



For Mema and Papa

DEFNE JONES

ECONOMIC ASSISTANCE TO TURKEY

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ECONOMIC ASSISTANCE TO TURKEY FROM EUROPE AND THE  
UNITED STATES

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in

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ANKARA

December 2004

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## ABSTRACT

### ECONOMIC ASSISTANCE TO TURKEY FROM EUROPE AND THE UNITED STATES

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This thesis examines the extent, limitations, and effects of foreign aid to Turkey from the United States, Europe, and International Financial Institutions (IFIs). It also interprets the evolution of the concept of conditionality attached to economic assistance by the donors. After evaluating the main arguments of liberal and dependency perspectives on foreign aid to developing countries, the thesis makes the argument that under certain circumstances foreign aid can lead to economic and social development.

Conditionality plays an important role in ensuring effectiveness of foreign aid. This study focuses on the evolution of conditionality attached to various foreign aid packages for Turkey. It then evaluates if there is a correlation between the conditionality attached and policy results considered satisfactory. The study covers the period of 1945 to 2000.

Keywords: Turkey, Foreign Aid, Economic Assistance

## ÖZET

### AVRUPA VE AMERIKA: TÜRKİYE'YE GELEN DIŞ YARDIMI

Jones, Defne

Master, Uluslararası İlişkiler Bölümü

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Bu tez, Türkiye'ye Amerika Birleşik Devletleri, Avrupa ve Uluslararası Finansal Kuruluşlar tarafından yapılan dış yardımların kapsamını, kısıtlarını ve etkilerini incelemeyi amaçlamaktadır. Ayrıca bu yardımcıların ekonomik desteklerinin şartlılığı yaklaşımının gelişiminin de açıklanmasına çalışılmıştır. Tezde; gelişmekte olan ülkelere finansal yardımlar konusunda liberal ve bağımlılık yaklaşımlarının temel argümanlarının açıklanması ile, belirli koşullar altında dış yardımların ekonomik ve sosyal gelişim sağladığı savunulmaktadır.

Bu sebeple, şartlılık dış yardımların etkililiğinin sağlanması konusunda önemli bir rol oynamaktadır. Bu çalışma, Türkiye'ye sağlanan çeşitli dış yardım paketleriyle birlikte şartlılığın gelişimine odaklanmıştır. Ayrıca bu çalışmada, başarılı politika sonuçları ile bağımlılık arasında bir ilişki olup olmadığı değerlendirilmiştir. Çalışma 1945-200 yılları arasında kapsamaktadır.

Anahtar Kelimeler: Türkiye, Dış Yardım, Ekonomik Yardım

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## CHAPTER 1

### INTRODUCTION

Turkey officially received aid from the United States (US) in 1947 with the advent of the Truman Doctrine. The US wanted to prevent the spread of communism to Greece and Turkey, which were considered susceptible to the threat. Regarding European aid, Turkey had been receiving economic assistance formerly under the Ottoman Empire and continued to receive minimal amounts during the founding of the Republic and throughout the years.

The evolution of conditionality in terms of economic aid provided by the US, EU, and International Financial Institutions (IFIs) will be examined in order to determine the relative effectiveness of conditionality. When applied in a country-specific manner, conditionality, or policy-based

lending, is more likely to accomplish the goals that were set out to be achieved given legitimate interaction between lender and borrower.<sup>1</sup> On the other hand, when conditionality is not specifically targeted to a specific aim, it can lead to political turmoil or economic unrest. Too much reliance on economic aid for reforms, in general, creates dependency on Turkey's part towards the West.

Turkey receives aid from the US and Europe partially based on these superpowers personal goals and interests, having a detrimental effect on Turkey's economy if not properly applied. This creates relatively high levels of dependency within the economy on aid from the US, EU, and IFIs. Also, it allows foreign countries and IFIs to dictate the nature of economic and social developments within society. Economic dependence occurs when one country is linked to another's economy for development purposes (Dos Santos, 1970: 231). Referring to government documents and other sources, the dependent variable, dependency, changes with the independent variable, economic assistance, over time.

The main motivation for aid started with the desire to influence Turkey's internal politics, and shifted in terms of conditionality with time. Conditionality as defined by the International Monetary Fund (IMF) refers to changes in economic and financial policies made by governments

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<sup>1</sup> James M. Boughton (2003) makes a similar argument in reference to conditionality specific to the IMF.

receiving aid (IMF Fact sheet). Conditionality, when properly applied to the circumstances at hand without too many detailed specifications, can achieve the goals set forth.

Turkey has been a committed US ally since the Korean War, which started in 1950, when it sent troops to support the US goal of stopping the spread of Communism. In addition, Turkey has cracked down on drug traffickers who use the peninsula as a path-way to carry drugs to Europe or to the United States. Struggling with political unrest during the Cold War era and continued tense relations with the superpowers made Turkish officials suspicious of great power intentions. In addition, the Cyprus intervention caused tension between the two countries even though the US, more so than Europe, supported the Turkish side. During the Gulf War of the 1990s, Turkey opened up its air bases for use by the US military for enforcement of the no-fly zone over Iraq to protect the Kurds. More recently, Turkey has supported the US war on terrorism not by solely paying lip service to it, but by sending some of its own Special Forces troops to Afghanistan in order to help track down the perpetrators of the September 11, 2001 attacks.

The US has its own interests in maintaining its position as an ally with Turkey. These interests lie in the military, natural resource, and investment realms. Militarily, the US views Turkey as a strategically

located country by which to gain access to the Middle East and the former Soviet-bloc nations. Due to Turkey and mainly its neighbors' vast reserve of natural resources, the US does not want to forgo opportunities to benefit. Foreign direct investment (FDI) in Turkey had been expanding until the recent economic crisis of 2001, however, it has since continued to grow again.

Turkey has an even longer-standing relationship with Europe, mainly due to their geographic proximity to each other. European countries have traded with Turkey since before the foundation of the Republic. However, since the breakup of the Ottoman Empire, Turkey has become a peripheral state as opposed to a main player in the regions' politics. To strengthen its position, Turkey entered into many economic agreements with Europe, for example, the Council of Europe, to promote democracy and economic prosperity. Also, Turkey has been an associate member of the European Economic Community (EEC) for a longer period of time than any other member.

European interests in Turkey from a military perspective lie in the strength of the Turkish army and its contribution to stability, especially in Eastern Europe. For example, long before the US was willing to take decisive action in Bosnia and Kosovo, Turkey was prepared to act. As far as military security interests are concerned, Turkey's status as a member of

the North Atlantic Treaty Organization (NATO) with the second largest army in that organization, provides stability for the Europeans as long as peace is maintained. Turkey is also seen as a possible gateway for transmitting oil and gas resources that Europe needs. In terms of investment, Turkey provides an extensive market for European goods.

Aid packages from the US have been consistent since the end of World War II (WWII). Foreign aid is approved by the Congress each fiscal year in the hopes of maintaining a strong relationship between the two countries. However, the US, as compared to other Western countries, provides one of the lowest amounts of foreign aid in terms of its budget share.

The EU also has its reasons for providing funding for Turkey, oftentimes in the hopes that it will decrease human rights violations. This is one of the main points of conditionality on the part of the EU. Due to the relative problems of transparency, until the EU is ensured that aid is serving the purpose it was intended for, large sums of money will be withheld.

IFIs have also played a pivotal role in supplying aid to Turkey. The role of the World Bank has traditionally been seen as providing money to countries to help build a general infrastructure (House Hearing, 2001: 3). More recently, the World Bank has provided short-term structural

adjustment loans. The World Bank provides loans to Turkey at low rates of interest that it expects to be paid back. World Bank conditionality is linked with the International Monetary Fund (IMF) and shows progress; modification throughout the years.

The IMF has played a pivotal role in supporting the Turkish economy, most favorably with the advent of the 2001 economic crisis. Turkey has signed about eighteen standby agreements with the IMF in order to obtain loans. However, as part of conditionality, the IMF has put forth certain reforms that it wants Turkey to undertake in order to be able to keep receiving aid.

The Organization for Economic Cooperation and Development (OECD) provides aid to developing countries to enhance their economies. In addition, the OECD conducts major statistical surveys on the nature of the economies that it provides aid for. Also, Turkey is compared to other OECD countries when establishing a comparative analysis to determine attainment of goals.

For considering Turkey's experience with foreign aid, the post-WWII period will be focused on to develop a better understanding of the current and future possibilities for Turkey's economy. Although historically, the Ottoman experience with aid had a significant impact on the Republic's attitude towards assistance, this impact waned in later years.

The Ottoman era, in the late period, was key in establishing a tradition of dependency on the West as a foundation for future aid experiences.

## CHAPTER 2

### **TURKEY'S RELATIONS WITH ITS ALLIES**

Historically, the Republic of Turkey, as the remnant of the Ottoman Empire, has been an outward looking nation. Since the Empire encompassed parts of Europe, Africa, the Middle East, and Asia, the Ottomans became accustomed to adapting to many different cultures. The legacy that the Ottoman Empire left the Turkish state initially drove the new Republic to follow an isolationist stance, but later encouraged the Turkish people to recall the multinational nature of their empire and start looking outwards mainly to the West. In the final years of the Ottoman Empire, a significant amount of debt had been incurred with the Western Europeans. So as not to continue the same tradition, the new Republic was initially a bit more cautious about borrowing and spending. Many

countries in one way or another accumulate large amounts of debt; however, they usually have economies strong enough to handle the debt burden. Turkey, especially towards the emergence of the Republic, had a relatively weak economy on which large amounts of debt had a detrimental effect. As Turkey strengthened its relations with the West it also increased its dependency on economic assistance. Over the years, the US has assumed the role of the major supplier of economic assistance to Turkey while also being one of its closest allies.

## **2.1 The United States as an Ally**

In order to understand Turkey's opening up to the West and to the United States, in particular, it is important to examine Turkey's democratization and move towards western liberal ideals. In addition, ever since the WWII period to the present, the country's role in the region and as an ally has shifted. Adjustments in Turkey's outlook towards the US and the West mainly started to come about during WWII.

The impact of WWII on Turkey is important in understanding the first major set of fundamental changes that started to take place in the decade of the 1950s. Originally, Turkey's goal in WWII was to remain

neutral. However, towards the end of the war it sided with the allies in order to be considered a faithful supporter of the West. Through the use of its unique geographical position, Turkey was able to come out of the War without too much entanglement or destruction (Deringil, 1989: 186). Countries unwilling to invade were wary of offending Turkey because of its strategic location, which could be used to their advantage at some point in time. The aftermath of WWII was much more favorable for Turkey when compared to World War I, thus increasing confidence in a more active foreign policy for the future.

