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THE TURKISH ECONOMY BETWEEN 1970 AND 1990

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By

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Preface

I would like to thank Professor Patrick P. Dunn for inducing me to work on the subject that I have chosen, which I thoroughly enjoyed, as well as for stimulating my interest in the field of economics.

Abstract

In the twenty years between 1970 and 1990, Turkey has adopted two radically different economic systems: import-substitution in 1970s, and export-orientation in the 1980s. But in both of these decades, Turkey experienced severe economic crisis generally resulting from problems in foreign trade. By studying these period two jointly, this IQP will attempt to analyze the transformation of the Turkish economy from the 1970s to the 1980s, and pinpoint the underlying causes of the trade-related problems of each decade.

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Part 1:

The Turkish Economy under Import-Substitution between 1970 and 1980, and the Foreign Trade Deficit related crisis of the late 1970s.

The period between 1970 and 1980 represents a time when the Turkish economy was relatively "closed," geared towards *import-substitution*, and organized around a mixed economic system where the public sector had a prominent role. Under this economic system, burgeoning domestic industries vulnerable to foreign competition were protected through high tariffs and quotas, and the country was to undergo rapid industrialization under state-sponsorship to reduce its dependency on foreign imports (Yeldan, p. 38). Overall, the intention was to enable the country to develop with as little need as possible for external resources (Kepenek & Yenturk, p. 232). But by the late 1970s this entire economic system based on import-substitution and state-lead industrialization had not only failed to achieve its original aims (e.g. making the country less dependant on foreign imports), but had also caused Turkey to be dragged into an economic crisis that, coupled with ongoing political and social instability, culminated in the military intervention of September 12th 1980. The government after the 1980 *coup* opted, in accordance with the 1980-1983 *stand-by* agreement with the *International Monetary Fund* (IMF), for an "open" economy based on export-orientation. How Turkey fared under export-orientation will be covered later, and will constitute the major part of this paper. But the author believes that reviewing the import-substitution phase (1970-1980) represents an important first step in understanding the export-orientation period that followed it (1980-onwards). Also, it has come to the author's attention that certain characteristics of the Turkish economy are somewhat permanent elements, and have continued to manifest themselves in one way or another regardless of time and the existing economic system. Such elements hint to significant problems that extend beyond considerations such as whether the country is adopting import-substitution or export-orientation, and which, to be properly analyzed, requires the economic history and evolution of the country to be viewed as much as possible in its entirety.

The failure of import-substitution in Turkey can ultimately be linked to the fact that, under this economic system, the country as a whole spent far more foreign currency than it was able to earn (Yeldan, p. 43). In other words, the foreign currency revenues (i.e. export revenues) of both the private and the public sector could not cover their foreign currency expenditures (i.e. import expenditures). This resulted in a foreign trade deficit that only kept growing over the years, and which could only be financed through foreign borrowing. The table below reflects how in the 1970s, and particularly after 1974, the foreign trade deficit spiraled out of control and reached considerable proportions:

Table 1.1: Foreign Trade Deficit between 1970 and 1980

Year	External Trade Deficit (in $million)	Year	External Trade Deficit (in $million)
1970	*-360*	1976	*-3,169*
1971	*-495*	1977	*-4,043*
1972	*-678*	1978	*-2,311*
1973	*-769*	1979	*-2,808*
1974	*-2,246*	1980	*-4,999*
1975	*-3,338*		

(Source: DIE, TIY 1993, ss. 541-542)

It is striking how the foreign trade deficit, which had always remained below $1,000 million before 1974, had escalated in a single year from $769 million to $2,246 million between 1973 and 1974 – an increase of about 192%. In the ensuing years, the deficit oscillated dramatically, increasing to as high as $4,043 million in 1977, decreasing to as low as $2,311 in 1978, and finally reaching $4,999 million in 1980.

The chart below indicates how Turkey's imports and exports have fared between 1970 and 1980, thus giving us a better understanding of the factors behind the foreign trade deficit:

Table 1.2: Import Expenditures, Export Revenues and Foreign Trade Deficit between 1970 and 1980 (in $millions):

Year	Import Expenditures	Export Revenues	(Exports / Imports)	Foreign Trade Deficit
1970	948	588	62.02%	-360
1971	1,171	677	57.80%	-495
1972	1,563	885	56.62%	-678
1973	2,086	1,317	63.16%	-769
1974	3,778	1,532	40.55%	-2,246
1975	4,739	1,401	29.56%	-3,338
1976	5,129	1,960	38.21%	-3,169
1977	5,796	1,753	30.24%	-4,043
1978	4,599	2,288	49.75%	-2,311
1979	5,069	2,261	44.60%	-2,808
1980	7,909	2,910	36.79%	-4,999

(Source: DIE, TIY 1993, ss. 541-542)

The following table gives an illustration of the composition of both exports and imports in selected years between 1973 and 1980:

Table 1.3: Composition of Imports in selected years between 1973 and 1980 (in %):

	Investments Goods[1]	Intermediate Goods[2]	Consumption Goods
1973	48.1	47.6	4.3
1976	43.7	53.3	3.0
1977	38.9	58.0	3.1
1978	34.6	62.5	2.9
1979	31.5	66.6	1.9
1980	20.0	77.9	2.1

(Source: DIE, Istatistik Gostergeler, 1923-1990 s. 297)

[1] *Investments Goods* represent primary materials that are used in the first stage of the production of another goods.
[2] Intermediate Goods represent intermediary materials that are used neither in the first stage of production, nor are the final products of a production sequence. They generally represent inputs.

Table 1.4: Composition of Exports in selected years between 1973 and 1980 (in %):

	Agricultural	Industrial	Mineral
1973	63.2	32.5	4.3
1976	64.0	30.4	5.6
1977	59.4	33.4	7.2
1978	67.4	27.2	5.4
1979	59.5	34.7	5.8
1980	57.4	36.0	6.6

(Source: DIE, Istatistik Gostergeler, 1923-1990 s. 297)

Turkish exports in 1970s were predominately agricultural products, mostly constituted of tobacco, grapes, nuts, olives and figs. Imports on the other hand mainly concentrated around intermediate goods that were necessary for the operation of the domestic industries: petrol, petrochemicals, metals, electronics, etc. Most of these were exempt of the tariffs and quotas characteristic of import-substitution as a measure to promote domestic industries (Kepenek & Yenturk).

Table 1.2 above indicates that both import expenditures and export revenues have shown as steady and continuous increase between 1970 and 1973, although the increase in the former took place at a slightly greater pace. The picture changed dramatically in 1974, when import expenditures rose from $2,086 million to $3,778 (an 81.1% increase), while export revenues only experience a slight increase from $1,317 million to $1,532 million (a 16.3% increase). This set the pattern for the following 6 years: The increase in import expenditures was rapid and uncontained, occurring at an average of $688.5 million every year, whereas export revenues fluctuated unsteadily, with an average increase of $239.7 million every year 1974 and 1980.

Thus, we can see that exports were literally dwarfed by the size of imports as the years progressed. Table 1.2 indicates that, at times, they represented as low as 29-30% of imports. It is also worthwhile noting that Turkey ranked among the least exporting countries in the world during its import-substitution phase: between 1960 and 1977, export revenues represented on average 4% of the GNP, while this same percentage was about 16-20% for most developing countries in the same period (Tokgoz, p. 175).

