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TURKEY'S STABILIZATION AND STRUCTURAL ADJUSTMENT PROGRAM IN RETROSPECT AND PROSPECT

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INTRODUCTION

TURKEY's inability to cope with growing strains in its balance of payments and accelerating domestic inflation during the late 1970s culminated in January 1980 with the introduction of a far-reaching stabilization program under IMF auspices. The program which was initially introduced as a stabilization program to tackle short-term instability through standard IMF policy prescriptions was soon transformed under the guidance of the World Bank with the incorporation of measures for deep structural adjustment. One of the overriding objectives of the latter was to change the system of incentives from archetypal import substitution, with its heavy state intervention and widespread rent-seeking, toward export orientation with an overall emphasis on market-oriented policies. The Stabilization and Structural Adjustment Program (SSAP), still in force, has represented a radical transformation of earlier economic policies and attracted a great deal of domestic and international attention, especially in IMF–World Bank circles where it has been hailed as a case of successful adjustment if not as a new model of market- and export-oriented policies.[1] The most interesting aspects of the SSAP have been its persistence under a variety of political regimes and its record until recently in sustaining fairly high rates of economic growth.

This paper does not purport to provide a detailed review of the SSAP.[2] Instead it proposes to fill in gaps in basically four interrelated areas surrounding it: (i) the domestic and external elements in its setting, focusing on political as well as economic factors, (ii) its main record with emphasis on hitherto neglected areas like employment and income distribution, (iii) its relevance for other LDCs, and (iv) prospects and sustainability in the future.

Section I considers the SSAP in historical perspective paying particular attention to events leading up to its introduction. Section II provides an overview of the

[1] See, for example, [2, pp. S288–S289]. Colclough and Green cite Turkey as locus classicus of the IMF model [9, p. 2]. Turkey's increased credit worthiness on the basis of its economic performance during 1981–84 is praised by an IMF staff member who argues that "it is difficult to find another example of a country which has had such a major turnaround in such a short spell of time" [28, p. 1]. OECD, although not as enthusiastic as before, still reports that "...in the course of the last ten years the structure of the Turkish economy has been radically transformed—generally for the better" [26, p. 79].

[2] For detailed assessments of the SSAP see, for example, [3] [7] [17] [31] [42].

main objectives, phases, and policies of the SSAP, while Section III evaluates its records with emphasis on employment and income distribution. Finally, Section IV discusses the peculiarities of the Turkish experience and lessons that other LDCs can derive. This section also identifies some of the obstacles facing the economy over the medium term.

I. THE SETTING

Any discussion of the SSAP should take as its term of reference the set of mutually-reinforcing economic policies implemented with remarkable continuity during the 1930–80 period. This set of policies, which may be conveniently referred to as the long-term strategy, had three main characteristics bearing a close resemblance to the experiences of a number of other LDCs.

(a) Under a basically "mixed economy" framework and (after 1960) comprehensive central planning, there was heavy emphasis on inward-orientation.[3] A key element in this was import substitution through protectionist policies leading to widespread inefficiency in the manufacturing sector and a strong bias against exports.[4] The share of exports in GNP, for example, was only 5.8 per cent in 1973 and 4.5 per cent in 1978.[5] Heavy public investment in manufacturing was accompanied in practice by overall discouragement of direct foreign investment (DFI) which stood in sharp contrast to the heavy reliance on foreign credit.[6]

(b) Another important characteristic of the long-term strategy was its inflexibility showing little responsiveness to changes in the international environment. The rapid expansion of world trade during 1950–75, the oil shock of the early 1970s, and the ensuing growth in demand in neighboring Middle Eastern markets did not lead to any significant reappraisal and left intact the broad alliance favoring the strategy. The lack of flexibility of the strategy was a natural outcome of the virtual neglect of the short term as evidenced also by scant attention devoted to monetary and fiscal policy, chronic overvaluation of the lira except for brief spells immediately after devaluations, deep financial repression, and large fiscal deficits. As a result, instability reaching crisis proportions emerged on several occasions, in 1958, 1970, and most severely of all in 1978–79. As each one of these crises was characterized by severe balance of payments difficulties as well as accelerating inflation, there was heavy involvement of external donors, especially the IMF, in the design and implementation of stabilization programs.

(c) As for the political aspects of the long-term strategy, Turkey with the end of one-party rule in 1946 has shown considerable resilience in maintaining

3 One can identify only two subperiods 1950–53 and 1970–73 during which there were short-lived reversals in earlier policies involving a degree of foreign trade liberalization.

4 According to Krueger, the relative price of import-competing goods to exportables in the domestic market was 3.01 times as great as in the international market [19].

5 In one of the largest industrial conglomerates, the Koc group, export receipts in 1977 accounted for only 10 per cent of total foreign exchange requirements. See [29, p. 349].

6 In 1983, the share of DFI in total gross liabilities (DFI stock plus total outstanding external debt) for all non-oil LDCs was 17.0 per cent as against only 6.4 per cent in Turkey. See [12, p. 142].

an open democratic society. It was this factor more than any other that was responsible for the implementation of economic policies which, especially after the early 1960s, contained several elements highly reminiscent of "populist" regimes in the Latin American context. The provision of generous agricultural support prices after the early 1950s, the emergence of a strong and increasingly militant trade union movement resulting in significant growth in real wages under a generally "liberal" labor environment during the 1963–80 period, heavy subsidies through pricing policy of state economic enterprises, and pervasive price controls in the private sector especially in the late 1970s were the major ingredients of this policy framework. Like economic life, political life could also be best described as crisis-ridden with three short periods of military intervention during 1960–61, 1971–73, and 1980–83 interrupting the democratic process.

Against this general background, the deep economic crisis that emerged in the late 1970s can be explained by a combination of external and domestic factors. As a current account surplus of 2.4 per cent of GNP in 1973 was leading to exuberance on the part of planners and policymakers, "macroeconomic shocks in avalanche proportion" hit Turkey especially hard.[7] The reluctance to adjust to the new situation was evident foremost from attempts to extend import substitution into inermediate and capital goods with higher incremental capital-output ratios and import intensity under public sector leadership. Meanwhile, prices of commodities produced by the state economic enterprises (SEEs) as well as the price of energy were kept at artificially low levels while the real exchange rate was allowed to appreciate. Growing public sector deficits and investment were financed by resorting heavily to the central bank and external short-term borrowing. During 1973–77 the public sector borrowing requirement and the current account balance (as per cent of GNP) deteriorated, respectively from 2.0 per cent and 2.8 per cent to 10.6 per cent and −6.1 per cent. The rapid increase in external debt (in billion dollars) from 3.0 in 1973 to 4.8 in 1977 and 6.7 in 1978, and growing supply bottlenecks in the face of severe balance of payments difficulties resulted in accelerating inflation and a full-scale payments crisis, requiring in February 1977 the suspension of foreign exchange transfers for imports.[8]

The task of coping with the crisis fell to the social democratic government which took office in late 1977. Although the new government had considerable success in obtaining debt relief,[9] finding fresh credit to facilitate imports of key commodities proved to be a formidable task with potential donors strongly hinting that the provision of new facilities would be conditional on a major policy orientation under IMF auspices. The two stand-by arrangements with the IMF

[7] The effect of external shocks was estimated at −9.2 per cent of GNP for 1974–76. Out of twenty-four countries in the sample, only in nine was the impact more severe. See [7, pp. 2–5].