With the victory of the Allied powers, new liberal ideals were coming to the fore and being adopted by the rising bourgeois classes. These liberal ideals pertained to the rights of the individual. After WWII and the victory of the democracies, the Republican People's Party (RPP) began to fully understand the importance of democratic and liberal ideals within the government and began to implement them. The pressure from outside forces was significant in determining the internal structure of the political system. Even though the Constitution of 1924 contained liberal ideals that gave rights to the individual, the fulfillment of those rights was restricted (Karpat, 1967: 137). Most hoped that the introduction of an opposition party, at this juncture, would increase the checks and balances within the system in order to not allow the RPP to dominate the political

scene. In an attempt to foster a more positive image among the people, around 1945 the RPP paid close attention to certain cultural foundations, agencies for aid, political advancement societies, and sporting clubs (Kabasakal, 1991: 152). Governmental interest in such civic activities helped promote liberal ideas throughout the decade. As Turkey increased efforts to Westernize, the US was able to provide more financial backing to help improve the economy and social situation.

The increasing amount of aid that Turkey was receiving after the end of the war from aid packages such as the Truman Doctrine increased Turkey's dependence on other states, thus requiring that the political system adhere to Western standards of governance. The United States government was looking for a way to help stop the spread of Soviet influences, the aim of the early political conditionality placed on aid. In 1946, the Truman Doctrine was expressed as a decision to "support free people who are resisting attempted subjugation by armed minorities or outside pressures" (Pope, 1997: 82). In the Turkish context, the protection of the Straits was important to US military interests.

Following the Truman Doctrine, the Greco-Turkish Aid Program was approved to provide aid for Greece in the sum of 250 million dollars and 150 million dollars for Turkey and was signed into law on March 22, 1947 (Freeland, 1972: 88). According to the agreement, monetary aid for

Turkey was designed specifically for the military. To establish Turkish and Greek support and stop the spread of Communism, the US saw aid to these countries as a necessary step. On the flip side, in order to gain the aid and support of the US, Turkey wanted to change its political system to better suit the expectations of the West.

Later in the 1950s, in order to foster the growth of the middle class, the United States provided aid to certain commercial groups, which made the foundation of democracy stronger, because these groups were generally opposed to bureaucratic domination and dictatorship (Karpas, 1964: 60). Thus, the policies of support for commercial groups would help foster opposition to étatist policies, which would encourage the growth of new pro-Western ideologies. Apparently, the next phase of conditionality, after the threat of Communism subsided, was to encourage privatization and strengthen democracy.

Another big step that Turkey took in strengthening its relationship with the US was joining the North Atlantic Treaty Organization (NATO). After joining NATO in 1952, Turkey officially became more involved in world affairs and was now viewed as a strategic buffer zone between the Soviet bloc and Western Europe. Military officials recognized Turkey's role in protecting the "West's southern flank in Europe, in diverting large numbers of Soviet troops to the Turkish theater, and in facilitating defense

of the Mediterranean and the Middle East” (Leffler, 1985: 823). The United States played a pivotal role in making the other allies understand the importance of Turkey’s potential membership in NATO. In 1951 when the Assistant Secretary of State, George C. McGhee, visited Turkey, he was told by President Celâl Bayar that Turkey would not settle for anything less than full NATO membership given its strategic importance and its role in the Korean War (Leffler, 1985: 822). The country suffered many casualties during the Korean War and felt that it deserved full membership. Turkey’s role in the War was a deciding factor in its admission to NATO in terms of US sponsorship for its admission (Kirişci, 1998: 1).

On February 16, 1952 Turkey was accepted as a full member of NATO, and even the new opposition (RPP) praised the government. Through Turkey’s entrance into NATO, the US was guaranteed an ally as well as the use of bases to preserve its military interests. Turkey gained an ally, aid for its economy, and military support through its decision to join NATO. The US would provide funding for the Turkish military as well as money for opening up military bases on Turkish soil.

These bases helped strengthen the economy of the Western coast of Turkey by bringing in Americans to spend their dollars in the Turkish market. In addition, businesses were set up by local entrepreneurs in order to cater to military personnel. Jobs were created within NATO for Turkish

citizens who had the skills to meet its needs. Overall, NATO helped stimulate the post-war economy of Turkey. The elites' efforts to formulate arguments to promote Turkey's entrance into NATO paved the way for entry, which was viewed as a triumph by the masses, and celebrated by all. The governmental establishment worked to enhance the importance of Turkey's inclusion into Western-based alliances.

However, Turkey's relations with the US did not progress in a completely positive manner. For example, during the Cold War the Jupiter Missile Crisis raised issues of mistrust, resulting in the Turkish elite coming to the conclusion that the superpowers were making covert deals and compromising Turkish security (Kirisçi: 1998, 2). Since Turkey was under the impression that the missiles were installed to aid in their protection, when the US removed them without consulting with Turkish officials, this action promoted distrust of US intentions.

Furthermore, the letter sent by President Lyndon B. Johnson to Prime Minister İsmet İnönü precipitated further turbulent relations between the two countries. The letter warned Turkey not to use US weapons in Cyprus, which could potentially set off a Soviet retaliation, and not to expect the US to help Turkey defend herself against the Soviets. When Turkey did not heed these warnings, the US imposed arms supply sanctions against Turkey for invading Cyprus with troops. Many points of

contention arise out of the Cyprus and Greece conflict. Turkey is uncertain as to whom the US is really supporting. Officially, the US is not able to publicly favor one side too much, considering the political repercussions this action would have on the home front.

In recent years, Turkey has declared its support for Israel alongside the US, thus diverging from the interests of its Arab neighbors. This action set Turkey apart from its neighbors, who already were resentful of Turkey's leadership role in the region. As a result, the Palestinian Labor Organization (PLO) and Syria had even more reason to provide funding to the Kurdistan Workers Party (PKK), a terrorist organization wreaking havoc on Turkey's domestic security situation (Brosnahan, 2004: 207). The PKK receives its support from Turkey's enemies; thus, increasing the amount of enemies greatly affects internal security. With sanctions imposed on Iraq, in the aftermath of the Gulf War, trade went from a flood to a mere "trickle" (Grant, 2001: 1). Hence, the Turkish economy suffered in trade with Iraq. Given its strong support of the US, Turkey has often taken a risk in relations with its neighbors.

In recent world political events, the region surrounding Turkey has changed considerably in a short period of time. As a result, the relative importance of Turkey as a regional actor has increased over the last decade. US officials hope to benefit from these changed circumstances and develop

a stronger relationship through a deeper economic partnership (Larson, 2003: 2).

Some of these changes include: stability in the Balkans, enlargement of the EU, economic growth in the former Soviet Republics, reform and energy growth in the Caucasus and Central Asia, the potential for a more Westernized neighbor in Iraq, and expanding economic prospects in the Middle East (Larson, 2003: 2). Significant headway, in recent years, has been made to transform Turkey's role as a regional actor, which is important to examine regarding the changing nature of allied relations between the US and Turkey. Turkey now better serves as a link between the superpower and the region surrounding Turkey's borders.

After the relative easing of tensions in the Balkans, Turkey will be able to start looking westward to help expand its regional economic role. Furthermore, improved relations with Greece will hopefully enhance economic ties for the long run. Greece as a friendlier neighbor also means improved relations with Cyprus, as evidenced by the recent opening of the border between the Northern and the Southern zones of the island.

Turkey joining the EU will also change the economic dynamic in Europe; even though Turkey already benefits from several agreements, becoming a full member will have a positive impact on Turkey's economy. In addition, the US supports Turkey's joining the EU because it will help

take some of the responsibility for helping Turkey restore its troubled economy. Turkey's membership may serve to strengthen the US position within the EU.

As Russia, Ukraine, and some of the other former Soviet Republics increase their economic prowess Turkey may also be able to benefit commercially. Major Turkish firms such as Koç and Sabancı have already benefited by the greater number of markets created by the opening up of Russia. Likewise, Russian multi-national corporations (MNCs) stand to profit from establishing ties with Turkish firms and setting up their own investments in Turkey.

In addition, if countries in the Caucuses and Central Asia become more active and expand their energy sectors, then Turkish businessmen can stand to profit by partnering with various firms. Specifically, the Caucuses can stand to benefit from Turkey's by serving as an outlet for its natural resource exports. Also, the Asian market has become an important player in the Turkish economy, regarding the significant increase in the amount of imports from this region, of late.

Next, if Iraq undergoes regime change and becomes more democratic, Turkey can also reap the advantages of Iraq's new emerging markets. Turkey has been a long standing trading partner with Iraq before, and to a lesser degree after, the Gulf War, and will continue to consider its

relatively neutral stance in the recent aggressions against Iraq by the US. If the situation in the Middle East improves in general, Turkey could possibly become a regional leader and improve its financial state.

Given the changing dynamics in Eastern Europe, the Middle East, and Asia, Turkey may become even more strategically important. Also, if the US government continues to take a more active role in world politics by trying to turn the whole world into a democracy, Turkey will become more important for Americans as an example of a developing and progressive Muslim democratic country. Furthermore, the potential leadership role of Turkey might be crucial in certain Middle Eastern countries, where the US may not be considered as trustworthy as Turkey.

In recent years, the US has come to understand Turkey's importance, offering more financial assistance in order to guarantee Turkey's position as an ally. However, as the US feels like it is in greater need of Turkey's support, Turkey becomes emboldened and feels like it can do without the US. Changes over time in the US-Turkey relationship have taken on a very different nature since they started out. Turkey no longer feels completely dependent on the US, partly given its strengthening role as a regional actor and its potential EU membership. When not seeking US backing, Turkey can strive for the approval of the Europeans. However, in

order to eventually attain its foreign policy goals, Turkey cannot tilt too much towards either power.

The US puts forth great efforts to preserve its relationship with Turkey partly due to its many personal interests. These interests are based on military, natural resource, and investment concerns. In a military sense, the US sees Turkey as a base camp for its access to the Middle East and the former Union of Soviet Socialist Republics (USSR), if necessary.