As the large foreign trade deficit became a somewhat permanent character of the economy after 1974, so did the growing foreign debt that was required to balance it. Foreign debt, which was around $1.29 billion in 1973, had reached $11.4 billion by 1977, and $15.2 billion by 1980 (Tokgoz, p. 191). It must also be noted here that most foreign credit during the 1970s were obtained in order to pay for the foreign trade deficit, rather than to finance projects or to make investments, and that nearly the totality of these credits had to be repaid in foreign currency (Kepenek & Yenturk, p. 172).

After 1974, Turkey became trapped in a vicious cycle of foreign debt, where paying off already existing loans and their interest could only be achieved through further borrowing. This, along with the growing debt burden, lead to a continual decrease in Turkey's credit rating by international financial organizations. For instance, the *New York Institutional Investors* had in 1979 set Turkey's credit rating at "1.48" on a scale of 10, making it the country with the fifth worst credit rating in the world (Kepenek & Yenturk, p. 173). Such developments meant that, over time, less and less countries and organizations were willing to give credit to a country like Turkey (which effectively reduced the "pool" of credit made available), and that countries and organizations still inclined to do so consented only on the basis of increasingly harsher terms (e.g. shorter repayment times, higher interest rates, etc.). As an illustration of this, nearly 58% of the foreign debt burden was constituted of short-term loans in 1977, and the average repayment time for the long-term loans dropped from 22.1 years (in 1973) to 12.7 years (in 1977). The chart below is a good reflection of the strain placed on the Turkish economy by foreign debts:

Table 1.5: Foreign Debt Burden, compared to GNP, Export Revenues and Foreign Currency Reserves between 1973 and 1979 (in %)

	1973	1974	1975	1976	1977	1978	1979
(Foreign Debt Burden) / (GNP)	13.6	10.6	8.9	9.2	9.8	12.9	20.0
(Foreign Debt Burden) / (Export Revenues)	97.8	91.2	99.7	100.1	133.8	107.5	232.2
(Foreign Debt Burden) / (Foreign Currency Reserves)	125.9	137.6	234	262.8	390.1	412.9	428.3

(Source: World Bank, World Debt Tables, age., 1980, p. XXVII)

According to the table above, the foreign debt burden represented an increasingly larger portion of the GNP as the years went on (after an initial decrease between 1973 and 1975), and amounted to nearly 20% of the GNP in 1979 – its highest value ever. Also, we can see that the foreign debt burden had dwarfed Turkey's foreign currency reserves by 1975 (>200%), and had exceeded the country's export revenues by 1976.

As the end of the 1970s approached, Turkey was increasingly unable to repay debts whose time were due, and most creditors were no longer willing to provide additional credit. With all existing sources of credit already exhausted, the public and private industries could not obtain much needed credit to finance the imports that were necessary for their activities (e.g. intermediate goods, raw materials, and inputs of this kind) (Yeldan, p. 43). Consequently, industrial production began to plummet: the industrial sector grew at a rate of 12.1 % in 1973, 9.0% in 1975, 6.9% in 1977, 0.4% in 1979, and –2.8% in 1980 (Kepenek & Yenturk). The foreign debt burden had also served to exacerbate the already existing public sector deficit, which in turn caused inflation to soar: Inflation was 5.8% in 1970, 19.9% in 1974, 52.6% in 1978, 63.9% in 1979, and 107.2% in 1980 (Tokgoz, p. 180). As economic instability grew towards the end of the decade, many private and public sector investments were postponed or abandoned altogether, unemployment increased, production in all sectors decreased dramatically, shortages became commonplace, and the black market/underground economy thrived (Tokgoz, p. 190). Economic growth, which was 8.0% in 1975, was 3.9% in 1977, 2.9% in 1978, and –0.4% in 1979, and –1.1% in 1980 (Kepenek & Yenturk).

The worsening economic conditions during the 1970s also coincided with a period of increasing political discord and social turmoil, of which it was partly the cause. In brief, the political conflicts that beleaguered the country were mainly rivalries between the major political parties, primarily between the left and right, who were unable to collaborate with one another to guide the country in these times of difficulty (Tokgoz, p. 177). The concurrent social strife in late 1970s was somewhat a continuation "in the streets" of the conflicts at the political level, which, fueled by general discontentment as a result of the economic crisis, manifested itself as increasingly violent confrontations between left and right activists that claimed nearly dozens of lives everyday.

The combination of political discord, social turmoil and the mentioned economic developments had plunged the country in a state of chaos by early 1980, and only the intervention of the military forces in September 12th 1980 had prevented the situation from degenerating any further. The 1980 *coup* not only restored peace and stability within the country, but also created the opportunity for a radical shift in how the country's economy was to be managed.

Thus, understanding the crisis that brought import-substitution to an end in Turkey requires one to first identify the reasons behind the foreign trade deficit – the causative agent behind the late 1970s' ruinous foreign debt. Analysis of the period reveals that the underlying causes behind the foreign trade deficit can be traced down to:

(1) The 1974 oil crisis.

(2) The nominal overvaluation of the Turkish national currency throughout the 1970s.

(3) The "integration protocol" signed with the European Community in 1973.

The 1974 oil crisis comes across as the foremost external event that contributed to Turkey's mounting foreign trade deficit. As it is well known, the flaring of the Arab-Israel conflict in 1973 had promoted members of the Organization of Petrol Exporting Countries (OPEC) to increase oil prices from $2.5 in early 1973 to $11.6 in December 24th 1973 – with devastating consequences to economies around the world. This dramatic rise in oil prices is one of the major reasons why the foreign trade deficit of Turkey, a petrol importing country, nearly tripled from 1973 to 1974 (Tokgoz, p. 176).

But the ramifications of the oil crisis on Turkey's foreign trade deficit extended beyond a direct increase in import expenditures as result of a rise in petrol prices. Countries with which Turkey had close trade relations, primarily the members of the European Community (EC), were themselves struggling to keep the repercussions of the crisis under control. As Tokgoz explains, they attempted to do so primarily by raising the price of their industrial products and by decreasing domestic consumption (Tokgoz, p. 183). This maneuver from Turkey's trade partners effectively inflated the import expenditures of Turkey, since the intermediate goods that were bought from them for the activities of the domestic industries were now more expensive (Kepenek & Yenturk, p. 194).

Another contributor to Turkey's foreign trade deficit was the overvaluation of its national currency, the Turkish Lira (TL) (Tokgoz, p. 175). While most countries in the world had made the transition to a floating exchange rate early in the 1970s, Turkey continued to adhere a fixed exchange rate throughout the decade. The exchange rate was, on average, $1 = 14.47 TL between 1971 and 1975, and $1 = 23.53 TL between 1976 and 1979. According to Yeldan, the "nominal" value of the TL throughout the 1970s was between 4% to 25% above its "real" value against the American Dollar (Yeldan, p. 36). Maintaining the TL nominally overvalued was part of the government's import-substitution policies that intended to protect and promote domestic industries, since the measure served to decrease the cost of imported inputs (Kepenek & Yenturk). But this policy had its inevitable downside: appreciated, or insufficiently devalued, national currency in developing countries boosts imports by making them relatively cheaper to buy in the domestic market, while discouraging exports by making them more expensive to produce and then sell in foreign markets (developing countries like Turkey often rely on the cheapness of their exports to maintain competitiveness). Consequently, the TL's overvalued exchange rate during the 1970s constantly hampered the growth of exports, at the same time as it continually promoted imports despite worsening economic conditions (Tokgoz, p. 182).