[8] The payments crisis was so severe that the debt service obligations in 1987 were nearly three times the value of merchandise exports while the government was unable to pay the salaries of its diplomatic personnel abroad. See [29].

[9] The debt relief pledged by creditors (in billion dollars) amounted to 1.3 and 1.2 in 1978 and 1979 respectively.

in April 1978 and July 1979 and indeed stabilization efforts during this period as a whole represented half-hearted attempts and were seen by potential donors as "too little too late."[10] This should not, however, conceal the fact that, subject to its political constraints, the government took some important steps toward stabilization. There were, for example, certain steps in the direction of a more flexible interest rate and exchange rate policy. Although the rise in nominal rates did not prevent heavily negative real rates of interest and further appreciation of the real rate of exchange, these steps were still significant in terms of the direction of change and can be seen as early signs of what was to come in the 1980s. Furthermore, the government's accord with the trade unions together with the declaration of martial law in a large number of provinces in the face of growing social and political turmoil were instrumental in reversing the upward trend in real wages. In the face of a severely impaired capacity to import, much of the burden of adjustment fell on imports. Non-oil imports of capital and intermediate goods in 1978 and 1979, for example, were only slightly over one half their 1976 levels.[11] Import restraint of this magnitude resulted in severe shortages of basic commodities, most notably energy, raw materials, and spare parts, which were no doubt aggravated by government price controls. The outcome, as expected, was black markets for a wide range of products and a sharp fall in capacity utilization in the manufacturing sector (see [1, p. 218] for details). Amidst growing discontent with its economic record and inability to cope with rising urban terrorism, the government resigned after a massive defeat in by-elections in November 1979. The significance of these developments arose from their role in strengthening the case for undertaking a radical conservative experiment in stabilization[12] on grounds that the social democratic alternative had failed without even mentioning that the government inherited a highly unfavorable economic situation, received little backing from international financial circles, was confronted with the second oil shock, and remained in office for less than two years.

A pertinent question at this stage would be why successive governments in the 1970s failed to make a successful adjustment. The initial complacency was in part due to the availability of sizeable foreign exchange reserves and the belief that the dislocations in the international economy were of a temporary nature. In addition, the buoyancy of international capital markets lent support to pushing industrialization to higher stages through borrowing. But perhaps the most important reason in this respect can be found in the realm of Turkish politics of the time with a large number of political parties competing for electoral support. In a country in which objectives like rapid growth and industrialization have traditionally commanded almost unanimous support, no political party could base an electoral campaign on the need for structural adjustment. Such a possibility was further weakened by the fact that the political environment in the 1970s was

[10] For relations with the IMF during this period see [24].

[11] For example the volume of oil imports (in million tons) fell from 14.3 in 1978 to 11.7 in 1979.

[12] For similarities with the Latin American experience see [13].

highly unstable with a total of seven caretaker and coalition governments serving the country from October 1973 until September 1980.[13] It seems that a major constraint facing the social democratic government in the late 1970s was also a political one involving the trade-off between the urgent need for stabilization and the desire not to alienate its supporters by introducing a stronger dose of stabilization measures.

One striking feature of the SSAP has been its persistence under different political settings. Its introduction by a minority government with the pledged support of a number of other conservative parties in January 1980 was followed by its survival under military rule (1980–83), under "guided democracy" during 1983–87, and finally under a much more open political setting since 1987.[14] Even a cursory examination of the origins of the SSAP points to the importance of external influences. There were only isolated voices raised against the long-term strategy from academic and policy-making circles in Turkey. The SSAP which was met with a great deal of opposition both within and outside Parliament, received immediate international recognition and pledges of financial support from a variety of sources.[15] There is little doubt, however, that without military intervention in September 1980, the SSAP would have fast disappeared under Turkey's stormy and highly volatile political climate.[16] Not only was the military government quick to declare its allegiance to the SSAP, but was also determined to clamp down on rising labor militancy. Although military leaders were traditionally not renown for their economic expertise, they found SSAP consistent with their basic world outlook and did not in the least want to confront the international financial community with whom relations were just beginning to warm up again. In the search for an alternative process of accumulation to replace the crisis-ridden long-term strategy, the military government's closest ally was the business community.

Against this political background, the SSAP evolved in accordance with agreements made with the IMF and the World Bank as the main mentors behind it.

13 See [3, p. 2] and [29, p. 348] on this point. An additional element in this respect was the fact that one political party which took part in successive coalition governments based its economic policy on the promotion of heavy industry and was vehemently opposed to any agreements with the IMF.

14 A number of political parties were banned from participating in the 1983 general elections, while the 1987 general election took place only weeks after the lifting of the ban on opposition politicians.

15 Apart from sources like the OECD, EEC, European Settlement Bank, and Islamic Development Bank, a major source of financial support for the SSAP was the IMF and the World Bank. The three-year stand-by arrangement with the IMF for SDR 1,250 million in 1980 was followed by a new stand-by arrangement of SDR 225 million in 1983. This was accompanied by project loans and more significantly by structural adjustment lendings (SALs) to the amount of 1,556.3 million dollars. According to Boratav, gross capital inflow during 1980–84 was 13.8 billion dollars [5, p. 28].

16 Some of the factors pointing in this direction were mounting labor unrest, waning support for the government by at least one of the conservative parties, the government resorting to direct regulation after some measures were blocked in Parliament, and the shelving of some measures by the government itself for political expediency.

A major factor for the special relationship was the fact that the announcement of the SSAP coincided with a period of increased convergence of the lending policies of the two institutions involving also collaboration for medium-term policy frameworks. As a semi-industrialized country with relatively well-developed institutions and a team of technocrats more than willing to embrace the IMF–World Bank reform proposals just put in charge of the economy,[17] and, most importantly, being on the verge of economic collapse and desperately in need of fresh facilities, Turkey was an obvious candidate to act as a test case for the joint IMF–World Bank approach. It was no coincidence therefore that the structural component of the SSAP should bear such a close resemblance to the recommendations put forward earlier by some authors close to World Bank circles (see [41] [1]). It was also not surprising that Turkey was one of the first to benefit from structural adjustment lending (SAL) and the first to complete five successive SALs during 1980–84. Likewise, not only was Turkey the first country in the history of the IMF to benefit from a three-year stand-by arrangement, but it was also the recipient of the highest amount of credit, representing 6.5 times its quota (see [24, p. 546]).

The SSAP was very skillfully presented to the Turkish public as a set of "technically determined" and "required" policies with no real alternatives. The enthusiasm and dedication of the government to the SSAP and agreements with the IMF and World Bank which shaped it were so great that Turkey was classified among six countries with the "lowest slippage" in the SAL program (see [21]).