It is essential to examine official statements presented to the US government on Turkey's importance as an ally, in order to understand the reasons behind providing aid for the country. The Department of Defense is particularly key in rallying for support in Congress for maintaining a strong friendship between the two countries, while preserving its military interests. In a hearing before the House of Representatives, Subcommittee on Europe and the Middle East, a Department of Defense official related the importance of Turkey in a military strategic and security sense. W. Bruce Weinrod (1991: 63) starts out with the classic statement that Turkey is a bridge between Europe and the Middle East. Next, the strategic location in terms of sharing a common border with the USSR is stressed. Since Turkey has control of the Bosphorus straits, it has the ability to deny the Soviets access to their Black Sea Ports, which are the only non-frozen

ports during the winter. Before the Cold War ended these were especially important components of Turkey's strategic might, and still are to this day.

Furthermore, Turkey's role in the Gulf Crisis, as an important ally, is emphasized to distinguish it from other nations. Weinrod (1991: 63) goes on to explain how Turkey cut off overland access from Iraq to Europe, putting an end to Iraq's transit trade with Europe. In addition, the pipeline Iraq was using to export half of its crude oil through Turkey was closed, encumbering Turkey with a loss of almost half a billion dollars per year (Weinrod, 64). Exports to Iraq were stopped, which took away Turkey's second largest export market creating a gap of ten percent. Turkish troops were placed at the Northern border with Iraq, helping distract forces that instead might have been sent to the Kuwaiti border. Also, İncirlik Air Force Base, in Adana was used by the US to attack Iraq during the Gulf War. The US was able to use these bases and some other Turkish facilities because of the US-Turkish Defense Economic Cooperation Agreement (DECA).

While the Department of Defense has many supporters lobbying in Congress on behalf of Turkey and securing aid, the Greek and Armenian lobbies also present a strong voice of opposition on aid to Turkey and its general role as an ally. In particular, the American Hellenic Institute constantly sends its members to voice their support for Greece and

opposition for Turkey. Dean C. Lomis (1991: 420) makes the argument that at best Turkey is a convenient ally. Concerning the pipeline issue, Lomis points out that Turkey shut down the pipeline only after the Soviet Union joined the embargo against Iraq, and after Iraq itself reduced the flow of oil by 70 percent through that pipeline anyway. Regarding the Turkish troops on Iraq's northern border, he claims that the soldiers were already stationed there to fend off Kurdish rebels and did not contribute in a major way to the attack on Iraq (Lomis, 1991: 421). Lomis states that "Turkey cannot be our policeman in the Middle East" (1991: 421). He expands on his argument by pointing out that Turks are less likely to fight against their Muslim brothers and that, paradoxically, the Arabs do not like the Turks in general (Lomis, 1991: 421). Lomis makes a valid argument, in some sense, which has been supported by the recent conflict in Iraq, where Turkey was hesitant to support the US. Turkey has been a long-standing ally of the US, but it has not always been extremely predictable in its actions since the government is always changing and the tides of public opinion are frequently fluctuating. In addition, Turkey is wedged between two powers (the EU and the US) and is always trying to satisfy one without offending the other.

Turkey, including its neighbors, has access to natural resources such as energy and oil, which the US could potentially benefit from. Anatolia

was singled out for chrome, antimony, emery meerschaum, lead, zinc, and other minerals (Burke: 1977, 92). In regards to other minerals, boron, lignite, chromium ore, aluminum, copper, gold, and trona are mined in Turkey. Sixty-three percent of the world's boron reserve is located in Turkey while sixteen percent is located in the US; however, the true amounts are not readily published because of the strategic importance of the element (Kahriman and Özkan, 2001: 67-68). Boron is used in the pharmaceutical industry in part as an antiseptic. From a strategic standpoint, boron is used in hardened plastics in the automotive industry, industrial fiber production in fiber optic communication, fuel for space technology, production of glass materials that withstand heat, production of jet motors and jet plane fuel, nuclear energy powerhouses, hard steel production, and lasers in weaponry (Kahriman and Özkan: 70). Eighty percent of the world's boron resources are used by the US and Western European countries. One of the reasons that larger amounts of Turkey's natural resources are not extracted is the difficulty presented by the government and all the bureaucracy involved in obtaining permission. In general, only a few large firms hold a monopoly over any given mineral or similar substance.

Besides potential benefits from the mining of raw natural resources, the US also stands to gain from Turkey's geographic location as an outlet

for the Caspian region's export of natural resources. Oil and gas coming from this region through Turkey by the Baku-Tbilisi-Ceyhan pipeline is less of a "geopolitical risk" and "would secure Turkey's position in the regional hydrocarbon infrastructure and Turkey's own energy needs" (Grant, 2001: 2). Relying too much on Russia or Iran for an outlet to this region's oil and gas could pose a greater political risk when compared to Turkey. Another US advantage to obtaining oil from this region would mean less reliance on Arab countries. The US is always willing to diversify its sources from which to obtain oil. In addition, according to the official government position presented by former Secretary of State Colin Powell, the Bush administration supported the pipeline. Additional US interests mentioned by Powell (2001: 83) in the Caspian region included,

enhancing the independence and sovereignty of the states in this region; reestablishing economic linkages to increase cooperation and reduce regional conflict; bolstering global energy security to ensure that new sources of oil and gas reach world markets reliably; and creating business opportunities for U.S. companies.

While the US does not solely entertain economic interests in the region, it is also concerned about the political and security aspect of regional equilibrium. Powell (2001: 83) proceeds to mention that Turkey's interest in the pipeline would be to expand its links to the Caucasus while reducing the potential increase in shipments of oil through the Bosphorus. The Baku-Ceyhan pipeline is currently one

of the biggest and most important projects in Turkey involving natural resources.

FDI was expanding partly in order to reap the benefits from these resources until the recent economic crisis when flight of foreign capital reversed the flow. Turkey had been listed under the top-10 emerging markets list up until that point. Arguments supporting FDI in Turkey range from market potential, location, and reduced labor costs, to access to the EU, the Baltics, and Turkic Republics (Deichmann et al., 2003: 1768-1769). The majority of investment is dominated by service firms, followed by manufacturing, and lastly agriculture and mining (Deichmann, 1774).<sup>2</sup> The nature of this type of investment will remain relatively stable, narrowing the gap between services and manufacturing, but the number of firms will also increase steadily, as hoped over the years. To help encourage FDI, laws have been reformed that consider the investor, as Ali Babacan (2004: 2) Turkey's Minister of Economic Affairs points out that a minimum amount of funds is no longer required and rather than obtaining permission at the outset, a system of reviewing progress of investments has been developed. These reforms reduce the bureaucratic hurdles that entrepreneurs must overcome in order to invest in Turkey, which should increase investment from the US. As of 1995, the EU was the major

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<sup>2</sup> As of 1995, the percentage breakdown is 70, 28, and 2, respectively. In recent years, the gap between services and manufacturing has narrowed according to statistics.

investor in Turkey, followed by the US and Canada, Asian countries, the Middle East, and “transition states” (Deichmann, 1776).<sup>3</sup> Hopefully, with the liberalization of investment laws, US investors will be encouraged to bring their business to Turkey. However, according to the United Nation’s Inward FDI Performance Index, Turkey ranks number 123<sup>rd</sup> (Baykal, 2003: 5).<sup>4</sup> In the future, if Turkey becomes a member of the EU, this will certainly improve opportunities for FDI, especially on the part of the US.

## **2.2 Europe as an Ally**

Although Turkey lies at the crossroads between Europe and Asia, it is much more strongly integrated into the European realm. Examining the depth and nature of EU-Turkey relations will help shed light on the nature of the relationship’s future and the possibilities for aid for Turkey. Also, the nature of the relationship has changed with time as Europe became increasingly powerful and Turkey becomes regionally stronger without losing its intense desire to become a part of the EU.

Briefly examining the nature of commerce is important in order to understand the subsequent agreements signed with the EC and

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<sup>3</sup> The percentage breakdown is as follows: 67, 19, 11, 2, and 1.

<sup>4</sup> Turkey is below Bangladesh and just above Haiti in terms of FDI.

subsequently, the EU. Almost half of Turkey's trade is with Europe. For example, in 1992, 51.7 percent of Turkish exports went to, and 43.9 percent of imports came from, the EU. In 2000, this grew to 49 percent while exports fell slightly, to 50 percent. Over the years, the nature of goods that Turkey exports to the EU has been diversified. Until the early 1970s, Turkey mainly exported agricultural goods. However, after diversification, manufactured goods started to be shipped, mostly textiles, but at the very least a greater degree of industrial exports were produced, when compared to agriculture.

As an associate member of the European Community (EC), the Western European Union (WEU), the Council of Europe, and the Conference on Security and Cooperation in Europe (CSCE), Turkey has been quite active in its endeavors to become a full member of the EU. The elite of the country wanted to make sure that Turkey allied itself with the West in order to guarantee its "westernization." In addition, Turkey wanted to align itself with Europe for political, strategic, and economic reasons. As joining the EU becomes an issue, cultural and religious concerns have come to the forefront.

After signing the Ankara Agreement of 1963, the EU and Turkey signed an Additional Protocol in 1972, which is the longest standing association relationship that the EU has been involved in. Even though

Turkey is an associate member, this does not mean that it is guaranteed membership. Rather, once Turkey has filled all the requirements that are deemed necessary by the Europeans, then another decision must be made as to whether the country can become a full member. Beyond trade, the Ankara Agreement also includes free movement of workers, settlement rights for professionals, and harmonizing the tax system, rules of competition, and various other economic and legal regulations. The Association Council, as the governing organization, is responsible for making sure that the stipulations of the agreement are implemented.

It took until the early 1990s for a significant part of the Ankara Agreement and the Additional Protocol to actually be realized. As part of these agreements, customs duties and non-tariff barriers for manufactured goods from Turkey were abolished by 1973. However, textiles and clothing were regulated in a separate agreement referred to as voluntary self-restraint agreements set up by Turkish textile exporters and the EU authorities.

In addition, Turkish agricultural goods were never completely aligned with the EU's Common Agricultural Policy (CAP). Standards for pesticides and the use of genetic engineering on plants were just one example of what was not controlled in Turkey by the EU. As a result, agricultural goods were subject to regulation by non-tariff barriers of the

CAP. Effectively, the EU limited the most competitive products that Turkey could potentially export.