The 1970s also represented a time when Turkey was involved in economic rapprochement with the countries of the European Community (EC). As an extension of the "Ankara Treaty"[3] signed with the European Economic Community (EEC)[4] in February 12th 1963, Turkey had agreed in 1973 on an "integration protocol" which set guidelines for additional trade and economic requirements that had to be fulfilled prior to being included into the EC (then planned to take place in 1995). Among other considerations, the "integration protocol" involved the mutual removal of most trade quotas and tariffs between Turkey and the EC countries. This was to be achieved gradually, with Turkey removing all tariffs on a variety of metals, chemicals and electronics from the EC – which represented more than 50% of the country's imports – in a stepwise fashion over a period of 12 years (Kepenek & Yenturk, p. 277). Other imports were to have their tariffs removed over a period of 22 years. Similarly, the EC countries agreed to

[3] The treaty that set the outline of the mainly political and economic obligations Turkey had to fulfill before becoming eligible for full membership in the EEC.
[4] The EEC became the EC in 1967.

progressively remove all tariffs and quotas on Turkey's industrial exports, and to guarantee that at least a certain proportion of the agricultural imports would always be from Turkey [5].

But the protocol, which was put into effect in 1973, inadvertently contributed to the drastic rise in imports after 1974. As the protocol was fully underway in 1974, Turkey entered the period of economic difficulties after the oil crisis just when it was reducing the tariffs on its most significant imports (by 10% every year); and it was only in 1977, when economic conditions had gone from bad to worse, that Turkey unilaterally ceased to follow the protocol's requirements. Thus, the trade restrictions which intended to protect the import-substitution based domestic economy were not fully enforced between 1974 an 1977, and imports were effectively encouraged in the worst possible moment (Tokgoz, p. 182). The unintentional encouragement of imports in a time crisis contributed significantly to the country's import expenditures, and served to further inflate the foreign trade deficit.

Thus, despite its relative isolation at the time, the Turkish economy in the 1970s was not, and had never been, unsusceptible to events in the worldwide economy. The combination of developments abroad had directly inflated Turkey's foreign trade deficit, thus setting in chain the events that produced the state of political, social and especially economic crisis of the late 1970s. This in turn lead to the military coup of 1980, by which time the import-substitution economy had largely fallen out of favor, and an open economy based on export-orientation was seen as the only path for real economic development. Turkey thus joined in 1980 the fray of developing countries which placed emphasis on their exports to increase their foreign revenues, and began from then onwards to be more actively involved in the global economy.

[5] Yet, the removal of tariffs on agricultural products was limited: the EC could still impose a 50% to 60% tariff on agricultural exports from Turkey (Kepenek & Yenturk, p. 278).

Part 2:

The Turkish Economy under Export-Orientation Between 1980 and 1990, and Problems relating to the Growth of Exports.

Given the depth of the crisis in which Turkey found itself by the end of the 1970s, it comes as no surprise that the post-1980 government was willing to make radical changes in the economic structure of the country. As the crisis of the last decade had been caused primarily by a deficit in foreign trade, state officials were now more in favor of an economic system that would augment the country's foreign (currency) revenues (Kepenek & Yenturk, p. 203). And thus, in accord with the 1980-1983 *stand-by* agreement with the IMF, Turkey embarked on a program of reforms that marked a transition from an import-substitution economy to one based on export-orientation. The economy was effectively "opened up" during the early 1980s, with almost all of the trade and economic restrictions of the past decade being removed, and the private sector being given prominence over the public sector. Most importantly, the country now planned to increase its foreign revenues by supporting its manufactured exports and private manufacturing industries. A program of incentives was implemented to this effect, along with a series of "belt-tightening" measures, such as the lowering of real wages, devaluation, and high interest rates, which intended to promote the country's manufactured exports and manufacturing sectors by pushing down on the buying power of the larger population (Yeldan, p. 44-45). Overall, the entire economy after 1980 was organized to support export-oriented production.

However, despite the promising and developments of the 1980s, Turkey's transition to export-orientation had ultimately limited success. A considerable increase in export revenues did indeed take place between 1980 and 1989 (nearly five-fold), and the country did experience rapid economic growth during the same period; but in the end, the export-based economy had failed by 1989 to engender the *expected* increase in export revenues, and the growth of exports during the 1980s proved to be short-termed: export revenues by 1989 were more than 25% below targets set in 1983, and the rise in exports had nearly halted by the end of the decade (Tokgoz). Furthermore, the growth in imports during the 1980s had been more substantial than the growth in exports (Kepenek & Yenturk, p. 290). All this meant that the costly incentives and measures that were in effect since the early 1980s, and which had imposed a considerable burden on both the population and the economy, had largely failed to produce the expected results. More importantly, the "belt-tightening" measures in question had effectively contributed to the gradual worsening of the economy: after a gradual increase in the severity of economic problems during the 1980s, the economy had effectively entered a period of stagnation in 1989 with a high inflation, foreign trade deficit, and massive foreign debt burden that was reminiscent of the late 1970s (Tokgoz, p. 200). Such developments inevitably engendered populist demands from the larger population, which requested structural changes in the economy that would, before anything else, improve real wages in the country (Yeldan, p. 49). The existing government gave in to the demands in 1989, and much of the "belt-tightening" measures and incentives characteristic of export-orientation were abandoned in favor of short-termed, populist policies, such as the appreciation of the national currency and substantial increase in real wages. By 1990, the government's focus and everyday economic concerns had shifted towards satisfying populist demands, rather than taking concrete steps in to improve the country's foreign/export revenues, and the whole notion of export-orientation was pushed to the background. In sum, the export-orientation of the 1980s had failed to bloom into a long-term economic strategy[6] (Yeldan).

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[6] This is not to say that export-orientation was wholly abandoned: rather, the government ceased to follow export-orientation policies in 1989, only to resume them after 1994, after the populist policies of the existing government

The author would like to concentrate the scope of this paper primarily on the most important development that pinpointed to the limited success of export-orientation: growth in exports during the 1980s that occurred at a much lower rate than planned and anticipated. The author will illustrate that the lower-than-expected growth in exports during the 1980s was ultimately the result of the shallowness of fixed capital investments in private manufacturing, which had the effect of preventing the export-oriented industrialization of the country (that is, the development of industries that would produce the country's exports). But before addressing in greater detail the causes of such developments, it would be best to review the export-oriented reforms and incentives that were actually put into effect after 1980.

Between 1980 and 1984 Turkey had carried out much of the reforms that marked a transition to an "open" and export-based economy. To designate the most significant reforms:

- The Turkish Lira (TL) was successively devalued from $1 = 35 TL in early 1980 to $1 = 142 TL in 1981
- A floating exchange rate was adopted in April 1981.
- A switch was made to "positive" interest rates (compared to the "negative" interest rates of the 1970s). In fact, interest rates were kept high (higher than inflation) in order to encourage savings.
- Subsidies and state control of prices were eliminated.
- Most tariffs and quotas were either removed or significantly reduced by 1984.
- The economy was largely left to the operation of free market forces in 1981. (Tokgoz, p. 192-193).

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plunged the country in its worst economic crisis ever. But such matters are beyond the scope and coverage of this paper.

Other important reforms centered around the management of the public sector. First of all, there were long-term plans on reducing the size and involvement of the public sector in the economy by cutting down on its spending and investments (Kepenek & Yenturk, p. 243). This was to be accompanied by strict restrictions on public sector spending in order to avoid the unremitting public sector deficit of the 1970s. The supply of money was to be tightly controlled to bring inflation under control, and the government was also to carry out the privatization of most state-owned corporations. Altogether, these reforms represented a marked departure from the closed and state-lead economy of the 1970s, with preeminence now being given to free market forces and the private sector.