II. MAIN OBJECTIVES, PHASES, AND POLICIES

Guided largely by the objectives and joint performance criteria of IMF stand-by arrangements and World Bank SAL, the SSAP bore a striking similarity to programs in other countries, most notably in Latin America (see, for example, [11] [13] [10]). It consisted of the standard set of policies of such programs and had the familiar short and medium-long term components. The objectives of the SSAP may be classified under five main headings with the first three generally constituting the stabilization and the last two the structural adjustment components: (i) elimination of disequilibria in major markets and breaking the inflationary spiral, (ii) coping with the immediate pressures on the balance of payments, (iii) reduction of inflation and attainment of price stability, (iv) simultaneous liberalization of foreign trade and payments as a part of efforts to shift to an export-oriented industrialization strategy, to attain a sustainable balance of payments position, and to integrate the economy into world markets, and (v) privatization of economic life through increased reliance on market forces, envisaging the removal of public ownership and state intervention across product and factor markets.

[17] The economic team in charge of the SSAP was enlarged in due course by a group of young, mostly American-educated technocrats nicknamed in the popular press as "Ozal's princes."

For analytical convenience, the SSAP can be examined under four different phases with our phasing very much influenced by political developments which, as will be seen in the course of our discussion, has a great deal of explanatory power. It is our contention that priority given to individual objectives and considerable "zigzagging" in the implementation of policies between and within phases were driven foremost by political expediency without actually changing the orthodox and "neo-conservative" character of the SSAP.

Phase I (January–September 1980) is the period during which main emphasis was placed on the first two objectives to restore macroeconomic stability and international credit worthiness. The dominant feature of this phase was a major price shock involving price decontrol in the private sector, a sharp increase in administered prices of goods and services produced by the state economic enterprises, large nominal devaluations to be followed by several other mini-devaluations, and decontrol of interest rates. This was accompanied by tight demand policies primarily through monetary restraint and a closer watch on fiscal deficits. As the inflow of imports, facilitated by the program's balance of payments support, removed supply bottlenecks and wiped out shortages, exchange rate reforms eliminated black markets in foreign exchange. There was, however, little prospect of making much progress with respect to the structural component in the face of mounting opposition and growing labor unrest. Even the implementation of the anti-inflationary program was being jeopardized by factors like growing wage demands and the substantial increase in agricultural support prices for political considerations.[18] One could detect therefore a growing tendency of economic decisions being dictated by political expediency rather than being "technically determined."

Phase II (September 1980–November 1983) corresponds to the reign of military government when efforts, with the first objective by and large realized, were directed to the second and third objectives. A major step in this direction was the adoption of a crawling peg and the provision of very generous export subsidies. With all opposition silenced, the economic team had a free hand in implementing the anti-inflationary program which relied heavily on demand restraint through restrictive monetary and fiscal policies and a repressive incomes policy. The adjustment of SEE prices at shorter intervals, increased reliance on economic criteria in the determination of agricultural support prices, and tax reform constituted the other elements of the package. The economic team continued to be in charge of the SSAP during much of this phase[19] with the authoritarianism used to facilitate economic policies being "technically determined" in these crucial early years. With regard to the liberalization objective, efforts were basically

[18] This was in anticipation of an early general election and was against the view of the team in charge of economic affairs. See [24] on this point.

[19] This "team specific" character of the program was most evident from the fact that the period from the resignation of Mr. Ozal, credited with being the architect of the program, as deputy prime minister in the summer of 1982 and his return to office as prime minister in late 1983 was described as an "interregnum" during which "not only was progress in economic reforms not made but some of the measures taken were counter-productive" [1, p. 230].

confined to the abolition of quotas in 1981. Likewise there were no major moves in the direction of the privatization objective, apart from the introduction of legislation to boost the development of the capital market.

Phase III (November 1983–November 1987) roughly covers the period between the two general elections with a new political party founded and dominated by the economic team now in government. As this phase signalled the return to democracy, albeit in a restricted form, economic policies became relatively more sensitive to political considerations. Hence the emphasis on growth fuelled largely by a public sector investment boom in infrastructure and the abandonment during this phase of fiscal restraint and thereby the stabilization objective. There was substantial progress in structural objectives, particularly in the liberalization of trade and exchange regimes and encouragement of direct foreign investment. Important steps were taken in the reform of SEEs with the result that by the end of 1984 they lost all tax, tariff, and credit preferences. Steps in this direction continued in 1985 with the abolition of state monopoly in some commodities (tea, tobacco, airlines) and culminated in the 1986 legislation authorizing the sale of these enterprises to the private sector. These steps were accompanied by increased private sector activity, especially in health, education, and banking.

Phase IV (since November 1987) is the period when the government, having obtained a new term of office, found it increasingly difficult to harmonize stabilization and structural objectives in the face of growing opposition to the SSAP in an open political setting. While there was increased concern with inflation (now emphasizing cost pressures and expectations rather than demand restraint), political expediency (especially after the government's heavy defeat in local elections in March 1989) has dictated substantial pay increases in both the private and public sectors. The main characteristic of this period was slow growth and accelerating inflation (despite renewed attempts at stabilization) which some observers have (perhaps too hastily) identified as stagflation. As for the structural components, continued progress toward liberalization was accompanied by some decisive steps toward the privatization objective involving the transfer of several public enterprises into private ownership during 1988–89. Although a detailed privatization plan was drawn up envisaging the transfer of fifty-one enterprises, the slow progress so far may be explained by the lack of domestic buyers with sufficient resources and considerable opposition in and outside Parliament to their sale to foreigners.

It is in the light of the main objectives and phases of the SSAP that we now turn to a more detailed account of economic policies in four key areas.

1. *Monetary, fiscal, and incomes policy*

The basic pillars of the government's anti-inflationary stance were monetary and fiscal policy. Even a cursory examination of monetary indicators (Table I) reveals that it was difficult to maintain monetary austerity beyond phase II. Instead one can observe a flexible approach to monetary policy with the level of economic activity and pressures for monetary accommodation acting as a general guide for the government. A similar picture holds for fiscal policy indi-

TABLE I

TOTAL PUBLIC SECTOR DEFICIT AND SOURCES OF FINANCING

(%)

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Growth of money supply (M2)[a]	66.3	85.0	56.7	29.8	58.0	55.5	43.8	44.2	53.6
Total public sector deficit[b]	10.5	4.9	4.3	6.0	6.5	4.8	4.7	7.8	6.4
Sources of financing of PSBR[c]									
Central bank*	34.3	20.0	12.7	11.2	11.1	25.6	14.7	11.9	9.4
Foreign borrowing*	35.5	62.8	49.5	23.9	51.6	15.3	53.6	34.5	28.3
Domestic borrowing*	30.2	17.2	37.8	64.9	37.3	59.1	31.7	53.6	62.3

Source: [26, p. 62].
[a] Percentage change over previous year.
[b] Percentage share in GNP.
[c] Percentage share in total public sector deficit.
* Net borrowing.

cating its use in a discretionary way mainly through public investment. One can detect a close association between public sector deficits and political events with the public sector borrowing requirement (PSBR) as a per cent of GNP increasing rapidly prior to elections (Table I). This was most clearly demonstrated by the low ebb during 1981–82 (military rule) and the peaks reached in 1983 and 1987 (election years). Measures to reduce the PSBR have centered on the tax reform of 1980–81 envisaging the readjustment of income tax brackets, and the imposition of new or higher taxes for professionals, the self-employed, and farmers, efforts to increase the financial performance of SEEs through frequent price hikes at rates often exceeding the inflation rate, and the introduction of a system of extra-budgetary funds to serve the double function of increasing government revenue and directing expenditure into priority areas. Despite these efforts on the revenue side, the ratio of total public revenue to GNP (25 per cent in 1987) was yet to attain its level of the late 1970s. On the expenditure side, major developments were the increase in transfers (particularly interest payments on government debt and, before their abolition in 1989, export tax rebates) and the upsurge in public investment in infrastructure after 1985. A notable feature of fiscal policy was the radical change in the source of financing of public sector deficits reflecting a strong tendency away from the central bank and toward foreign borrowing in the first half and domestic borrowing in the second half of the decade (Table I).