The free movement of labor, another stipulation ignored by the EU, was initially sidestepped by Germany. It first put a ban on recruiting workers from non-EC countries in 1973. Next, visa requirements were implemented for those who wished to visit Europe from Turkey. Those who wished to immigrate to Europe could only do so if they were joining a family member who was already there. Later, it mostly became a bilateral issue between Turkey and Germany, as the EC proposed that all new workers be banned from entering Europe as the Association Agreement continued. However, Turkey did not approve of this proposal. When Germany first started to seek the limitation of Turkish workers, it was mainly because of economic and social concerns due to the influx of such a great deal of unskilled labor. In recent years, one of the reasons Turkish workers were not desired was because of the rise of xenophobia and the fear of Islam becoming a significant element of European culture. These xenophobic attitudes also contributed to the limitation of financial aid to Turkey.

Another shortcoming of the Agreement was the failure of the EU to pass the fourth Financial Protocol of 1981, which would have given Turkey 600 million ECUs (European Currency Unit). The goal of this aid was to

ease the Turkish economy into the customs union and make up for the losses potentially experienced by industry. Until that year, Turkey had received \$705 million from three Financial Protocols. However, the coup of 1980 blocked the approval of the fourth financial protocol, which was subsequently blocked by Greece in later years due to the Greek-Turkish conflict.

When closely examining the record of efforts made to institute the stipulations of the Ankara Agreement and the Additional Protocol, it can be understood that Turkey did not make a wholehearted effort in implementing the provisions either. Two tariff reductions, in the amount of ten percent, were made in 1973 and 1976 for goods coming from the EC. Also, adjusting to the common external tariffs put forth by the EC, and reducing quantitative restrictions on imported EC goods, was started but never carried out. Turkey was most interested in concessions for the export of agricultural goods to Europe, but it had not made headway in adapting to conditions of the CAP.

Some elements of the ruling elite became critical of the customs union, in 1995 and were wary of liberalizing trade, and instead favored state planned national economic development through import substitution. Turkey hoped that by liberalizing trade with Europe, its economy would show positive developments, but failed to realize that the economy had to

develop in other ways besides solely relaxing barriers to trade. The Turkish argument started to move in the direction of discouraging liberalization of trade with Europe, because it believed that Europe was benefiting at its expense. Even though there was no hard evidence that this was the case, Turkey used this as a strong political argument against opening up its borders for trade (Kramer, 1996: 208).

In addition, Turks were offended by constant European criticism of Turkish democracy and its human rights record. Greece's constant antagonism towards Turkey also made the ruling elite negative toward Brussels, because they believed that more should be done to check Greece. Most of Turkey's relations with Europe, in recent years, have been based on Turkey's eventual or potential entrance into the EU. Turkey's relationship with the EU has had its ups and downs, for example, in the Luxembourg and Helsinki Agreements.<sup>5</sup> However, in general relations have been favorable in recent years.

When supplying aid, EU interests in Turkey have from US interests. Most of the aid provided to Turkey is allocated for the purpose of promoting eventual accession. In terms of conditionality, specific changes made to infrastructure should be in alignment with EU standards. The EU also stands to benefit from improvements made in Turkey with the help of

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<sup>5</sup> In the Luxembourg Summit (December 1997) Turkey was not accepted as a candidate country but in the Helsinki Summit (December 1999) this decision was reversed.

their aid. According to a Commission proposal (2001: 3) projects that might receive funding include the

improvement of infrastructures, the promotion of environmental protection and agriculture and rural development, the stimulation of energy transport networks and the alleviation of administrative and institutional obstacles between border regions...[and] the creation of networks and links on either side of the border.

These conditions placed on aid disbursement tend to benefit both the EU and Turkey.

The EU would like to see Turkey enhance institution-building, investment support, and civil society expansion. Institutions will be built by technical assistance and training. Investment support would include mainly supplies for projects. Any endeavors that would support the Copenhagen criterion through information, education, and training especially the development of Non-governmental organizations (NGOs) pertaining to women's concerns would receive funding. Most of the aid provided to Turkey will help develop the country and potentially lessen the burden, which a project will heap on the EU if Turkey joins.

There are many positive arguments as to why the EU should be interested in Turkey, or what Turkey has to offer the EU. Some argue that with Turkey's accession into the EU, Europe stands to benefit from Turkey in a security sense. For example, Sadi Ergüvenç (2001: 74), a retired Air Force general, points out that with Turkey joining the EU there is a greater

chance that war will not occur between them, essentially creating stability. In addition, by Turkey reducing its chance of being a security threat, the general security of Europe will increase. He goes on to stress that Turkey will be able to play a greater role in ensuring security in the Balkans if it were to become a member (2001: 74). Another important issue is the access that the EU would be provided to Turkey's large standing army. Although the Europeans may not wish to benefit from Turkey's armed forces as much as the US, since both follow very different foreign policies, it may become a greater concern in the future.

By becoming an EU member, Turkey opens up the possibility for Europe to glean advantages from Near Eastern and Middle Eastern projects for natural resources. Since Turkey is considered a regional power when stretching eastward, the EU can stand to benefit from this leadership role. The Retired External Relations Commissioner of the EU, Christopher Patten (2002: 1) believes that Turkey is an example for other Muslim countries. He points out that,

Look at what we demand of them and other countries: democracy, rule of law and respect for human rights. Now that Turkey is in the process of carrying out enormous and fundamental reforms, can we afford to suddenly tell them that, however much they do, we are still not prepared to accept them (2002: 1)?

Given the importance of Middle East stability, Patten sees that it is crucial for Turkey to be a model for other Islamic countries. Given this strong role

that Turkey possesses in the Middle East, acquiring natural resources from its neighbors would be a great benefit for the EU. Much of the natural resources and energy that the US stands to benefit from is also available to the EU, which has even greater advantages due to its geographic proximity to Turkey.

Foreign direct investment in Turkey, as of 1995, is about 67 percent EU dominated; Germany, France, and the Netherlands being the top investors (Deichmann et al., 1776). In addition, most Turkish firms that have connections abroad are usually tied to Europe, and a majority of Turks who live abroad reside in Europe. The majority of European MNCs that invest in Turkey are service-oriented; however, with manufacturing expanding, the nature of investment will be changing in the future. In addition, Europeans investing in an emerging market stand to make good profits over trying to expand their companies in markets that are relatively saturated. As far as geography within Turkey, Europeans tend to look for “market strength and sea access” more so than other countries when investing in a particular region of Turkey (Deichmann, 1776). This is one of the reasons why Eastern Turkey gets hardly any investment when compared to the western port.

The changes over time in Turkey’s relationship with Europe have exhibited strengthening ties. When Europe once feared the onslaught of

the Ottoman Empire on its territory, it is now in the process of welcoming its successor into its camp. Only time will tell how much Turkey increases its ties with or dependence on Europe. Strengthening relations with the EU will reduce its need for strong relations with the US, while the US hopes that Turkey may serve as a link to greater support within the EU.

## CHAPTER 3

### **AID PACKAGES FROM THE US, EU, AND IFIs**

The majority of aid provided to Turkey, over the years, has been by the US and Europe. However, when at odds with these superpowers, Turkey turned to the USSR for assistance. This action in the post-WWII period and during the Cold War awoke fear in the minds of Americans and Europeans who felt propelled to aid Turkey to keep the country from turning Communist. However, the relatively steady flow of assistance from the US and EU is more relevant to examine in terms of impacting the Turkish economy and creating dependency towards the West. In addition, the US and certain European countries are major components of IFIs such as the World Bank, IMF, and OECD.

### 3.1 Aid from the United States to Turkey

In general, the US provides a large dollar amount of foreign aid to many countries, but not in terms of percentage of the US budget. This is mainly because of the weak backing for foreign aid in public opinion, which discourages congressional support. For example, Congressmen would not want to be linked with doling out large sums of aid, which taxpayers may view as a waste of the scarce budgetary resources. In addition, the strength of the Armenian and Greek lobby is much greater than the Turkish lobby in the US Congress. Armenians and Greeks mainly point to the so-called "Armenian Genocide" and the Cyprus problem respectively, as reasons for why Turkey should not receive more aid. Furthermore, the Greek lobby also stresses the Aegean problem, whereby Turkey and Greece cannot agree on the nature and scope of the limits and extensions of territorial waters, as a reason to limit aid. In addition, these lobbies claim that Turkey uses weapons bought from the US against Kurdish separatists in Eastern Turkey. Certain members of the US Congress tend to support these arguments partly because Turkey is a Muslim country and Greece and Armenia are Christian countries. Congress, and the US public, is still generally conservative and religious when compared to other counterparts in the Western world.

Turkey first applied for aid from the US in 1946. Towards the fall of the Empire and the beginning of the foundation of the Turkish Republic, foreign domination of economic growth and sovereignty had left a bad impression of monetary assistance from foreign countries. However, based on their experiences with US involvement in the past through missionaries, Turkey was positive about a relationship that might be pursued in the future.

The US first started supplying aid to Turkey because of the fear that Turkey might ally with the Russians and turn communist. The early terms of conditionality for economic assistance were based on US fears that Turkey may turn communist. Furthermore, the Russians had already revealed their designs on Turkish territories. According to Waldo Drake, the Times European Correspondent of the era, the Turks had merely “stretched an antisubmarine net across the narrow strait” of the Bosphorus in order to ‘catch vagrant mines’ (Drake: 1950, 6). Drake saw this as a weak attempt, due to lack of resources, to combat the Russian threat. He argues that if the US supplied more aid to Turkey, then the Turks would be able to more effectively defeat the Russians. In March of 1945, Russia wanted the Montreux Convention to be altered to allow it to jointly control the straits with Turkey. When the US, Great Britain, and Turkey rejected this idea the Soviets started making demands on territories in Eastern Turkey namely

Kars and Ardahan (Vandenberg, Senate Report: 1948, 757). Fear of the Russian threat grew as countries in Eastern Europe such as Hungary and Romania fell to the Communists.

There is also a great deal of apprehension about the Greek reaction to Communism. Secretary of State George C. Marshall argued in 1948 that Turkey was in a better economic position than Greece to fend off the Russians, but was still in need of additional funds in order to guarantee their allegiance to the West (Marshall, 1948: 383). Marshall also points out that Turkey needed to keep its military strong in order to prevent the Russian army from stationing troops in Turkey or trying to take over the Bosphorus. However, in order to maintain a strong active army, Marshall emphasizes that Turkey needed to receive aid from the US. At the time, sums of between \$100 million and \$275 million were provided for military supplies. The Act that provided aid to Greece and Turkey allocated \$400 million to the two countries. In 1948, Turkey received \$100 million that was allocated for the military, including \$48.5 million for the ground forces, \$26.75 million for the air force, \$14.75 million for the navy, \$5 million for arsenal improvement, and \$5 million for highway improvements (Senate Report, 1948: 759). The Marshall Plan in its first year provided \$10 million in credits for agricultural development.