As an integral part of export-orientation, the government also put into effect in the early 1980s a series of measures that aimed to (1) draw private investments into the manufacturing sectors, and (2) to make Turkish manufactured exports competitive in foreign markets. Foremost among them was the already mentioned devaluation of the national currency, which allowed for Turkish manufactured exports (mostly textiles, clothing, and foodstuffs) to be produced and sold at relatively cheaper prices in foreign markets. The goal behind this was to create a comparative advantage for Turkish manufactured exports based largely on their low cost (Kepenek & Yenturk, p. 203).

Another form of incentive was the effective lowering of real wages throughout the 1980s: the share of wages in the *added value* of the private manufacturing sectors gradually dropped from 27.5% in 1980 to 17% in 1989, and real wages in 1989 were nearly 30% below what they had been in 1980 (Yeldan, p. 73). The intention behind this was to decrease the buying power within the country so as to create a "surplus" in domestic production that could be exported (Kepenek & Yenturk, p. 200). The measure was also meant to increase the profitability of the private sectors, which would encourage private investments, and allow the manufacturing industries to produce exports at a lower cost.

Beyond such measures, the government was also directly involved in providing incentives for private investments and export-oriented production. These were almost exclusively monetary measures. They included (1) the direct transfer of funds from the government to assist investments in a variety of sectors from manufacturing to services, and (2) incentives that aimed to the assist the private manufacturing sector in particular through tax exemptions, tax returns, ample and favorable credit, and the permission to use and hold unto earned foreign currencies (Kepenek & Yenturk, p. 318). It is striking that the government's incentives were very general, in that they did not attempt to promote a specific industry or sub-sector (such as, say, the textiles industry). This makes the author wonder how the government expected this approach to create comparative advantages for Turkey… Even more puzzling is the absence of any explanation as to why the government chose this approach. At any rate, the size of the incentives, and hence the burden they placed on the consolidated budget, was quite substantial during the 1980s: investment incentives often represented ~50% of expenditures from the consolidated budget (Kepenek & Yenturk). This is a reflection of the importance that the government now placed on the development of the private sector, and indicates that a considerable portion of its resources were allocated to that purpose.

Thanks to the reforms and incentives, export-orientation in Turkey soon gave results: export revenues increased between 1980 and 1988 at an average of 15% every year, the share of exports in the GNP rose from 5.0% in 1980 to 12.1% in 1988, and the country underwent rapid economic growth at an average of +5.5% between 1981 and 1987 (Yeldan, p. 45). Also, industrial production was increasingly oriented towards producing exports. This is attested by the fact that while 67.4% of Turkey's exports in 1978 were agricultural products, the share of industrial products in exports was more than 70% by 1984 (Kepenek & Yenturk, p. 290). The table below illustrates the composition of Turkish exports between 1978 and 1990:

Table 2.1: The Composition of Turkish Exports between 1978 and 1990 (in %):

Year	Agricultural	Industrial	Mineral
1978	67.4	27.2	5.4
1979	59.5	34.7	5.8
1980	57.4	36.0	6.6
1981	47.2	48.7	4.1
1982	37.3	59.7	3.0
1983	32.8	63.9	3.3
1984	24.5	72.1	3.4
1985	21.6	75.3	3.1
1986	25.3	71.4	3.3
1987	18.2	79.1	2.7
1988	20.1	76.7	3.2
1989	18.2	78.2	3.6
1990	18.4	79.0	2.5

(Source: DIE, Istatistik Gostergeler, 1923-1990 s. 297; and DIE, TIY 1993, s. 561)

Turkey's industrial exports in this period were predominantly textiles, clothing and foodstuffs, along with some iron-steel and chemicals (Kepenek & Yenturk, p. 292).

However, despite the positive developments in exports, the economy in the 1980s continued to suffer from intrinsic problems that only worsened as the years progressed. Foremost among these problems were the two-digit inflation, low real wages, and a constantly devalued national currency. Such problems were generally the consequences of the already mentioned measures that had been introduced to promote the country's manufactured exports and private manufacturing industries (Yeldan, p. 58-59). A foreign trade deficit had also persisted into the 1980s, at around $3.5 billion, mainly because import expenditures had continued to grow as rapidly as export revenues. The public sector deficit had continued into the 1980s as well, largely because, contrary to plans of the early 1980s, public sector expenditures continued to increase while little was made to improve on its revenues (Tokgoz, p.200). In addition to fostering inflation, the public sector deficit contributed together with the foreign trade deficit to the country's foreign debt. But thanks to the ample credit provided by countries and international organizations that supported Turkey's export-oriented economy, both the public sector deficit and the foreign trade deficit could be kept under control, and there was no shortage of foreign credit as there had been in the 1970s (Yeldan, p. 58). The table below reflects the increasingly worsening economic conditions between 1980 and 1989:

Table 2.2: Economic Conditions between 1980 and 1989:

Year	Inflation (%)	Interest Rate (1 Year Time Deposit) (%)	Yearly Devaluation (%)	Exchange Rate (TL/$)	Foreign Debt ($million)	Economic Growth (%)
1980	107.2	33.0	150.8	89.25	16,227	-1.1
1981	36.8	50.0	43.3	132.20	17,041	4.1
1982	27.0	50.0	45.7	184.90	17,619	4.5
1983	30.5	45.0	40.2	280.00	18,385	3.3
1984	50.3	45.0	62.1	442.50	20,659	5.9
1985	43.2	55.0	40.7	574.00	25,476	5.1
1986	29.6	48.0	29.8	755.90	32,101	8.1
1987	32.0	53.6	27.3	1018.35	40,428	7.4
1988	68.3	83.9	67.1	1813.02	40,722	3.7
1989	69.6	58.8	47.5	2311.37	41,751	1.9

(Sources: TCMB, Aylik Bultenler; DIE, Istatistik Gostergeler 1923-1990, Ankara 1991)

This other chart displays the changes that have taken place in private sector real wages between 1980 and 1988:

Table 2.3: Changes in Private Sector Real Wages between 1980 and 1989:

Year	% Change	Year	% Change
1980	*-27.9*	1985	*-12.6*
1981	*-5*	1986	*2.7*
1982	*-1.1*	1987	*-3.3*
1983	*4.7*	1988	*-14.5*
1984	*-6.2*		

(Source: Kepenek & Yenturk, p. 428)

As it can be seen in the tables above, inflation in Turkey could never be brought under 27.0%, and, excluding 1980, occurred at an average of 43% during the covered period. In the meanwhile, interest rates (or 1 Year Time Deposits, to be precise) occurred at an average of 54.4%, a value quite above the inflation. Foreign debt persistently escalated all the way from $16 billion in 1980 to $41 billion in 1989, showing the most significant increase between 1984 and 1987 (+$20 billion in 4 years). The TL experienced incessant devaluations during the 1980s, with the exchange rate between going from 89.25 TL = $1 in 1980, to 2311.37 TL = $1 in 1989. And, lastly, we can see that real wages among workers in the private sector experienced a *decrease* through much of the 1980s (with the exception of 1983 and 1986), and at rates that sometimes exceeded 10%.