In contrast to monetary and fiscal policies, the tightness of incomes policy was maintained over a much longer period. The terms of trade losses for agricultural producers were accompanied by a fall in real wages and salaries. The paradox of creating a highly restrictive environment for organized labor in the face of an overall tendency for liberalization in product and factor markets was also very much in evidence in the Turkish case. The economic rationale for this

TABLE II

REAL EXCHANGE RATE, INTEREST RATE, AND WAGES

	Average Rate of Inflation[a]	Real Interest Rate[b]	Real Exchange Rate[c]	Real Wages[d]
1980	107.2	−86.0	107.6	—
1981	36.8	0.1	106.2	—
1982	27.0	10.5	111.6	2.34
1983	30.5	3.8	104.7	2.19
1984	50.3	−9.8	97.6	2.26
1985	43.2	1.9	98.5	2.34
1986	29.6	17.5	86.8	2.11
1987	32.0	15.0	82.8	2.20
1988	68.3	1.2[e]	—	1.62

Sources: [7] for average rate of inflation; [3, pp. 11–29] for real interest rate and exchange rate; and [37, p. 322] for real wages.

a Wholesale prices.

b One-year time deposits.

c December 1982=100.

d Nominal wages are deflated by the urban consumer price index: 1978–79=100.

e As of October 1988.

was implicitly based on three arguments: (i) demand restraint to get inflation under control and create an exportable surplus, (ii) to attain international competitiveness through lower labor costs, and (iii) smooth and peaceful labor relations for increasing export production as well as Turkey's attractiveness to foreign investors (see [34] for details). Among the first measures taken by the military government were the banning of all trade union activity, the suspension of free collective bargaining and strike activity, and the imprisonment of a large number of trade union leaders which were soon followed by steps to cut back public sector employment and most significantly by the introduction of new labor legislation aimed primarily at curbing trade union power in wage determination. During the period of military rule wages were determined by the High Arbitration Council which granted wages on the basis of projected inflation rates which consistently turned to be a gross underestimate of the actual rate.[20] Although the end of military rule signalled the lifting of the ban on strikes and the return to free collective bargaining, it was not easy for trade unions to recover from the severe blows received earlier, especially in view of the fact that the ban on the most militant union continued and the new labor legislation was not in the least conducive to labor militancy. The poor quality of wage data notwithstanding, the available evidence points to big losses by organized labor (Table II).

2. *Interest and exchange rate policy*

Although the deregulation of interest rates in July 1980 resulted in the agree-

20 The only pro-labor measure introduced during military rule was a ban on worker dismissals which with certain modifications remained in force until 1984.

ment of the largest commercial banks on a common interest rate policy, unregulated money brokers soon began to present stiff competition offering much higher real rates. The collapse of the largest money broker and the ensuing financial crisis resulted in the central bank once again playing a key role in interest rate determination which continued until February 1988 when banks were authorized to set interest rates freely, but subject to the maximum rates determined by the central bank.

The setbacks in financial liberalization notwithstanding, the overall result was a significant increase in deposits as real interest rates in 1981 became positive for the first time since the early 1970s. As one observer has rightly pointed out, unlike intervention into wage determination, administrative controls over interest rates in the 1980s were based on "more realistic inflation forecasts with indexation coefficients exceeding unity" (see [5]).

Exchange rate policy exhibited similar trends toward increased flexibility under strong guidance by the central bank and an overall tendency for continued depreciation. The sharp devaluation in January 1980 was followed in May 1981 by the adoption of a policy of daily adjustments to the exchange rate on the basis of trends in international financial markets and the differential inflation rate between Turkey and its main trading partners. Parallel to these moves toward exchange rate flexibility, commercial banks were allowed to determine their buying and selling rates within a certain margin of the rate determined by the central bank.

Although there were several short periods during which real interest rates were allowed to turn negative and/or real exchange rate to appreciate (Table II), the overall trends in both spheres represented a sharp contrast with the pre-1980 period. It seems that since around mid-1989 a new phase in these policies has started. While real interest rates have once again become negative, there is a tendency of using exchange rate appreciation as an anti-inflationary device. The failure to adjust the nominal exchange rate in late 1987 and early 1988 in the face of accelerating inflation, the improved balance of payments situation as manifested by the current account surpluses in 1988 and 1989, and the high positive interest rate differential of lira time deposits in relation to foreign exchange deposits are factors generally held responsible for the current upward pressure on the lira exchange rate [26, pp. 52, 57].

3. *Foreign trade liberalization and export orientation*

Three characteristics of the import liberalization process immediately stand out. First, there was no preannounced timetable with most measures containing a surprise element. Second, there was a clear tendency initially to move from quantitative restrictions to price measures (most notably the exchange rate) which were followed subsequently by a reduction in the protective impact of these measures. Third, liberalization attempts represented very much a gradual process with most of the progress in this direction having been made since December 1983.

The major steps taken toward liberalization in the trade and exchange regimes since December 1983 can be grouped under several headings (see [31] [32] for details). (i) The 1984 import regime adopted a negative list, actually specifying the prohibited items. Close examination of various import lists has shown a clear pattern of liberalization by stages; items removed from the prohibited list to the list of commodities subject to approval and from the latter to the list of items whose imports were allowed without any restriction. The abolition of import prohibitions (with the exception of weapons, ammunition, and narcotics) in 1985 was accompanied by a gradual reduction in the number of items subject to approval. (ii) Importation of "luxury" consumption goods which, as a result of their exclusion from lists of permitted imports over long periods of time, were generally characterized by high import premiums and smuggling, was allowed subject to the payment of (excise) taxes in dollar-equivalent liras. The scope of imports under this scheme (the so-called fund list) was widened considerably in subsequent years to include also some intermediate and capital goods. (iii) There were several major tariff revisions involving significant reduction in customs duties and in the variance of tariffs within individual import categories. Empirical studies on the structure of protection in manufacturing have shown that while there was considerable liberalization during 1984–88, the overall level of protection remained very high.[21] (iv) The simplification of export procedures was accompanied by the introduction of a variety of export promotion measures like tax rebates, import replenishment and foreign exchange retention schemes, and provision of export credits at preferential rates. Despite certain policy reversals on this issue, there has been a tendency to rely on exchange rate adjustments rather than direct export subsidies, as evidenced by the gradual phasing out of the tax rebate system and its elimination in 1989. (v) Changes with respect to export and import regimes were accompanied by considerable relaxation of exchange control regulations allowing in 1984, for example, residents to open foreign currency accounts. The admission of foreign investors into the capital market from July 1988 was followed in August 1988 by the introduction of a system allowing the market setting of the official exchange rate. Together with the permission granted to Turkish residents in August 1989 to purchase foreign securities and foreign currency up to a ceiling of 3,000 dollars, these measures have no doubt represented significant steps toward full convertibility of the lira (see [26, pp. 88–92]). The appreciation of the lira since 1989, on the other hand, can be interpreted as de facto trade liberalization.