Additional aid was provided to improve the import and export market as well as agriculture.

In the early stages of aid (1946-1969), Turkey received \$2,637.2 million in economic assistance from the US (Burke, 152). Six short years later this amount had only increased by approximately \$70 million. The assistance was about evenly divided between grants and loans. Most of the aid was provided for the military, agriculture, and mechanization of industry. In the early 1970s, agriculture accounted for approximately 27 percent of GNP, while half the working population was in the agricultural sector. Initially most of the money allocated for agriculture was used to purchase tractors. For example, from 1948 to 1952, the number of tractors increased from less than 2,000 to over 31,000 (Burke, 154). Along with tractors, funding was supplied for other agricultural equipment such as plows, reapers, and trailers.

However, the drought of the mid-1950s decreased the emphasis on mechanization of agriculture and increased the emphasis on improving the quality of the land. Thus, technical assistance was made a priority in order to train farmers in the knowledge they needed to increase yield from their crops. Extension services were set up for farmers to contact each other and learn from one another's mistakes. For example, clubs were set up to help farmers keep in touch, information centers were established, agricultural

advisors were hired, and a university was set up all in the name of agricultural education.

The most successful component of these projects was the founding of Atatürk University in Erzurum. Although the University had problems with its faculty, through conflicts with the American staff from the University of Nebraska, it was eventually able to hire dynamic professors to pursue the original goals of the university to establish the foremost institution of higher agricultural education in Turkey. The University slowly started to expand with the establishment of youth groups, in-service training programs, preparation of informational material, a growing home economics unit, and technical training. On the downside, Americans noted that not enough attention was paid to long-range planning, administration, and organization even though it was obviously necessary. The other educational programs that created problems mainly conflicted with the interests of the locals and the leadership. As a result, farmers carried on with traditional methods and did not benefit from the new techniques they could otherwise have learned in the program.

Water management was another project that was given importance to under support for agriculture. Three major advancements were made: founding of Topraksu which is similar to the US Conservation Corps, the establishment of the department of land and water resources development

(Devlet Su İşleri – DSI), and education of farmers on soil and water conservation. Land leveling and irrigation practices were carried out in order to meet new standards. By the time funding for these projects ended in 1968, they were already up and running strong.

The Topraksu project had set up twenty-two camps to train young farmers in soil and water irrigation practices. When the World Food Program took over funding of this project in 1965, it had set up eighty-four camps with a total of twenty farmers at each camp. Through the training of these camps, farmers ended up irrigating approximately 1.11 million acres by 1967, and spent time conducting valuable research on soil conservation and irrigation planning. By the end of the program, thirty-eight American technicians had spent about a total of sixty years in Turkey.

The DSI was established in 1953, with the responsibilities of flood control and water development for hydroelectric power and agriculture. Water resources became so highly developed by 1970 that 250,000 acres could be irrigated each year. Training of personnel was an important component of the DSI henceforth; thirty-eight US advisors spent a total of seventy-seven years in Turkey. The effective training and strong leadership ensured the success of these programs, and ensures that the DSI continues to plan water works for Turkey today. Turkey is fortunate compared to other Middle Eastern countries, where the US was not able to

contribute as much funding to water management. As a result, Turkey has a strong infrastructure for irrigation and is able to apply new technologies to its crops at reasonable prices. In many Arab countries where water is a scarce commodity in comparison to Turkey, advanced irrigation techniques are not widely used or known about, partly due to high costs.

Certain failures were also demonstrated with the water-control irrigation component of assistance to agriculture. Administrative problems occurred with Topraksu and DSİ not being a part of the Ministry of Agriculture. Topraksu was originally under the Ministry of Agriculture, but later joined the Ministry of Village Affairs, while DSİ was under the Ministry of Energy and Natural Resources. Since the two foundations were under two different groups, coordination became more difficult. Field workers were able to cooperate once decisions from above were handed down, but oftentimes decisions had to be made at the central government level by the Ministry of Agriculture, thus making communication between the different levels of government difficult.

The Topraksu project was another venture that was not as successful as planned. It did not function at the local level or at the national and regional level. A 1969 evaluation stated that more attention should be given to the farmer (Burke, 173). The US did not realize the potential that existed for irrigation while its personnel participated in an on-farm water

development project that was designed to work in two phases. The first phase of the project was to set up a demonstration project near İzmir and then extend it to other areas. The project got off to a shaky start because a workforce was hard to find and Topraksu refused to begin until everything was set up and ready to operate. Private-sector resources were used, specifically land development equipment, but were hard to mobilize. Topraksu technicians and farmers ended up working together to irrigate approximately 1,600 acres. Almost half of Topraksu's budget was spent upon on-farm water development. The Turkish government did not support the farmer cost-sharing prerequisites and the private sector funding for equipment. By 1972, the Office of the Auditor General recommended the termination of the project; however, US funding continued for another three years.

The main problem with these projects was mostly at the highest levels of administration and management. For example, necessary support was not received from the Turkish side for funding and personnel. Different values and approaches between the two cultures could not be reconciled. To address some of these problems, an Agricultural Administration and Planning Project was set up in 1971. Research projects were planned for US advisors in the Project along with seminars involving

upper-management level officials from agriculture-related ministries and agencies.<sup>6</sup>

Another agricultural program that was introduced with the help of US aid was the Mexican wheat project. Bahri Dağdaş, after a period of research on the Mexican seeds, the minister of agriculture of the time encouraged their use in western and southwestern Turkey. Preparations were made for the new seed to be planted in the fall of 1967. Committees were arranged to help with the work as well as financial backing for the seed, fertilizer, credit, equipment, and transport. Turkey purchased twenty tons of seed that were distributed between March and the time for planting. In addition, educational endeavors were undertaken since farmers had to learn to cultivate using new procedures. Even though weather conditions were not optimal, crop yields almost tripled as compared to previously used varieties of wheat. Given the success of this project, it was decided that in the next growing season it would be introduced nationwide. Farmers were able to produce one million more tons in 1969 than in 1968. US aid programs provided \$1.56 million in technical assistance and \$700,000 in a supporting grant in 1968 (Burke, 167). The minister of agriculture's speedy mobilization of capital in order to encourage planting of the new variety of wheat was unusual for Turkish

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<sup>6</sup> Funding was provided for another four years for the project.

bureaucrats, who usually procrastinated when making changes. Dağdaş even received important comments from researchers and those who wanted to see Turkish seeds developed and used.

In general, the farmers participating in this project were not subsistence farmers, as US observers stressed, but were already small farmers who had the resources to purchase the seed and the necessary fertilizer. Subsistence farmers were still not being given the attention necessary to improve their economic situation. As the Mexican wheat was distributed throughout Anatolia, soil differences, smaller farms, and greatly uneducated farmers introduced problems. Poor weather conditions and the lack of educational programs to spread the knowledge necessary in using new products, along with fertilizers, created problems for wheat production. Supporters of the traditional Turkish seed felt their resistance to be justified since they had been against the new crop to begin with. If the introduction of this new variety of wheat had been more carefully researched and implemented, then it may have been more successful from the beginning of the project. However, since this crop was introduced into the most advanced parts of Turkey first, the other more backwards regions were not able to adapt. Thus, farmers returned to their old routine once this project was deemed unsuccessful.

Since there were certain exceptions with the Mexican wheat project, the Minister of Agriculture became involved to speed it along to completion. The administrative aspect of certain projects suffered, in general, because of the amount of bureaucracy that was involved. Most Americans were placed in middle-level management positions or sent out in the field, so support from above was limited. As a result, some projects were delayed because high-level decisions had to be made in Ankara, staff was limited, new people were assigned at a slow rate, and transportation could not be easily attained (Burke, 178).

The productive aspects of the project did help advance Turkey in its agricultural sector. Almost 2,000 Turks received agricultural training and education in the US, while Americans were able to pass on their knowledge and learn from those whom they were teaching. Specifically, cereal grain production increased, along with cotton production, fruit and nut production, and the use of fertilizers. Furthermore, irrigation and the use of training camps has helped improve the ability of farmers to learn how to use the land properly and receive the training they need. As a result of the projects, Turkish and American cooperation grew to reach levels that had never been attained before. Even if each project did not attain its planned goal headway was made in progressing towards advancement giving farmers in Turkey the “tools” to make progress on their own. With US

influence, Turkish farmers would be able to take more initiative and make changes to progress towards greater levels of productivity.

Aid to the agricultural sector from the US helps define US-Turkish relations in microcosm and relative amounts of dependency on the US for support. The introduction of tractors was launched in regions of commercial farming such as Çukurova where levels of support were high. Tractors in the cotton fields increased productivity, thus reducing per unit cost, allowing farmers to prosper given the high level of world demand for cotton. Furthermore, tractors were seen as a means for modernization since they could be used for transportation into towns from the village. Also, the use of machines was introduced to the villager, which was seen as advancement by the Turkish government. However, all new innovations have their consequences.

Mechanization of agriculture created problems with maintenance and unemployment. Most farmers already lacked knowledge of mechanical skills. Incompetent use, inability to maintain and repair, and a scarcity of spare parts all created problems with the introduction of tractors into the villages and towns. Furthermore, the brands of most of the tractors varied, creating even more problems. Nonetheless, as education became more widespread, along with the experience that time brought, the villagers were able to adapt to the new technology.

Mechanization also had an adverse effect on the structure of village life. Originally, where land ownership was equally distributed and organized, people were in the same basic family unit, and levels of unemployment rose, were the groups that benefited most from the new changes (Burke, 169). However, where the land was not equally distributed, fragmented, families were competing with each other; were the groups that not everyone was able to benefit from the changes (Burke, 169). Hired farm workers took the place of sharecroppers who did not benefit from increased productivity. Some villagers became destitute if they happened to live in a region where the land was owned by a few rich families.