Along with the worsening economic conditions, the optimistic picture that had developed during the 1980s thanks to the growth of exports began to fade when the increase in export revenues reached a standstill in 1989, while import expenditures were still on the rise (in other words, the foreign trade deficit was mounting once again) (Tokgoz, p. 209). More importantly, the total size of exports in 1989 was considerably behind what the government had anticipated for the end of the decade. Plans in early 1983 had aimed for $15.5 billion by 1989, but export revenues had only reached $11.6 billion in actuality (Tokgoz, p. 198). Also, looking back, it became apparent that the total increase in export revenues by 1989 had been less than the rise in import expenditures. All these were clear indications that export-orientation in Turkey had limited success in producing the expected increase in foreign revenues, and none in remedying the foreign trade deficit. To substantiate these claims, it would be best to review how exports and imports have fared between 1980 and 1989, which is illustrated below:

Table 2.4: Import Expenditures, Export Revenues and Foreign Trade Deficit between 1980 and 1989 (in $millions):

Year	Import Expenditures	Export Revenues	(Exports/Imports)	Foreign Trade Deficit
1980	7,909	2,910	36.8%	-4,999
1981	8,933	4,703	52.6%	-4,230
1982	8,843	5,746	65.0%	-3,097
1983	9,235	5,728	62.0%	-3,507
1984	10,757	7,134	66.3%	-3,623
1985	11,343	7,958	70.2%	-3,385
1986	11,105	7,457	67.1%	-3,648
1987	14,158	10,190	72.0%	-3,968
1988	14,335	11,662	81.4%	-2,673
1989	15,792	11,625	76.3%	-4,167

(Source: DIE, TIY 1993, ss. 541-542)

Initially, the divide between exports and imports had steadily become less sizeable from 1980 to 1988, which indicates that export-orientation was producing expected results during those years. Export revenues represented 36.8% of import expenditures in 1980, but this same percentage was 65.0% in 1982, 66.3% in 1984, 67.1% in 1986, and 81.4% in 1988. Also, the foreign trade deficit had remained below $4 billion between 1982 and 1988, and its proportions was becoming less significant compared to the size of exports and imports. According to the data from 1988, the foreign trade deficit of $2,673 million represented 22.9% of export revenues, and 18.6% of import expenditures. This is a marked improvement from 1980, when the foreign trade deficit was at $4,999 million, and that this represented 171.8% of exports and 63.2% of imports.

In 1989, however, the foreign trade deficit had peaked above $4 billion after remaining around $3.5 billion for much of the 1980s. In addition, export revenues experienced a decline *in conjunction* with a rise in import expenditures for the first time since 1980: exports had gone slightly down from $11,662 million to $11,625 million between 1988 and 1989, whereas imports had increased from $14,445 million to $15,792 million in the same years. Previously, the growth and contraction of exports and imports had been matched, occurring in the same direction roughly in the same amounts. Another important realization was that the growth of exports between 1982 and 1989, which was $5,789 million, was actually *lesser* than the growth of imports between the same years, which was $6,949 million. In other words, not only was the actual size of the export revenues about 25% below what was planned for 1989, but the growth in exports under the export-oriented economy had been slower than the rise in imports (Tokgoz, p. 198).

In addition to being a landmark in regard to the growth exports, 1989 also represented the year when the economy was at its worst since the late 1970s: Inflation had reached 69.6%, economic growth was taking place at 1.9%, the foreign trade deficit was $4.167 billion, and foreign debt had reached ~$41 billion (Tokgoz, p. 200). The country was far from the state of political, economic and social chaos that had prevailed during the late 1970s, yet economic conditions were almost reminiscent of that period. The government under prime minister Turgut Ozal (who authored much of the reforms of the early 1980s, and was at the head of the state after 1984) had become increasingly unpopular as the status of the economy worsened, and populist demands had gradually strengthened during the decade (Tokgoz, p. 197). These demands primarily centered around improving the situation with real wages, which, by a combination of minimal salary increases and inflation, had dropped about 30% below its 1980 value by 1989 (Kepenek & Yenturk). After regional elections in 1989 confirmed a considerable loss in their support among the population, the Ozal government consented to the populist demands: the government abandoned much of the measures, incentives and policies that had been pursued until then to promote manufactured exports and private manufacturing industries. In 1989 and the following years, real wages experienced successive hikes of 20% to 30% a year, the Turkish Lira experienced *appreciation* for the first time in years, and government incentives were minimized (Yeldan, p. 49). Although such changes satisfied much of the immediate populist demands of the time, they effectively announced the end of the measures that endorsed export-orientation.

The developments after 1989 represent a completely different subject than what the author wishes to focus on. Suffice to say here that the intensely export-oriented phase of the Turkish economy had come to a closure after 1989, but would be later resumed in 1994… but not before the mentioned populist policies dragged the country in its worst crisis ever (Yeldan, p. 53). But the matter which the author believes deserves the most attention is the developments concerning the exports in 1980s. For, ultimately, what was behind the failure to produce the expected growth in exports, given that the economy after 1980 was entirely export-oriented?

Analyzing of the period reveals that the most significant reason behind the developments concerning the exports was that, contrary to all hopes and expectations, fixed capital investments had failed to intensify in the manufacturing sectors, and had been diverted to sectors that neither *produced* nor *exported* anything (e.g. service in general, such as *construction* and *tourism*) (Yeldan, p. 46). In other words, while the government had expected the country's economic development to be driven by export-orientation, investments did not accumulate in the very sector essential for its operation – the manufacturing industries that would produce the country's exports. Without the necessary investments in manufacturing, Turkey was effectively unable to industrialize in a way that meets the demands of an export-based economy, which explains the lower-than-expected rate of growth in exports during the 1980s (Yeldan).

The following tables serve to illustrate how limited investments have been in the manufacturing sectors between 1980 and 1989. The one right below displays the percentage of total (public + private) fixed capital investments that were effectuated in the manufacturing sectors between 1980 and 1989.

Table 2.5: Percentage of Fixed Capital Investments in the Manufacturing Industries between 1980 and 1989:

Year	Total (%)	Year	Total (%)
1980	*28.5*	1985	*23.1*
1981	*28.6*	1986	*22.0*
1982	*27.3*	1987	*17.6*
1983	*25.5*	1988	*16.1*
1984	*25.0*	1989	*14.8*

(Source: DPT, Ekonomik ve sosyal Gostergeler (1950-1996), Ankara, 1997)

It can be seen that fixed capital investments in manufacturing never represented one-third of all fixed investments, and that its share gradually decreased over the years (particularly after 1986). This other table displays separately the percentage of total public and private fixed capital investments in the manufacturing between 1980 and 1989:

Table 2.6: Percentage of Public/Private Fixed Capital Investments in the Public/Private Manufacturing Industries between 1980 and 1989:

Year	Public (%)	Private (%)	Year	Public (%)	Private (%)
1980	*26.3*	*30.0*	1985	*12.6*	*31.9*
1981	*21.9*	*34.1*	1986	*9.8*	*31.8*
1982	*18.9*	*33.6*	1987	*6.5*	*25.2*
1983	*15.8*	*32.9*	1988	*5.9*	*21.4*
1984	*14.0*	*32.9*	1989	*4.6*	*19.9*

(Source: DPT, Ekonomik ve sosyal Gostergeler (1950-1996), Ankara, 1997)

The data at hand indicates that fixed capital investments in manufacturing by the public sector has decreased progressively over the years from 26.3% in 1980 to 4.6% in 1989. This is not an unexpected development, since, as mentioned earlier, it was the government's intent to reduce the presence of the public sector in the economy by decreasing its investments (Tokgoz). Also, after 1980, the public sector had shifted emphasis into infrastructure (such as energy and transportation), while most sectors, especially the manufacturing industries, were left to the private sector (Yeldan, p. 46). This was part of the government's policy of leaving investments mainly to private initiative (Kepenek & Yenturk).