4. *Institutional changes*

The radical transformation of economic policies under the SSAP was accompanied by drastic institutional changes. The overriding factor in the latter was the introduction of a new constitution which was widely regarded as a reaction to the strongly liberal elements in the previous constitution. Apart from changes in the labor market already mentioned, the most drastic changes were introduced in the financial sector. A major area of reform on the fiscal front was the increase

21 The effective rate of protection (ERP) (in per cent) for manufacturing as a whole declined substantially during 1984–88 (from 131.5 to 93.2). While ERP declined only slightly for consumption goods and considerably for intermediate goods, there was a substantial increase for capital goods. See [25].

TABLE III

MAIN MACROECONOMIC INDICATORS, 1980–88

	GNP Growth Rate (%)	Exports ($ Billion)	Imports ($ Billion)	Current Account Balance*	Outstanding External Debt*	Debt Service/GNP (%)
1980	−1.1	2.2	7.9	−5.8	16.3	2.6
1981	4.1	4.7	8.9	−3.2	16.9	3.4
1982	4.5	5.7	8.8	−1.7	17.6	4.7
1983	3.3	5.7	9.2	−3.7	18.4	5.2
1984	5.9	7.1	10.8	−2.8	21.3	5.8
1985	5.1	8.0	11.3	−1.9	25.3	7.2
1986	8.1	7.5	11.1	−2.6	31.2	7.9
1987	7.4	10.2	14.3	−1.5	38.3	8.2
1988	3.4	11.7	14.3	2.1	37.7	10.1

Sources: [8] [26].
* As per cent of GNP.

in the financial autonomy of local governments mainly by authorizing them to collect some taxes like the property tax. On the monetary front, major banking reform legislation was introduced with provisions pertaining to accounting and reporting standards, a deposit insurance scheme, and capital requirements. Commercial banks were put under the close supervision of the central bank, most notably vis-à-vis compliance with reserve requirements, capital ratios, and loan provisions. The creation of an interbank market in 1986 for transactions in domestic and foreign currency can be seen in the same vein in that it increased the scope for central bank intervention (see [18, p. 4]). Other areas of institutional reform aimed at improving the performance of financial markets. These involved the establishment of the Capital Market Board in 1981, the introduction of a new framework for the stock exchange in 1983, and the establishment of an official market for gold in 1986. As part of efforts to give the central bank more independence in the formulation of monetary policy and to reduce uncertainty about its course, an annual monetary program was announced by the bank in 1990.

III. MAIN IMPACT

Any assessment of the impact of the SSAP should recognize the fact that although it represented a radical transformation of institutions and policies, its full effects are yet to be felt. It is in this light that we examine this impact under three broad headings.

1. *Overview of macroeconomic performance*

A notable feature of macroeconomic performance is the high rates of growth until the stagnation in the last two years (Table III). Average annual rates of growth of real GNP were 4.0 per cent during 1981–83, 5.5 per cent during 1984–85, and a massive 7.8 per cent during 1986–87. With the exception of particularly slow growth in construction in the first half of the decade and negative growth rates in mining during 1981–82, it seems that there was growth in all major sectors, with particularly high rates registered in energy and manufacturing. Agriculture, on the other hand, has registered considerable variation from one year to another reflecting in large part the seasonal nature of production in this sector. The emphasis on demand restraint with only moderate increases in private investment can be identified as the main factors responsible for the low rates of inflation and growth early in the program with increased capacity utilization acting as the major source of growth. In contrast, the expansionary monetary and fiscal policies together with a public investment boom in favored sectors, like energy and transport and communications, and an acceleration in private investment, particularly in tourism and housing, were the main factors behind the domestic demand-led growth as well as accelerating inflation during 1984–88. Although the anti-inflationary measures introduced in early 1988 led to a sharp deceleration in growth, the failure of these measures in preventing inflation from reaching its highest levels in 1988 and 1989 is generally explained by cost pressures and expectational factors. The balance of payments performance looked somewhat better with the current account deficit/GNP ratio reduced early in the program and maintained at relatively low levels until 1987, then transformed into a surplus in 1988 and 1989. The fact that the surplus could be maintained even in the face of stagnant exports was a reflection of the contribution of invisibles like tourism, the low level of import demand as well as the improvement in the terms of trade in the second half of the decade after deterioration during 1980–84. A development of grave concern on the balance of payments front was the unfavorable trends in external debt indicators especially after 1984 (Table III). Parallel to the increase in the size of debt there was a significant increase in the share of short-term debt as well as the debt service ratio.[22]

2. *Imports and exports*

The chief response to trade liberalization was a rapid expansion in trade orientation with the share of exports in GNP, for example, rising from 3.4 per cent in 1979 to 14.9 per cent in 1985, and 16.8 per cent in 1988. As imports (in billion dollars) rose from 5.1 in 1979 to 14.2 in 1988, there was a significant increase in the share of consumption goods, rising from only 1.9 per cent to 7.9 per cent during the same period.

There were at least three factors at work preventing a more rapid increase in imports in the face of considerable liberalization in the 1980s. First, the emphasis on demand restraint especially in the early years of the SSAP was accompanied by weak demand for investment in manufacturing throughout the period, particularly in the public sector, which led to slow growth in imports most notably in capital goods.[23] Second, the decline in world oil prices around the mid-1980s

[22] The share of short-term debt in total debt increased from 13.0 per cent in 1981 and 10.0 per cent in 1982 to 22.7 per cent in 1987 and 20.4 per cent in 1988.

[23] For example the share of machinery and equipment imports in total imports fell from 28.5 per cent in 1979 to 21.5 per cent in 1987.

acted as a positive supply shock. Finally, despite substantial steps toward liberalization, the rate of protection was still high. The expansion in the scope of the so-called fund list, for example, was indicative of the fact that price measures other than tariffs were instrumental in keeping import demand under control.