Unemployment in the countryside led to urban migration, which created even more problems for the Turkish economy. When villagers felt like they were forced to move to the city to find work, they often were not able to find housing and had to resort to substandard housing on the outskirts of the cities. This created slums in the surrounding environs of the cities, thus having an adverse effect on the economy of Western Turkey.

Small landowners fell further behind, while those who had capital and land were able to purchase tractors. However, more capital, fertilizer, seed types, marketing, and land improvement technology became available to those with the resources to turn them into immediate productivity gains

(Burke, 170). Small farmers, those owning less than five acres, did not benefit from these changes and did not contribute to making improvements.

The Extension Service set up to improve agriculture was in some ways a success, but was generally seen as a failure by many. Problems of “priority, administration, and organization” were the main issues that inhibited the proper functioning of the joint project (Burke, 172). Turkish interactions with Americans did not immediately solve the long-standing problems with the agricultural system. Advisors sent from the US were usually proficient and concerned technicians willing to pass on their knowledge. However, they were unable to modify the Turkish structures in order to make them more compatible with US procedures. Americans tended to ignore the existing structure and carried out things in their own way, which would make the formation of a system coordinating Turkish values and US knowledge together almost impossible.

It was realized too late that American technology needed to be adapted in many ways to address the desires of farmers in developing countries. This does not necessarily mean that the equipment or procedure should be modified, but the method of introduction should have been adapted to local culture. US policymakers believed that Americans working together with Turkish farmers and showing them how to use the

new technologies would be a proper solution. However, this was not always the case, since many traditional farmers, especially in Eastern villages, were oftentimes not open to change. They had been performing a task a certain way for hundreds of years, and did not appreciate foreigners dictating their practices.

The effectiveness of US aid to agriculture is influenced by several factors in assistance. In the early years of the foundation of the Republic a real emphasis was put on industrialization. Industrialization was a concrete expression of the goals of Westernization and modernization and still takes priority over economic goals. As a result, agriculture has taken on a less important role than industrialization. Investments made showed the greatest amount in housing, then manufacturing, and lastly agriculture (Burke, 175). Industrialization is seen as an important goal because without it, Turkey would consider itself inferior to other countries (Burke, 175). The Turks realize that states with agricultural economies become highly dependent on other countries as opposed to those who are industrialized and can provide for themselves. They feared they would become dependent like the Ottoman Empire had been in its final years, so they did not want to make agriculture the main sector in the economy.

Making agriculture of second-rate importance is a difficult task since there are approximately 60,000 rural communities in the country. Until

recently, many of the small settlements were isolated from large roads, adding to the likelihood that the community would remain agricultural. Furthermore, education to encourage advancement is lacking in many of these smaller communities. Those in power or the elite feel they are the future of Turkey and that the villagers' problems and desires are not important except during election campaigns. Very little has been done to improve or change the living conditions in the village. Various parties over the years have appealed to the lower classes in order to gain votes but it has mostly been for their own vested interests.

US advisors as well as others tried to persuade the Turks that more of a focus should be placed on agriculture given certain statistics. In the period from the 1960s to the 1970s, 60 percent of the people lived in rural areas while 66 percent of laborers were farmers (Burke, 176). According to outside observers, more attention should have been given to agriculture to expand markets in specialty crops, such as fruits; improve chances for industrial development, and to address the needs of an unskilled labor force, and the unemployed (Burke, 176). In addition, most of Turkey's exports came from agriculture, specifically; cotton, fruits, and vegetables.

However, the Turkish vision of the targeted goals for aid were different from the recommendations. The aid was welcomed but not specifically used in the intended way. For example, aid provided for

expanding the fruit or forest products industry was not used specifically for that purpose and not as efficiently as expected. This is just one example of the conditions put on a loan that were not fulfilled. Given that the conditions were very specific, local intentions for expenditures lay elsewhere. In addition, credits for small farmers were established, but since the money was spent otherwise, not much was left over for its original purpose. As a result, agriculture's full potential was not realized. After many project evaluations, Americans came to the conclusion that levels of success were lower than anticipated. Furthermore, administrative and managerial troubles created problems for the proper disbursement of aid. Certain goals were reached in some projects, but a recurring problem was cooperation that required interagency linkages or local decision making.

Another target for US aid was renovating the existing road system. Comparatively, this project worked more effectively than most others. The amount of roadways in kilometers more than tripled within twenty years after the project started in 1948. At the outset of the project, the US goal was to improve a few major roads in order to facilitate the needs of the military. However, the head of the Turkish military pressed for a more elaborate restoration plan arguing that total mobilization and economic development were necessary.

A US plan was introduced under the direction of the US Bureau of Public Roads to provide aid for the construction program that was in place, and establish a Turkish highway department, which would carry on projects and train personnel. The US invested about seventy million in a combination of grants and loans, while the Turks invested more than twice that amount. The loans provided by the US were intended for equipment and consultation. Along with improving the roads, establishing a Highway Directorate which included management practices not found in other agencies was a major achievement of the aid. The success of the project was directly linked to strong support from the Turkish government, which meant that things were achieved at a faster pace. In addition, the public supported this project, which ensured continuous funding from the government, while US support existed at every level and was supposed to be present for nine years.

On-the-job training was provided for personnel or in the US at a more advanced and long-term level. Accomplishments made at the operations level were linked to Western management and organizational skills. Although a great deal of money was not invested in the highway program, it turned out to be the most successful. Parts of rural Turkey were given access to the main roads to allow goods to move in and out of rural areas; consequently, politicians were able to appeal to their

constituencies and farmers were better able to reach their markets. Education was improved by facilitating the ease of delivery of newspapers and various publications into the village. In addition, villagers were able to experience urban life and schooling became more widely accepted. The labor force that participated in the project became more skilled as a result of on-the-job training, thereby demonstrating its importance. Skilled workers and mid-level technicians were also in demand. The highway project was one of the few projects that was widely supported by both US, Turkish officials, and leaders alike.

Around the same time as the roadway project, plans were made to upgrade the rail system. There were already 7,671 kilometers of railroads in 1950, when the decision was made to upgrade the tracks and equipment used. In addition, maintenance procedures were improved. US transportation and communication grants, in addition to commodity and defense grants, helped support the effort to rebuild the railroad. A line was extended from Turkey to Iran as part of the Central Trade Organization (CENTO) with \$7.5 million of US aid. An extra \$18.3 million was targeted from Support Assistance funds since it was considered a defense need. Use of trains in general had increased for passengers and cargo; however, the trains did not get as much traffic as the roads. The rail system ran at a loss due to pricing and problems with operation and the

use of outdated equipment. Even though railroads span the entire country, they have not significantly increased the amount of traffic between the villages and the city centers as much as the roadway project has. This was caused by the economic barriers created by the pricing of tickets and track distance from the villages.

A great deal of the aid provided for Turkey was invested in industry in order to expand this sector. Energy, iron, and steel have received the main chunk of support from the Turkish government and from donors abroad. Project loans from 1958 to the mid 1970s consisted of approximately \$500 million, of which around \$350 million was targeted for energy and the development of heavy industry. Additional funding was granted for studies to gauge the relative effectiveness of support.

More specifically, in the energy sector the US, for example, helped assist the development of the Zonguldak coal mines. These mines, which may last for up to one hundred years, provide coal for the railways and the metallurgical industry, and generate electricity. However, complications were presented because extracting the coal was difficult and expensive. The US invested over \$69 million along with \$130 million from the Turkish government in order to update equipment, technology, labor skills, and transportation facilities. These changes were made in the hopes that the productivity of the mines and ease of operation would be improved. In a

period of thirty years, coal production increased from around 1 million tons per annum to nearly 7.9 million tons.

Turkey's electrical generating capacity increased from 305 MW in 1948 to 2,342 MW by 1970. Improvements in hydroelectric power accounted for this increase. Furthermore, electrical transmission and distribution systems have been built to fill the demand for electricity in most of western and central Turkey.

The US started providing aid to the energy sector in the mid-1950s under defense support packages. In 1956, \$6 million in aid was provided, along with loans in 1965 of \$5.7 and \$2.4 million for power distribution. A study was carried out in 1963, costing \$300,000, on a hydroelectric power dam and plant construction. Various loans and grants were provided to make improvements on power plants across the country. For example, a \$12.3 million loan in addition to \$40 million in technical assistance was extended to expand a thermal power plant in Anbarlı near Istanbul. Most of the power produced has been used by industry. Cities have electricity for commercial, domestic, and civic use, including street lighting; however many villages lack such benefits. By the early 1970s, according to the World Bank, only thirty nine percent of villages had access to electricity.

Another major outlet for US aid is the iron and steel industry. For example, the Karabük iron and steel mills received enough aid to increase

their productivity from hundreds of thousands of tons to over a million tons in about twenty years. US loans totaled around \$196 million to expand the Ereğli steel mill complex close to the Black Sea.

The Ereğli mill is unique in Turkey for being an outlet for foreign and domestic investment. Various US companies including Koppers Company, Blaw-Knox Company, and Westinghouse Electric Corporation own 25 percent of the stock. Turkish investors include the Ankara Chamber of Commerce, Türkiye İş Bankası, and the government, which is represented by Sümer Bank. The presence of private investors is a positive move in the direction of helping Turkish industry in its goals to privatize. A public and private sector has existed since the early years of the Republic, but there has been more of an emphasis on the public as opposed to the private.

Investments in the energy, steel, and coal sector were different from investments made in agriculture in several ways. For example, investments were made on a grander scale and mainly targeted, the construction and equipment sectors. In addition, the impact of aid in these sectors spread differently throughout society. Except for personnel hired to work onsite or those living in the vicinity, there was no large impact on the lives of the majority of the people. The products coming out of these facilities were mainly used to produce other goods. For example, greater

amounts of coal production meant greater amounts of electricity to be used by industry. In turn, an increase in iron and steel production meant a greater amount of raw materials for other industries. More goods were produced as a result, decreasing the number of imports, but mainly shifting the source of goods.

These heavy industries required more monetary investment than labor. As a result, jobs were created but employment rates were not significantly increased. In Ereğli, modern technology of the times was used to transport iron ore to mills in order to stay competitive. However, the lack of skilled workers posed another problem mainly because of the great deal of farm workers who apply for industry jobs. Their low level of skills have impeded construction as well as slowed down operations. Technical assistance has helped meet some of the needs to train workers. In addition, plans to increase the amount of skilled workers through education and on-the-job training helped industry. Significant advances have been made but it is still considered a problem that needs to be solved.

