. More will pour in when a still more aggressive campaign is carried on to woo investors from other countries. If Turkey carries through with its plans to become a full member of the Common Market, foreign investors will find this an asset. The changed mentality toward exporting on the part of the Turks will also help bring in foreign exchange, as will the newly aggressive campaign to promote tourism which can hardly fail to be successful in a country so rich with tourist sites. By their remittances, Turkish workers abroad are already giving great help in the task of lifting Turkey's balance of payments position from the doldrums, and those who have returned home provide a ready pool of trained workers for new industrial ventures in Turkey.

The most positive factor of all is the patriotism and determination of the Turks. They are now at work trying to lessen the effects on their farm production of the extremes of weather on their great Anatolian plateau. They can accomplish this and much more if they are given time, know-how and have enough capital for investment, and if they have the political stability which they maintained for the decade ending in the winter of 1970 and without which development is all but impossible. They have overcome deeply serious obstacles in the past and will do it again.

55. Foreign diplomatic missions and US civil servants and military personnel stationed in Turkey got the 12 to 1 rate before devaluation. The $10 million rise in tourist receipts in 1968 reflected their inclusion.