The most prominent result of foreign trade liberalization and the shift of incentives toward export orientation was in the volume of exports which increased (in billion dollars) from only 2.3 in 1979 to 8.0 in 1985 and 11.7 in 1988. This impressive performance was accompanied by both product and market diversification. As the share of manufactured goods in total exports rose sharply from 28.8 per cent in 1980 to 67.2 per cent in 1985 and 69.1 per cent in 1988 there was a considerable increase in the portion going to Middle Eastern countries, especially during the 1980–85 period, rising from 22.5 per cent in 1980 to 42.0 per cent in 1985, before falling to 30.2 per cent in 1988.[24] It is all the more remarkable that this performance took place against the background of increased protectionism and slow market growth in trading partners. What little evidence there is available on the role of the public sector, direct foreign investment, and small-scale enterprises in this performance indicates that they have played only a minor role, while exports through large enterprises in the private sector especially through export trading companies have played a central role.[25]

For a better understanding of the export drive, we can distinguish the period from 1980 to 1983, when a variety of factors acted in the same direction to give a major initial boost to exports, and thereafter when attempts were made to consolidate these initial gains. As rapid exchange rate depreciation together with high rates of export subsidy led to considerable depreciation in the real effective rate of exchange until 1984 (see [20]), the emphasis on domestic demand restraint early in the program made exporting the only way possible for sustaining industrial profits. The outbreak of the Iran-Iraq war and the active role played by the government to organize trade missions and conclude bilateral agreements envisaging the exchange of Turkish exports for petroleum imports were instrumental in generating a sharp increase in exports to Middle Eastern markets. A strong yet often neglected factor in this performance was the link between manufactured export growth and earlier experience with import substitution. Traditional import substitution industries (some of which had been established as far back as the 1930s like textiles, glass, iron and steel) had, after a long lag, reached a level of technological maturity enabling them to enter export markets. Learning effects and "evolving efficiency" during long periods of protection was perhaps strongest in textiles.[26] Furthermore, the decision to extend import substitution into relatively more capital-intensive and import-dependent sectors in intermediate and capital goods in the 1970s was instrumental in the creation of sizeable new capacities. According to one estimate, the contribution of these "new" industries to export growth was responsible for around one-fifth of total manufactured exports during 1983–87 (see [36]). Other factors contributing to export growth during this

[24] For a detailed account of manufactured export performance see [33] and [36].
[25] The share of export trading companies in total exports increased sharply from 9.2 per cent in 1981 to 38.8 per cent in 1984.
[26] See [36]. For a confirmation of this view see [16].

TABLE IV

GROWTH OF EMPLOYMENT, 1967–87

(%)

	1967–73	1973–79	1980–83	1984–87	1980–87
Agriculture	−0.3	−0.2	−0.2	−0.2	−0.2
Industry[a]	4.3	2.2	2.6	5.0	4.1
Manufacturing	4.6	1.7	3.0	4.8	4.2
Services	3.9	4.0	2.5	4.1	4.8
Total	1.2	1.2	0.8	1.6	1.2

Sources: [43] [38].

[a] Includes mining, manufacturing, electricity, gas, and water.

period were the fall in real wages and the activation of excess capacity in manufacturing for export production. The rise in capacity utilization rates (in per cent) which went from 51.1 in 1980 to 66.8 in 1982, then to 72.7 in 1985–86, and 75.0 in 1987 confirm that the biggest increase in these rates occurred during the early period up to 1984 with very rapid increases also in "new" industries.

It seems that the simultaneous presence of the variety of factors discussed above in the crucial early years was instrumental in establishing an export base and increasing exporter experience and confidence in later years. When moves away from direct subsidies led to a decline in exports as in 1986, the government was quick to reinstate them with immediate favorable results. Likewise, when the fall in petroleum prices began to threaten Middle Eastern markets, normalization of relations with the EEC together with the revival of demand in OECD countries in general has enabled Turkey to revert back to its traditional markets. The crucial role of the effective exchange rate in explaining export performance was confirmed once again when the removal of export tax rebates and the appreciation of the real exchange rate in 1989 led to stagnation in exports.

3. *Employment and income distribution*

The rate of growth of employment during 1980–87 was exactly the same as in the 1967–79 period (Table IV). Employment growth was not uniform, however, during 1980–87, accelerating from 0.8 per cent during 1980–83 to 1.6 per cent during 1984–87. With the exception of employment in agriculture which experienced a slight decrease throughout the period, the acceleration in employment growth in the latter subperiod was evident from employment growth rates in all sectors. This growth in employment seems all the more remarkable in view of the increase in productivity during this period which on average was 2.2 per cent a year for industry and 1.3 per cent for services. These trends in employment were reflected in high and rising rates of unemployment until 1983 and a significant reduction in this rate thereafter.[27]

[27] According to official estimates based on surplus labor, the unemployment rate rose from 11.6 per cent in 1980 to 12.1 per cent in 1983, before beginning to fall steadily to 11.8 per cent in 1984 and 9.5 per cent in 1987.

A more disaggregated analysis of the structure of employment over time reveals the following characteristics. First, nearly one-third of the increase in nonagricultural employment during 1980–87 was in manufacturing (29.5 per cent) whose share in total employment increased from 10.3 per cent in 1979 to 12.1 per cent in 1987, after remaining constant during 1973–79. Second, more detailed information available on the manufacturing sector indicates that small-scale enterprises (with less than ten workers) have maintained their share of total manufacturing employment during 1980–85. An explanation for this may be found in the narrowing of the relative real wage differential between large and small enterprises[28] which may have increased the latter's attraction for employment. Third, the fall in the share of the public sector in total employment in large manufacturing enterprises from 36.1 per cent in 1980 to 32.6 per cent in 1985 was accompanied by a fall in the ratio of public sector wages to private sector wages from 1.5 in 1980 to 1.1 in 1985.

The possible reasons for the poorer-than-expected employment performance in the 1980s under export-oriented policies can be examined under three headings. (i) A major portion of manufactured exports, especially those directed to the Middle East, were capital-intensive[29] originating from branches with above-average domestic resource costs. (ii) Although there was much emphasis on correcting relative factor price distortions, the overall impact of these efforts was weakened by a number of other factors. The decline in real wages was not uniform over time which may have increased the uncertainty of producers because of renewed memories of increased militancy by organized labor in the 1970s even when real wages were rising. Similarly, the overall trend toward increasing real interest rates was accompanied by the granting of subsidized rates to a variety of activities.[30] (iii) The decrease in real wages during the period may have exerted a downward pressure on aggregate demand especially for wage goods (see [35] for details).

Although the welfare implications of the SSAP have been at the center of the controversy surrounding it, there is a severe lack of information on the subject. One comparative study on LDCs has classified Turkey among countries with "rapid or moderate growth. . . accompanied by growing inequality but not by absolute impoverishment" (see [39, p. 32] for details). This observation was supported by the sharp fall in the poverty ratio during 1973–78. It seems that more recently this trend has been reversed with a significant increase in the ratio during 1978–83 (Table V).

Although bedeviled by a lack of reliable data, various studies (despite considerable variation in their findings) on the whole indicate a significant worsening in both the size and functional distribution of income in the 1980s. The data on functional distribution indicates a big rise in the share of incomes from interest,

[28] Our calculations based on payrolls per paid employee have shown this differential fall from 4.8 to 2.8 during 1980–85.