Aid to industry compared to agriculture, differed with respect to the nature of US involvement. US officials were consulted in planning projects, studies were supported by the US, and funding requests changed certain plans in order to increase efficiency (Burke, 186). After the projects were started there was a greater deal of independence on the part of

Turkish personnel maintaining the project. Outside contractors, who reported back to US officials, were hired to do a majority of the work. The Turkish government mainly complained about administration problems and lack of skilled workers. Since these contractors were hired directly to solve project problems they were more effective in concluding dam or mill projects.

The high-tech nature of the work meant changes in management style. In the DSİ for example, dam and hydroelectric installation involved conflicts between objectives and modern management policies. As a result, it was run under Western management techniques due to a great deal of US technical assistance. However, the Zonguldak coal mines and Karabük iron and steel mills face certain problems because they are state-owned industries and managed by traditional bureaucracies. US officials might recommend reductions in the number of personnel in the Ereğli iron and steel works plant.

Aid to change infrastructure has a major impact on a nation state. The goals, values, and expectations of receiver and giver differ. Unlike aid to agriculture, assistance to industry is more specific. Increases in productivity can be predicted beforehand and problems can be dealt with more readily. Since the labor force needs to be highly skilled it is easier to train personnel because there is no need to rely on traditional customs and

work habits. Furthermore, workers with special skills can be hired from off site. A project that is proposed could have problems but when completed the installation of an industrial plant is inevitable. Even if productivity is not as high as expected the plant can continue to operate. As a result, success is usually more likely on the part of both the donor and recipient of assistance.

Some examples of aid allocated to specific projects in industry included coal, Black Sea copper, and Ereğli steel. The Turkish coal industry was given \$28.1 million in March of 1970 for helping modernize coal production facilities (House Hearing, 1971: 654). There were two stages to the project; one involved expanding lignite mines which was on target, whereas the other project in Zonguldak was experiencing delays in procuring funding. The Black Sea copper project was provided \$30.5 million even before it was fully implemented, since the government was seeking financing from the private sector (House Hearing: 1971, 654). However, only 16 percent of the funds were disbursed as compared to the 82 percent of the total amount that was committed. The Ereğli steel expansion project was promised \$14.2 million, approximately \$8 million less than what was originally intended, due to the fact that the nature of the steel products being produced changed (House Hearing: 1971, 655).

The social and political impact of aid from the US has positive and negative aspects. Furthermore, the aid provided to Turkey created dependence on foreign financing for industry and agriculture. The changes provided by increased amounts of aid had an impact on various segments of society. There was a shift of population from the rural areas to the urban areas, causing a rapid increase in the populations of the cities. In addition, a rapid increase in Gross National Product (GNP) was beneficial for the economy; however, GNP per capita was still low compared to other countries. Literacy rates as well as the amount of skilled workers increased rapidly in a short period of time.

The effect of US personnel and aid also had other consequences that were possibly beneficial to Turks and Americans. Goods that were exported to Turkey created a certain type of reliance on American goods, creating more dependency on the US. In addition, Turks sent to the US to be trained came back with different sets of standards that they had acquired. Some grew impatient with Turkey's state and wanted to impose changes in the system. US aid also spurred urban migration because more jobs were created in urban areas and, in turn, lost in rural regions. Gecekondu neighborhoods were evidence of the lack of affordable housing and services for those who made the move to the big city. The large number of immigrants from the villages increased their political clout in

terms of politicians trying to appeal to this new group of voters interests. Also, sectors such as private industry were encouraged by Americans, serving as a factor in the growth of this industry.

However, the rapid amount of growth had detrimental effects on the economy, as well. For example, along with economic growth, inflation has played a major role in devaluing the currency. In addition, the flood of rural farm workers has created urban slums, or *gecekond* neighborhoods. Also, the income gap has increased, creating an even larger divide between rich and poor. Farmers, a majority of the work force, earn well below the average of other groups. The urban unemployment rate is about 11 percent, whereas the rural rate is much higher (Burke, 199).

The Turks tried to limit the impact of aid to agriculture by channeling the funds into sectors in agriculture that they thought might have the biggest impact on production without radically changing the status quo. The original intent of aid to Turkey was to alleviate the problems of the East; however there was no clear-cut plan to target aid for any particular social need or purpose. As a result, aid was doled out to sectors that showed the greatest amount of need or were the most useful to the US, but there was no specifically targeted outlet for the assistance. This was in part useful since aid could be tailored according to specific needs,

but since it was not planned, it was difficult to evaluate the effect that aid had on a specific sector.

However, the US aid program helped develop the industrial labor force along with the social structure that was required. The mechanization of agriculture, the creation of heavy industry, and the developing of the road system all helped create new jobs for Turkish unskilled workers. Technical assistance from the US was used to train the workers who were the first to fill these positions. US aid also contributed to the primary education system by donating school supplies so that the Turkish government could spend its funding on building new schools. Investments were also made in training nurses at Ankara University and setting up agricultural research stations across the country.

Several major universities, such as Ankara University, Middle East Technical University (METU), and Atatürk University, all received funding through loans and grants. For example, Atatürk University Medical School received \$2 million in 1970 for equipment and supplies (House Hearing, 1971: 654). METU received \$4.5 million in 1970 but did not procure the loan immediately, mainly due to problems with student strikes, violence, and the resignation of the rector (House Hearing, 1971: 655). It was hoped that supporting higher technical education would help improve economic

development in Turkey. In general, most benefits were reaped by new institutions rather than old established ones.

Although there were many benefits to US aid, it could be seen that these benefits mostly affected urban residents and well-to-do farmers. Aid contributed to the unemployment problem by redistributing the jobs that were available, leaving a bigger segment of the population unemployed. The villages did not benefit as much as officials expected, although improved roads, increased access to the villages, and aid helped increase the number of schools available in rural areas. However, incomes of farmers were still much lower than the national average. Modernization did not alleviate the problems in all sectors of society as expected and was not able to change the basic structure of life of a majority of the population.

Besides the social impact of US aid on Turkey, there have also been wide reaching political repercussions. A greater degree of participation in politics has been prevalent but has also been accompanied by increased amounts of conflict. The groups in society that benefited most from aid like entrepreneurs and large land-holding farmers were able to strengthen their influence in society by increasing their political clout. With the resources and the training they were better able to voice their concerns and participate in politics by making their demands known to society. Specifically, entrepreneurs were able to benefit from aid and US support.

Money was directly provided to support private enterprise and moral support was given to entrepreneurs. Engineers and those technically educated through US schools or funding were made aware of the ways in which they could improve their country.

The US has also been supportive of trade unions and their development within the Turkish work force. Trade unions were directly funded by US interests, thus increasing their strength and ability to achieve their goals. While strengthening certain sectors in society, power shifted from the original reformers to those given new voices by an improved economic situation. However, bureaucrats were hurt most by the changes in the structure of the system. Their incomes kept decreasing as a result of high levels of inflation. The administrative system was targeted to change but many projects failed except for those that were of a technical nature. Technically oriented agencies were more flexible, since managers who already had a technical background were more willing to accept changes.

The military also benefited from aid to the point where they assumed they could control the political currents of the country. However, US aid, which contributed to large levels of inflation and devaluation of the Turkish Lira, decreased the purchasing power of the military. This made the military even more dependent on aid from the US in order to modernize and improve troop conditions. Since the military is one of the

most modernized sectors of society, it oftentimes became impatient with the slow progress made by the government.

The US, in general, supported the political and military status quo in Turkey. For example, during the rule of the Democrat Party (DP) from 1950 to 1960, the US was mostly supportive of the aims of this party, especially its goal of enhancing private enterprise. The US wanted to keep its ties with Turkey strong, and did not want to overemphasize the issue of reform with a government that was already attempting to make significant changes. This high degree of support continued throughout the years of aid provided. Even though the US would have preferred to see agriculture supported or the amount of exports increased rather than the development of industry, it was still satisfied with the changes made.

The impact of improving roads on the political system may have been more far reaching than many expected. Construction on the road networks to the villages has increased levels of participation from rural populations. This could have a positive or negative effect on the political future of Turkey. Participation from the villagers means greater levels of representative democracy, but also increases the influence of Islam in politics since most of the rural population is more religious than urban dwellers. While parties such as the DP were able to come to power because they won the support of the villagers, the elite have lost a certain amount of

influence within the government. From a western perspective, greater levels of participation in the government mean better levels of democracy.

However, since the elite of Turkey are more likely to be Western educated and reform minded, less participation from this group could mean less advancement for the country. Also, high levels of religious dedication on the part of the villagers could mix Islam with politics as it has with the AK Party's rise to power. As a result, improving the roads was a mixed blessing for the political system. The US has most recently been disappointed with Turkey's stance towards its efforts in Iraq. This is mainly blamed on the new religious parties' lack of enthusiasm towards getting involved with helping the US. There have been many arguments purporting that the new religious regime is at fault for not supporting the US, and if it had not been for them, the US would not have experienced such a setback in its relationship with a longtime ally. Since the rural regions have benefited from their strength in numbers, they have been able to significantly increase their political influence. Also, politicians are better able to campaign in rural areas following improvements made on the roads without relying mainly on the influence of local officials. This allows some villagers to ally with the national government and give less importance to their local leaders. As a result, the national government strengthened their hold on the population of villages.

Throughout this discussion of aid from the US, it has been apparent that changes in conditionality have occurred over the years. Conditions were not always specifically placed on loans, but the procurement of the funds was intended for a specific purpose that the Turkish government was expected to fulfill. The transition has gone from protecting against the Soviet threat, increasing privatization, enhancing democracy, and fostering development, to fulfilling security interests. In the early years, conditions were not always directly placed on an individual loan, so it was easy for the recipients of the aid to spend it in ways not originally intended. However, when US officials worked with Turkish locals on a one-to-one basis, the likelihood of the money being spent where it was intended increased. Over the years, the main intention of US aid to Turkey was security motivated (Senseş, 1999: 241).