But when we look at how private sector fixed capital investments in manufacturing have fared, we can see that actual developments fell short of the post-1980 that an export-oriented industrialization would take place – that is, the development of manufacturing industries that would produce the country's exports. Table 2.6 indicates that, throughout the decade, fixed capital investments in manufacturing have never represented more than about one-third of all private fixed capital investments. After a slight increase between 1980 and 1981, private investments in manufacturing entered a gradual decline after 1981 (decreasing from 34.1% in 1981 to 31.8% in 1986), and a more rapid one after 1986 (going from 31.8% in 1986 to 19.8% in 1989). These developments ran counter to the long-term economic goals that were set in the early 1980s, given that Turkey intended to increase its exports promoting its manufacturing industries (Yeldan, p. 58).

The chart below illustrates the size of public and private fixed capital investments in both manufacturing and non-manufacturing sector (most notably in housing and energy) to allow for a comparison between the two.

Table 2.7: Distribution of Fixed Capital Investments in the Private and Public Sectors:

Fixed Investments (% Distribution)	1981-1982 (average)	1983-1987 (average)	1988
Total Private Sector	55.9	56.9	66.1
Prv. Energy and Transportation	16.2	15.9	10.0
Prv. Manufacturing	33.8	30.9	21.4
Prv. Housing	30.1	34.8	53.3
Public Sector	44.1	43.1	33.9
Pub. Energy and Transportation	43.9	51.6	56.6
Pub. Manufacturing	20.4	11.7	5.9

(Source: Devlet Planlama Teskilati, Temel Ekonomik Gostergeler)

In this table, we can see that between 1983 and 1987 most private sector investments between concentrated around housing (34.8% on average), whereas most public fixed capital investments intensified around energy and transportation (51.6% on average). The private investments' emphasis on housing has become even more pronounced in 1988, reaching 53.3%, while manufacturing has dropped to 21.4% the same year. The chart demonstrates once again that between 1980 and 1989, less than one-third of all private fixed capital investments were effectuated in the manufacturing sectors, and that the tendency to invest in this sector decreased over time. It also confirms that investments in the services sectors, such as housing, energy and transportation, have constantly overshadowed those in the manufacturing industries.

To further emphasize the considerable proportions of capital that have been diverted to the service sectors, such as *trade* and *housing*, the author wishes to draw attention to the amount investments that have been effectuated in them. The table below displays the percentage share of the service sector GNP, as well as the percentage of total investments being made in services between 1980 and 1989:

Table 2.8: Service Sectors between 1980 and 1990:

Year	% of GNP	% of Total Investments
1980	48.4	47.2
1981	47.7	42.2
1982	48.1	43.5
1983	55.0	44.9
1984	56.1	47.5
1985	55.9	51.6
1986	51.1	54.6
1987	52.9	60.9
1988	52.6	61.3
1989	52.4	62.7
1990	52.2	63.3

(Sources: Ulusal Gelir: DIE, TIY, degisik yillar. Yatirimlar: DPT, Ekonomik ve Sosyal Gostergeler, 1997; Maliye Bakanligi 1997 Yillik Ekonomik Rapor, s. 27; 1998 Yillik Ekonomik Rapor, s. 27)

Overall, the service sectors, which includes *trade*, *construction & housing*, *transportation & communication*, *financial organizations* (e.g. banking), *freelance businesses*, and *public services* (e.g. education), have represented 50% of the GNP throughout the 1980s. Although this is not a notable observation in itself, the disconcerting development rather appears to be the relative enormity of investments being made in this sector: nearly 60% by the end of the decade, while manufacturing investments represented 15-16% of all investments in 1988 and 1989. Kepenek also draws attention to the fact that, through much of the 1980s, nearly one-third of investments in the services were in *trade*, one-sixth in *housing*, another one-sixth in *transportation & communication*, and the remaining one-third distributed in the other service sub-sectors (Kepenek & Yenturk, p. 389).

As a result of the small size of investments in manufacturing, the growth of this sector has been very limited throughout the 1980s. Or to put it another way, the extent of export-oriented industrialization during the 1980s was below expectations. This is illustrated in table chart below, which reflects the size of the manufacturing industries in economy between 1980 and 1989.

Table 2.9: The Share of the Manufacturing Sector in the GNP between 1980 and 1989:

Year	% GNP	Year	% GNP
1980	*17.1*	1985	*18.1*
1981	*19.4*	1986	*18.3*
1982	*20.0*	1987	*22.2*
1983	*19.1*	1988	*21.8*
1984	*18.1*	1989	*21.1*

(Source: DPT, Ekonomik ve Sosyal Gostergeler, (1950 – 1996), Ankara, 1997)

Clearly, the growth of the manufacturing sector during the decade has been negligible. Between 1980 and 1989, the size of this sector has gravitated around 19-20%, without showing any significant increase throughout the period.

Studying the underlying reasons behind the actual increase in exports (since, after all, exports still went from $2,910 billion in 1980 to $11,625 in 1989) also serves to clarify the relation between the low amount fixed capital investments in manufacturing industries and the lower-than-expected growth in exports during the 1980s. By analyzing the period, it becomes apparent that the rise in exports between 1980 and 1989 was not because of investments in manufacturing or export-based industrialization, but rather the result of:

(1) The utilization of already existing, pre-1980, manufacturing industries to produce exports, instead of goods for the domestic market as in the 1970s.

(2) The extremely favorable trade relations that prevailed with the countries of the Middle-East during the early 1980s, but which vanished towards the end of the decade.

Many sources at hand indicate that the growth of exports in the 1980s was primarily made possible utilizing, and/or building upon, the pre-1980 industrial capabilities (Kepenek & Yenturk). In other words, the 1980s did not witness the growth of a new production capabilities, and the rise in exports had more to do with the redirecting of already existing industries towards export-oriented production (Yeldan, p. 48). According to Kepenek and Yenturk, this is illustrated in the composition of Turkish imports between 1980 and 1989:

Table 2.10: Composition of Turkish Exports between 1980 and 1989:

	Investments Goods	Intermediate Goods	Consumption Goods
1980	20.0	77.9	2.1
1981	24.7	73.3	2.0
1982	26.3	71.6	2.1
1983	25.1	72.3	2.6
1984	24.7	70.9	4.4
1985	22.9	69.1	8.0
1986	31.3	60.1	8.6
1987	27.0	64.8	8.2
1988	27.8	64.4	7.8
1989	24.3	66.8	8.7

(Source: DIE, Istatistik Gostergeler, 1923-1990 s. 297)

In the 1980s, Turkish imports have been predominantly intermediate goods (more then 60% every year). Kepenek argues that the development of new industries or new production technologies in a country requires the import of "investments goods," whereas "intermediate goods" represents inputs for already existing industries (Kepenek & Yenturk, p. 292). Thus, the comparatively smaller size of imported investments goods vis-à-vis imported intermediate goods indicate that industrial production in the 1980s was mostly effectuated by using already existing capabilities and technologies, and that there was little development of new industrial production capabilities and technologies during the period. This is also attested in the fact that in the 1980s new products were not added to the list of items that Turkey already exported (mostly textiles, clothing and foodstuffs), and that new manufacturing sectors had also failed to develop in the country after 1980 (Kepenek & Yenturk, p. 293).