[29] According to [36], in 1987 27.5 per cent of total manufactured exports (48.0 per cent of those directed to Middle Eastern countries) was capital-intensive.

[30] About one half of total lending by the banking system was at varied preferential rates with the SEEs, agriculture, craft businesses, and investors with investment promotion certificates as well as exporters as the main beneficiaries. See [42, p. 122].

TABLE V

THE SIZE DISTRIBUTION OF INCOME AND POVERTY MEASURES

	Income Share (%)		Gini Coefficient	Percentage of the Poor[a]
	Top 20%	Bottom 40%		
1973	56.5	11.5	0.51	..
1978	54.7	10.2	0.5089	25.0
1983	55.9	9.6	0.5224	29.9
1986	55.9	12.3	0.50	..
1987	55.0	11.0	..	..

Source: Based on [6] comprising a compilation of the findings of various data on income distribution.

a The ratio of poor households to total (number of) households.

rent, and profits accompanied by a sharp decline in the share of both agricultural incomes and wages and salaries.[31] According to one estimate the share of agricultural incomes and wages and salaries declined respectively from 24.3 per cent and 32.8 per cent in 1979 to 18.1 per cent and 17.7 per cent in 1986 with a corresponding increase in the share of incomes from interest, rent, and profit from 42.9 per cent to 64.2 per cent (see [27]). The data on size distribution on the other hand indicate a marked deterioration during 1978–83 with more recent data available estimating the income share of the top 20 per cent and bottom 40 per cent at 55.0 per cent and 11.0 per cent, respectively (Table V).

In interpreting this data, one should pay particular attention to three factors. First, income distribution was highly unequal even before 1980. Although there was some improvement as a result of favorable developments in agriculture's terms of trade through support prices and real wage increases under a relatively liberal labor environment, these trends were sharply reversed with the onset of economic crisis in 1978–79, and this reversal continued in the 1980s. Second, a major factor behind inequality is the big intersectoral productivity differential between nonagriculture and agriculture. Despite rapid structural change, agriculture still has considerable weight in the economy, especially in terms of labor force. This together with a large portion of urban dwellers still having close links with their former communities in rural areas constitute the basis of a tacit social security system and conceal the full effects of the deterioration in income distribution.[32] Third, the removal of subsidies following price decontrol in the public sector, neglect of essential public services in health and education, as well as the sharp fall in real wages and agriculture's terms of trade provide the main links between the SSAP and worsening income distribution.

An overall evaluation of the SSAP can be carried out by comparing its record with (a) the pre-1980 record of the Turkish economy, (b) the record of other

[31] As pointed out by Wolff, owners of property benefited from accelerating inflation while the policy of real interest rates in the 1980s benefited those with liquid assets [42, p. 153].

[32] For a confirmation of this view see [4].

TABLE VI

MAIN ECONOMIC INDICATORS IN TURKEY AND OTHER LDCS

	Turkey		Lower-Middle Income Countries	Upper-Middle Income Countries
	1965–80	1980–88	1980–88	1980–88
Growth rate (%):[a]				
GDP	6.3	5.3	2.6	3.3
Industry	7.2	6.7	2.5	3.7
(Manufacturing)	7.5	7.9	2.4	. .
Investment[b]	8.8	4.4	−1.6	−0.5
Exports	5.5	15.3	6.0	4.4
Inflation[a]	20.7	39.3	80.8	45.0
Earnings[c]	6.1	−3.5	. .	. .
External debt indicators:				
Debt service/GNP[d]	1.4	9.1	. .	. .
Debt service/exports[e]	22.6	35.2	. .	. .

Source: [45].

[a] Average annual rate in percentage.

[b] Gross domestic investment.

[c] Growth in earnings per employee in manufacturing during 1970–80 and 1980–87.

[d] Total long-term debt service as a percentage of GNP in 1970 and 1988.

[e] Total long-term debt service as a percentage of exports of goods and services.

LDCs, (c) the objectives of the SSAP itself, and finally (d) from a perspective of long-term development. As a part of this exercise we have in Table VI gathered data on some basic indicators for Turkey and middle income countries as the most appropriate reference group. As can be seen from the table, growth rates of GDP, industry (and manufacturing) in Turkey during 1980–88 are very similar to those obtained during 1965–80. The major outliners in the post-1980 period are export growth on the positive side and investment on the negative side. This supports our earlier assertion that manufacturing growth in the 1980s was due largely to increased utilization of existing capacities and raises the question of the likely level and structure of industrialization at present, had external resources of such high magnitudes been available earlier, say around 1977. The latter period also represents a clear worsening of performance in inflation and external debt indicators. On the brighter side, the Turkish performance during the 1980s (with the sole exception of external debt indicators) seems substantially better than both the low-income and middle-income countries. Concerning external debt, for which we do not have data at this level of aggregation, comparisons using country-wide data from the same source indicate that there is cause for alarm with both of the debt indicators close to levels of the highly indebted countries.

Using the objectives of the SSAP as a yardstick we can argue that there has been significant progress in the direction of all major objectives. With the exception of the price shock during the first several months, various policy shifts under the SSAP have represented a gradual process. This was most visible in the liberalization of trade regime when major efforts began in late 1983, with interest rate and capital account liberalization progressing clearly at a much slower pace. Likewise, although price reform in both the private and public sectors came very early in the program, there has so far been only meagre progress in the transfer of SEEs to private ownership. On the institutional front, a restrictive labor environment was created early in the program under military rule with the restoration of democracy representing some progress, albeit at a very slow pace, in liberalizing the labor market. While tax reform and the introduction of capital market legislation represented relatively early steps in the program, institutional changes in the financial sector like the establishment of a stock market and interbank came only in the second half of the decade. It seems therefore that in terms of its own objectives the SSAP can be regarded as "successful" with the failure to reduce inflation and to attain price stability and some alarming tendencies in external debt indicators providing the major exceptions.

It can therefore be argued that the real criticism of the SSAP centers on a wider set of criteria derived from a development perspective. Here despite some notable achievements like export growth, the failure to generate a significant increase in manufacturing investment, the inability to make a major impact on the employment front, and the growing distributional imbalances emerge as the major areas of concern.

IV. LESSONS AND PROSPECTS

The SSAP which was implemented in close collaboration with the IMF and the World Bank has generated a radical transformation of industrial trade strategy away from archetypal import substitution toward export orientation.

The most pertinent questions at this stage relate to the relevance of the Turkish experience under the SSAP for other LDCs on the one hand and its sustainability in the years ahead on the other. On the first of these questions, certain features of this experience, some of which unforeseen by the advocates of export-oriented policies, need to be emphasized right at the outset.

(i) External influence on economic policies (basically through formal agreements with the World Bank and the IMF) has been clearly visible at both the initial and subsequent implementation stages. Such loss of autonomy in domestic economic policymaking can be traced largely to economic mismanagement during the pre-1980 period which was characterized by an overall neglect of the short term. As economic growth under the long-term strategy became nonsustainable, the emergence of a severe economic crisis and the urgent need for external resources to cope with balance of payments difficulties in the late 1970s inevitably led to the acceptance of the terms of these institutions under the SSAP.

(ii) As Turkey's entrenched inflation seems to be characterized by a political cycle working itself basically through the PSBR, there is need to incorporate a political analysis into the design of stabilization and adjustment programs. Political issues became most prominent, however, in attempts to reduce the PSBR. The selection of items for expenditure reduction, increasing the tax base and its progressiveness on the revenue side, and the impact of price decontrol in the public sector on the prices of "standard consumer items" are issues which take us deep into the realm of politics.

(iii) The Turkish experience has reconfirmed that exports are highly responsive to incentives and that an individual LDC can generate substantial export growth through rapid product and market diversification even in the face of a generally unfavorable external environment. This together with Turkey's increased credit worthiness in international financial circles are often regarded as the main achievements of the SSAP. One should not, however, overlook the fact that the state has played an active role in the export drive. The extent of intervention in Turkey was so large that it has probably led to much time and effort being devoted to obtaining export incentives and to "price distortions and misallocations as it did under import substitution."[33] Exporters have responded to these incentives with such zest that some from their rank have resorted to illegal activities in the form of "fictitious export."[34]

(iv) It is often put forward that protectionist trade and industrialization policies create a bias against the agricultural sector. It seems that an alternative policy framework in Turkey had a similar outcome with the domestic terms of trade moving against this sector under export-oriented policies, following the implementation of "more realistic" support prices. One reason why the alleged potential benefits for agriculture did not materialize was that export growth during this period was heavily concentrated on the manufacturing sector.

(v) There has been a clear neglect of industrialization under the SSAP as evidenced also from the declared objective of the government to withdraw from direct manufacturing activity. This withdrawal had two components. First, the government was fully committed to privatization with several examples of actual transfer indicating the government's determination in this respect. Second, the sharp fall in public investment in manufacturing[35] together with weak investment response by the private sector and DFI have slowed down not only the process of industrialization but also the process of structural change toward intermediate and capital goods within this sector for which the state has traditionally been the main vehicle. Furthermore, the recent trends toward exchange rate appreciation and the failure to scrutinize trade liberalization in the light of domestic industry's power to withstand external competition may over time lead to the

[33] See [23] on this point. As pointed out in Hershlag, "What has not changed substantially even in the 1980s is the traditional red tape, bureaucracy, cumbersome legislation and its enacting of an excessive number of decrees, in a non-stop outpouring, particularly regarding exports as well as imports" [15, p. 109].

[34] The precise role of so-called "fictitious" exports representing the abuse of the export incentives system in this performance is not known. One estimate by Celâsun [7, pp. 7–28] claims overinvoicing of exports to OECD countries represented 12.6 per cent of exports during 1981–85.

[35] As the share of transport and communications in total public investment rose from 18.1 per cent to 32.6 per cent during 1980–87, the corresponding share of manufacturing fell from 28.8 per cent to 6.1 per cent during the same period.

weakening of the industrial base, a process which may be intensified by full membership to the European Community.

(vi) Contrary to expectations, export-oriented policies under the SSAP were accompanied by a significant worsening of income distribution and an unsatisfactory employment record with no sign of a major reallocation of resources toward labor-intensive activities.

(vii) Even when attention is confined to the positive elements of the record under the SSAP, a number of factors are likely to render their replication in other LDCs difficult. First, the export success owed a great deal to somewhat fortuitous elements like the availability of considerable excess manufacturing capacity at the beginning of the export drive and the Iran-Iraq war which created a big demand for exports. Likewise, special relationship with both the IMF and the World Bank during this period was instrumental in the inflow of substantial resource into Turkey, especially in the critical initial years of the program, a facility which may not be available to many other LDCs.

Finally, there are major difficulties surrounding the sustainability of the SSAP in the future.

The first major obstacle to sustainability is likely to emerge from the balance of payments. While external resources invested in industry in the 1970s were eventually transformed into foreign exchange earnings during the export boom, resources invested in nontradeables in the 1980s may be "specific" to these sectors in the immediate future. This is one reason for expecting the balance of payments to regain its prominence at center stage of the economy. Current account surpluses of the last two years are deceptive in that they reflect the low demand for imports due largely to slow growth in domestic demand in 1988 and more fundamentally the low capital formation in machinery and equipment. Using the exchange rate as an anti-inflationary device, if prolonged, would no doubt have adverse effects on export growth which would be aggravated by the slow growth of new investment in export activities. As I have discussed elsewhere (see [36]), the reasons behind the weak response by private investors ranged from credit availability and high interest rates to the adverse effects on expectations of a volatile economic policy environment. Among other factors contributing to the dismal record of manufacturing investment were lack of "innovative entrepreneurship and modern management" and investors' preference for "short-run financial investment in stocks, bonds, and other instruments, or deposits with financial institutions, with quick returns at the neglect of long-term real investment in plant and equipment" (see [14]). In the face of the above factors, which were no doubt compounded by high and variable inflation, it seems that major efforts were directed at getting the most out of existing plants. Furthermore, the growing external indebtedness and a rapid shift in its term structure toward short-term debt together with the dangers of capital flight in the face of further liberalization of capital movements do not augur well for the future. As one commentator has argued: "the risk of economic collapse under liberalization seems to be non-trivial, if recent history in the Southern Cone, Mexico, and African countries such as Zaire provides a guide" ([40, p. 168]). Although in the event of such calamity, the IMF and the

World Bank may be expected to come to Turkey's rescue in the short term, its failure to generate a self-sustained balance of payments position so far presents formidable difficulties from a medium-term perspective.

The second factor on the sustainability issue is related to the government's domestic political support. The SSAP derived considerable strength from military rule during which there was virtually no organized opposition. Although major steps like foreign trade liberalization were taken when the government's political support was at its peak, this cannot be said for more recent steps like increased emphasis on privatization during which this support seems to be at a low ebb. It can therefore be argued that the SSAP which has strongly been influenced by external agents, may come to a halt as a result of the waning of the government's domestic political support which no doubt is closely associated with the record of the SSAP, particularly in spheres like inflation, employment, and income distribution. Furthermore industrialists may be expected to increase their criticism as import liberalization involving further reductions in price measures begin to adversely affect their competitiveness.

A critical evaluation of the SSAP should not imply the "unmitigated desirability of returning to an earlier policy regime" [9, p. 1]. Instead, policymakers in Turkey and other LDCs should learn from the valuable experiences Turkey gained under two alternative industrial trade strategies. While the long-term strategy was instrumental in the creation of substantial learning effects and, in the process, a sizeable industrial base, the export-orientation episode in the 1980s has gone a long way in removing import premiums and provided substantial learning effects vis-à-vis the penetration of new export markets. There is therefore a strong need to be less ideological and more flexible in the choice of an industrial trade strategy. Also not to be overlooked is the fact that export growth in the 1980s originated basically from the import substitution industries established under the long-term strategy. One should thus attach much credence to the view that the two strategies can be complementary (see [30]). In view of the fact that factors like market structure may provide a better explanation of the efficiency of enterprises than their ownership, an additional factor that should be considered carefully in expanding and restructuring the industrial base is the role of the state as a potentially effective development agent.

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