The orientation of already existing industrial capabilities to produce exports was, hence, largely responsible for the rise of exports in the early and mid-1980 (Yeldan, p. 46). But it had become apparent by 1989, when the growth of export revenues had largely stalled, that there was limit as to how much these existing capabilities could engender a rise in exports, and that the continued growth of exports inevitably requires the expansion and development of new export-producing capabilities. The failure to do this in the 1980s can be seen as one of the reason why the growth of exports had reached a standstill by 1989, beyond which it could not increase (Kepenek & Yenturk).

Events at the international level had also temporarily contributed to the growth of exports: the accumulated wealth of the Arab petrol-exporting countries after the 1970s' oil crisis, and the ongoing Iraq-Iran war in the early 1980s, had created a large market and demand for Turkish exports (Tokgoz, p. 190-191). This is attested by the increasing share of the Islamic countries among the countries that bought Turkish exports, compared to a decreasing share of Turkey's former trading partners, the countries of the European Union.

Table 2.11: The Share of Different Countries in Turkish Exports

Year	European Union	Other OECD, EFTA	Islamic/Middle Eastern	Others
1978	47.6	18.2	10.5	23.7
1979	48.6	15.4	11.5	24.5
1980	42.7	15.0	18.9	23.4
1981	32.0	16.2	38.5	13.3
1982	29.8	13.6	47.9	8.7
1983	35.1	12.7	50.3	11.9
1984	38.3	14.1	37.0	10.6
1985	39.4	12.2	35.0	6.4
1986	43.7	13.8	35.0	7.5
1987	47.8	15.5	30.3	6.4
1988	43.7	13.8	30.2	12.3
1989	46.5	15.2	24.7	13.6
1990	53.2	19.8	19.2	12.8

(Source: Maliye ve Gumruk Bakanligi, Yillik Ekonomik Rapor, cesitli yillar)

As the table indicates, the Islamic countries of the Middle-East were buying an increasingly larger portion of the Turkish exports between 1980 and 1984 (reaching a maximum of 50.3% in 1984), and their share was still considerable between 1985 and 1988 (more than 30%). The European Union's share in Turkish exports initially decreased from 42.7% in 1980 to

29.8% in 1982, but it became as significant as that of the Islamic countries after 1984. But the share of the Middle-Eastern countries as buyers of Turkish exports decreased after the stabilization of oil prices in the mid-1980s (that lead to decrease in the overall wealth of the Arab petrol-exporting countries) and the end of the Iraq-Iran war in 1988 (Tokgoz, p. 202). Both of these developments announced a decrease in the demand for Turkish exports, and their effects can be seen in the graph above: the share of the Middle-Eastern countries in Turkish exports decreases substantially after 1988, moving from 30.2% in 1988 to 19.2% in 1990.

An important point can be made here: the large increase in Turkey's exports in the early 1980s coincides with the development of new trade relations with Middle-Eastern countries, just as the drop in the rate of growth of Turkish exports in the late 1980s coincides with a decrease in the importance of those Middle-Eastern trade ties (Tokgoz). This proves that the growth in exports during the 1980s was largely fostered by temporarily favorable trade relations, and were not the result of some concrete and real increase in the export capabilities of the country (Yeldan).

Given all of developments regarding the investments in the manufacturing sectors, Turkey comes across as a country that had in theory decided to adopt an economic structure based on export-orientation, but whose investments and industries had remarkably failed to develop in that direction (Yeldan, p. 47). Turkey was adopting an economic structure based on export-orientation, but without the necessary fixed capital investments in manufacturing, the country altogether had failed to industrialize during the 1980s according to the needs of an export-based economy. Yeldan describes that it is this very contradiction in terms, the incoherence between what should have been done to increase the exports and where the investments have instead been effectuated, that is responsible for the discontinuity and brevity of the growth in exports (Yeldan, p. 48). It is indeed paradoxical for a country to expect a steady increase in its export revenues if no concrete investments are being done in that direction. All this serves to prove that the transition to export-orientation, although fully achieved "on paper," had only been partly successful in reality.

But these observations beg the question: Why have fixed capital investments been so limited in manufacturing, and comparatively larger in services? The reasons are manifold: To begin with the incentives provided by the government during the 1980s to encourage both investments and exports were too disorganized and uncoordinated to produce the expected results (i.e. increase in manufacturing investments). Secondly, the prevailing economic conditions of the 1980s, such as the constant two-digit inflation and high interest rates, were in themselves important disincentives to private investments. And, thirdly, the removal of most trade restrictions after 1980 had made international trade and commerce a very lucrative business, such that engaging in the *trade* of products was far more profitable than *producing* them – which explains why there was less of a preference to invest in "productive" sectors such as manufacturing, and also why investments in services, and trade in particular, were so disproportionately large.

The incentives by the government have been considerable throughout the 1980s, and did have a positive impact on the initial increase in exports. But their distribution in various sectors reveals that they were another contributor to the low amount of investments in manufacturing, as opposed to the comparatively larger amount in services. Reviewing the incentives allocated by the government to each sector during the 1980s, we can see that the services sectors often received as much, or even more, support than the manufacturing sectors. The table below illustrates this:

Table 2.12: The Allocation of Investment Incentives between 1980 and 1989 (in %):

	Agriculture	Mining	Manufacturing	Energy	Services
1980	13.3	1.8	78.0	0.0	6.6
1981	4.4	2.9	48.1	0.0	43.5
1982	4.7	2.7	41.0	1.9	50.1
1983	3.8	5.4	47.4	0.5	42.9
1984	2.0	19.4	50.4	2.3	21.4
1985	1.1	3.9	26.0	42.8	26.2
1986	0.7	6.0	38.7	4.0	50.6
1987	2.3	7.6	37.5	9.4	43.2
1988	1.1	2.0	49.2	9.3	38.4
1989	2.6	2.7	48.3	1.9	44.4

(Source: 1979-1988, DPT, VI. Bes Yillik Kalkinma Plani Oncesinde Gelismeler 1984-1988, Ankara: 1990, s.34. 1989-1992, Maliye Bakanligi, 1990 Yillik Ekonomik Rapor (YER), s.13 ve YER, s.17; 1997 YER s.31; 1998 YER s.31)

We can see above that in 4 years out of 10 (in 1982, 1985, 1986 and 1987) the services received more investment incentives than manufacturing. But even in other years, with the exception of 1980 and 1984, the amount of incentives provided to the services and manufacturing sectors were very close to one another. 78% of investment incentives were received by the manufacturing industries in 1980, but in the ensuing years the difference between the amount received by the services and manufacturing was generally less than 10% of the total of all incentives (e.g. In 1983, manufacturing received 47.4% of incentives, whereas services received 42.9%). Kepenek argues that a such allotment is in contradiction with export-oriented industrialization, and that incentives should have been more oriented towards manufacturing under the export-based economy (Kepenek & Yenturk, p. 316).

In addition to an allocation of investment incentives that was in contraction with the long-term interests of an export-based economy, sheer inefficiency and squandering by the government also prevented the incentives from producing expected results (greater fixed capital investments in manufacturing). For example, the government was not particularly selective when providing incentives, and anyone from the private sector was likely to receive backing without many questions asked (Tokgoz, p. 210). There were also instances where, by providing false information to the government, manufacturers could lie about the nature and quantity of the items they produced in a way that made them eligible for more generous incentives (Kumcu & Pamuk, p. 170). This was because tax exemptions and tax returns were accorded to manufacturers largely on the basis of what and how much they produced… which these individuals could exploit to be undeservedly entitled for higher tax returns and exemptions (Kumcu & Pamuk). Even more strikingly, the government very often tended to provide the incentives to those who *sold* the exports abroad, instead of those who *produced* them (the two usually not being one and the same) (Tokgoz, 201). And finally, as a quite common occurrence throughout the 1980s, the government continued to support private industries, banks and tourism organizations that were inefficient and making losses, and which would have gone bankrupt if the government had removed their assistance (Tokgoz). Without any doubt, such wastefulness and disorganization reduced the usefulness of incentives.

Another point to be made about the government incentives is the lack of any measures that would seek to promote a specific sector or sub-sector. For example, the textile, clothing and foodstuff industries have always been quite prominent sub-sectors, with their products constituting much of Turkey's exports. But the government did not legislate any policies, measures or incentives that recognized special advantages for them (such as, say, credit with extremely low interest rates specifically for those industries). This can be considered as a missed opportunity to develop a comparative advantage in those sectors (Kepenek & Yenturk). Similarly, the government did not attempt to promote a new, infant industry with the intention of *creating* a new comparative advantage in them. The very generalist and unspecific nature of the incentives reduced their overall effectiveness.

Given all these characteristics regarding incentives, it comes as no surprise that they did not bring about the expected increase in fixed capital investments in the private manufacturing industries.

Beyond the problems associated with the nature of the reforms and incentives, the economic situation in the 1980s was also a deterrent to fixed capital investments in the manufacturing sector (or to any investments in any sector for that matter). With inflation at an average of 43% between 1981 and 1989, and interest rates usually above 50%, it is difficult to expect for any substantial industrial investments. This is a view voiced time and again by top ranking members of the *Organization of Turkish Industrialists and Businessmen*[7] (Turkiye Sanayiciler ve Isadamlari Dernegi, TUSIAD), all of whom clearly stated during the 1980s that the most serious deterrent to industrial investments were high inflation and high interest rates (Tokgoz, p. 201). And generally, "productive" sectors such as the manufacturing industries tended to be in a more disadvantageous position in times of economic difficulty than "non-productive" sectors such as the services (Kepenek & Yenturk, p. 217). This serves to explain why, for instance, private fixed capital investments in Turkey during the 1980s have largely concentrated in service sector such as housing and trade instead of manufacturing.

The main causes behind the high inflation and interest rates are varied. High interest rates were purposefully maintained to draw capital into banks and to encourage savings (Kepenek & Yenturk, p. 201-202). But of course, as it turned later on, this served as an encouragement for savings all too well, while discouraging investments altogether. In addition, high interest rates allowed individuals to make gains by simply place their money in a bank under a time deposit: being much higher than inflation, the interest rate allowed the money to "produce" even more

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[7] An organization of leading industrialists and businessmen, founded in 1971, whose purpose consists of giving a "political voice" to the private sector, and expressing the concerns of businessmen to politicians.

money on its own, and this simply by resting in a bank (Tokgoz, p. 203-204). Given that such an easy and effortless way of making profits existed, it comes as no surprise why many would shun investments (especially in manufacturing) in the time of economic difficulties that prevailed during the 1980s.

High inflation, on the other hand, was largely the result of a persistent public sector deficit. To begin, a deficit existed partly because of excessive public sector spending, which resulted predominantly from the public sector's squandering of resources, the failure to initiate any serious attempt at privatization before *1987*, the vast sums of debts and interest that had to be repaid, and the costly government incentives (Tokgoz). As a note, public sector *investments* had indeed decreased during the decade, but this was more than offset by the increase in public sector *transfers*, which represented 49.6% of public sector expenditures in 1988, and which generally consisted of government incentives and the repayment of foreign loans (Kepenek & Yenturk, p. 249). Another contributor to the public sector deficit was the low revenues of the public sector, which resulted almost entirely from an inefficient taxation system. Tax evasion, the inadequacy of the government's tax laws, and the government's ineptitude at collecting taxes were all responsible for the shallowness of the tax revenues: according to a variety of sources, the government during the 1980s could, every year, succeed in collecting only one-fourth of the taxes it was meant to receive according to the tax laws (Kepenek & Yenturk, p. 185). But more significantly, the intentional organization of the taxation system also contributed to the low tax revenues: more than 50% of the tax burden during the 1980s rested on a portion of the population that held only held to only 25% of the nation's wealth (Kepenek & Yenturk, p. 255), and *corporate taxation* never exceeded 2% of the GNP during the same period, whereas the total tax burden usually represented about 15% of the GNP in Turkey (as a note, this *total tax burden* value itself is quite low in comparison to that of other developing countries) (Yeldan, p. 122),. Taxing "the rich less than the poor," was intended to be a measure that increased private sector profits, and encouraged private sector investments. But this now appears as a paradoxical expectation, given that high interest rates had created an avenue for easier profits that involved no investments, and that economic conditions during the 1980s were quite an impediment to all investments. Besides, there was no concrete guarantee that someone from the private sector would choose to re-invest his/her higher profits…

Other than the economic difficulties, the removal of almost all trade restrictions after 1980 had also, indirectly, served to discourage investments in the private manufacturing industries, all the while encouraging investments in the trade sector. Without the tariffs and quotas of the 1970s, products could be bought from abroad and sold within the country without any hindrance in 1980s. As a result, the method of buying imports from abroad, and then selling them in domestic market for higher prices had become an easy and rapid way to achieve profits (Tokgoz, p. 201). The large profitability of trade alone explains why investments in the *trade* sector during the 1980s has been quite large, in the order of 20 to 25% of all investments (Kepenek & Yenturk). Given a such opportunity to make quick profits, many *manufacturers* even cut down the production of their own industries, imported from another country the same type of products which their industries were producing, and then sold these in the domestic market to make additional profits (all the while taking advantage of government incentives, since they were "manufacturers") (Tokgoz, p. 201). Such events serve to explain, among other things, why the growth of imports during the 1980s has been extremely large, and even greater than the rise in exports. The drastic rise in imported consumptions goods, which moved from 2.1% of imports in 1980 to 8.7% of imports in 1989, can also be understood in light of the developments.

Thus, with international trade promising easier and higher gains than the production of goods, and given the higher risks of making industrial investments during the times of economic instability, the open economy after 1980 was inherently a disincentive to investments in the manufacturing sectors.

As a result of a combination of ineffectual government policies and severe economic problems during the 1980s, Turkey could not draw sufficient fixed capital investments into its manufacturing industries, which would have allowed the country to undergo a thorough export-based industrialization, and engender a higher and more continuous growth in exports than what was realized. Without any significant success in regard to export revenues and the foreign trade deficit, export-orientation seemed to have worsened the economy more than contributing to its development, as the unpopular export-promoting policies (such as low real wages) had imposed a considerable burden on the country. The poor performance with both the exports and the manufacturing investments, along with the economic stagnation of the late 1980s, motivated the government to abandon in 1989 these export-promoting policies while giving in to populist demands. The 1990s that followed represented a period where improving the country's export revenues and export-oriented production were thrust aside as matters of lesser importance (Yeldan, p. 40). This opened the door for the disastrous developments of the 1990s, where Turkey's foreign trade deficit skyrocketed above $10 billion, and where Turkey experienced 3 serious economic crisis in a period of 10 years (Kumcu & Pamuk, p.196-199). Although the particular events of the 1990s is beyond the coverage of this paper, it can be said with certitude that the developments of the 1980s represented the failure of export-orientation in Turkey for that period.

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