Until the last several decades, loans and grants received from the US have created a sense of dependency on the part of Turkey, in terms of confidence that the US will bail them out of significant financial woes. An early example of this assumption was based upon a development plan written by Turkish specialists in 1947 where 40 percent of investments were purported to be financed by foreign aid (Senseş, 244). Staunch supporters of agriculture, the US wanted to keep Turkey productive in this sector since Turkey had a comparative advantage or reduced per unit cost,

in this arrangement. The notions of the US trying to control the development of agriculture resemble the imperialistic designs of superpowers before the formation of nation-states. Whereas some dependency theorists argue that independence was necessary to Westernize (Gülalp, 1998: 957). Also, the Turks would have preferred that the US funded industry, instead, slowing the industrial development of the country making it more dependent on US goods. Throughout the 1960s, it was hoped that dependence on US aid would come to a close by the end of 1977, as soon as the aid was received to narrow the gap between growth rates and investment and local resources (Senseş, 244). The conditionality placed upon the loans was not intended to play a significant role in Turkey's budget, but was specifically targeted to the goals of a given project. This indicates the dependency that the Turkish government developed towards receiving aid from the US. However, for the economy to be self-sufficient in the future less reliance on this type of income is essential or the risk of a colossal foreign debt could possibly retard economic growth. The dependency created by US aid is significant and shares the responsibility with Europeans. Europe and the US both take turns in their impact, one is not more significant than the other. In order to become a competitive member of the EU, if Turkey so desires, it must

strengthen its economy to the point where it is no longer dependent on US aid.

### **3.2 Aid from Europe to Turkey**

Ever since the fall of the Ottoman Empire and the end of the Tanzimat era, Turkey has continuously been under Western cultural, economic, and political influences. More recently, Europeans have exerted pressure on Turkey to restructure its society and economy in order to join the European Union. However, most Europeans, due to many factors, are skeptical about Turkey's EU membership. The Turkish government, along with most of the international community, has started to believe that reform and development go hand in hand with financial aid. However, this dependency on foreign aid has created too much reliance on Europe on the part of Turkey. Although the US provides financial assistance to Turkey, there is a lesser degree of US pressure to reform in order to receive the aid, in comparison to the conditionality imposed on Turkey by the Europeans.

Of late, some members of the Turkish elite, academia, and government have begun to resent the rules and regulations put in place by the Europeans and have started to look elsewhere for allies. Alternatives are being examined through relations with Russia, former Russian republics, and the Middle East. Withholding financial aid may be a possible tactic used by the Europeans to hold off Turkey's membership to the EU.

Turkey was already a member of the General Agreement on Tariffs and Trade (GATT), now the World Trade Organization (WTO), which is intended to liberalize the economy and limit barriers to trade. Presently, the most sought after goal in Turkish foreign policy is to become an EU member and benefit from the financial aid and other advantages provided by the Europeans. However, financial aid, and the very promise of it, is detrimental to the internal development of Turkey.

The nature of changes in foreign aid within the international system are important to examine in order to understand the effects this could have on Turkey. Starting with the end of the Second World War aid packages mainly consisted of funds to support investment plans in the recipient country through project assistance. For example, governments would

design plans for development, which would then be approved and selected by donors.

As the effectiveness of aid came into question in the 1980s, there was a shift towards aid for economic reforms, while developing new policy frameworks. Countries were induced to stabilize, liberalize, and deregulate their economies in response to the 1982 Debt Crisis. This shift occurred because of the lack of effective implementation of aid received by countries. The less-developed countries experience higher levels of corruption within their infrastructures, thus lowering levels of transparency and the ability to trace aid recipients.

Towards the 1990s another shift occurred through the donation of aid to countries with already “good” governance policies. Rewarding countries that had taken measures to improve their infrastructure was seen as more effective than trying to induce change in countries with troublesome systems. In recent years, Turkey has improved its bureaucracy in order to more effectively implement and control the influx of aid. As a result, the EU has released more loans and funds for Turkey, but still not enough to make a substantial difference, especially in comparison to other countries.

In the late 1950s, the European Community became concerned with defending the Mediterranean against Soviet military threats, so they perceived the cooperation and friendship of countries surrounding the Med as crucial. Furthermore, the Mediterranean region comprised about 15 percent of the ECs export market. The EC decided to research and approach each country through a case-by-case basis and develop bilateral agreements. Turkey was granted unlimited association with the goal of eventual membership under the Treaty of Rome in 1963. The only other country in the region to receive such status was Greece, who eventually became a member while Turkey currently waits to join. Even Spain was only granted a limited status in 1970, through unilateral trade concessions, but still managed to become an EU member while Turkey did not. Also, Cyprus was given a much lower status than Turkey, but has already become a member. It is interesting how these countries, in the beginning, were not considered to be as EU-ready as Turkey but have successfully become full members.

Many claim that the EU is unwilling to admit Turkey because it is a Muslim nation, and this is the reason why the EU, being a “Christian club” has admitted countries like Spain and Greece ahead of Turkey. In the early

1960s, the Europeans still remembered Turkey through the remnants of the Ottoman Empire and the culture of fear of domination by the Turks remained in the psyches of many Europeans. Another reason for preferential treatment of countries like Spain and Greece over Turkey in later years is the negative influence of Turkish workers in Europe.

However, when the first laborers entered Germany, the image of Turkey changed all together. Fear of domination shifted to contempt. Although Turkish workers mainly performed the jobs that Europeans were unwilling to do, they were still viewed as a threat in the workforce. Many young Germans demonstrated in the streets because they felt their jobs were being threatened by Turkish laborers. As Turkish workers started to move to other European countries, this negative image began to spread throughout Europe. No longer were the Europeans likely to recall the splendors of the Ottoman Empire. For this reason, most Europeans do not want Turkey to join the EU, and may be withholding aid as a tool to further hinder Turkey's development and ability to fulfill the accession criteria.

Furthermore, human rights issues in Turkey are not up to par with European standards. This is another reason why foreign aid is oftentimes

withheld from Turkey. Some sources claim that Turkey will use the foreign aid to fight against one of its ethnic minorities, the Kurds, in the South-East. The Europeans fail to condemn their own history of ethnic repression against the Laps in Sweden and Norway, the Irish problem, and the Basque problem in France and Spain.

The ability of minorities to integrate into the relatively homogenous societies of Europe is far less likely than in the United States. Most immigrants live in concentrated regions of the metropolises and fail to integrate into the general population. On the other hand, in the US most immigrants are eventually able to integrate fairly well into society without feeling too "isolated."

Another European complaint accounted for by Turkey is that the death penalty is unethical, even though it has not been exercised in Turkey since the 1980s. They regard the death penalty as a mark of uncivilized society, and equate America with its death penalty even though the Americans execute prisoners more often than Turkey does. These human rights difficulties are often cited against Turkey in its bid for EU membership.

Another argument used against Turkey is its large population in comparison to the other European nations, and the fear that it may surpass Germany in a little over a decade. Representation in the European Commission, according to the new rules, is based on population. If Turkey were to become a member, the Turkish representatives would dominate a significant component of the Commission. Naturally, the Europeans would not want to have a state that is on the periphery of Europe, one which they do not even consider European, to dominate their parliament. Also, if Turkey were to become a member, some of the funding provided would be based on population, giving Turkey a large sum of the aid that is currently allocated for other less affluent members of the EU.

Turkey, although a candidate for membership, does not receive structural funds to help carry out the reforms necessary to join the EU. As a member of the European Customs Union, Turkey must open its markets to European goods, but does not receive subsidies like the poorer members of the EU. As a result, Turkish products suffer from the competition that is presented by European goods. A member of the GATT, Turkey finances its own compensation to make up for the reduction on tariffs. The Uruguay Round, which was put into effect in 1996, liberalized the services sector.

This had the effect of opening up world markets in protected sectors such as agriculture, textiles, automobiles, and electronics. For example, many Western countries were imposing voluntary export restraints (VERs) on Japanese cars so as to protect their own automotive industries. If the Uruguay Round had not been implemented, these protectionist measures may have continued and grown to become excessive.

For example, in Turkey foreign cars are much more expensive than locally made cars. Turkey tries to adhere to the GATT principles and has made considerable headway in doing so, but is still not able to completely free up its markets. Indeed, if foreign automobiles were as easy to buy as Turkish-made automobiles, no one would buy Turkish made vehicles. This is partly because of the reputation that foreign-made vehicles have obtained in comparison to Turkish cars as more reliable, longer lasting, and safer.

Furthermore, trading with Europe has considerable drawbacks for Turkey since the Europeans are very stringent when it comes to quality control standards. For example, in agriculture, the Germans continuously conduct tests on Turkish produce to see if it meets European standards. Since hormone and pesticide technology is newly developing in Turkey,

the Europeans are leery of whether the Turks can properly utilize these new agricultural technologies. The Germans recently banned green peppers which were examined and determined to be cancerous.

Also, because of the general dislike for Turkey among Europeans, Turkish products are viewed with distrust and are not able to compete as well as products from other countries in the European market. However, there are exceptions, with companies like Vestel, and Alarko, to name a few. On the other hand, within Turkey, European goods are often preferred over Turkish made products. As a result, Turkish goods suffer in export markets towards the West as well as in their own markets. Hence, without proper funds and subsidies from Europe, Turkey will have a hard time competing with other EU members.

Of course the Europeans do not want to contribute to Turkey's economy without receiving personal gain; they want certain reforms and changes to be put in place. The problems with Turkey-EU accession will help understand the Copenhagen criteria and conditionality placed upon economic assistance to Turkey. A prominent argument in the US concerning Mexico, is to try and improve the internal situation of the country so migrant laborers will not feel the need to immigrate to the US.

The same argument could be relevant for Turkey's trying to improve conditions for the lower classes so they will not feel forced to search for a better life elsewhere. On the flipside, improving internal conditions in Turkey will only draw it closer to EU membership. For anti-Turkish elements in Europe it seems to be a no-win situation. Either provide aid to improve Turkey's situation for EU accession or be more accepting of Turkish laborers and their families.

The main advantage that Europe would experience by allowing Turkey to join the EU is benefiting from its large army, which is the second largest in NATO. A majority of the aid that is provided by Europe, in the early period, goes to the Turkish armed forces, although the contribution is not a great deal of capital in comparison to the US. The Europeans stand to benefit from Turkey's army, but point out that the army is too involved in politics. On the one hand, it is advantageous for the army to be strong, but, on the other hand, the Europeans use the army as another argument for setbacks in EU accession for Turkey.

More specifically, the Europeans desire a number of internal reforms. To adopt the trade-related regulations of the customs union, legal reforms should be undertaken. These reforms include legislative and

administrative reforms to protect intellectual, industrial, and commercial property rights. Also, to adapt to the European internal market, Turkey developed a national antitrust law along with a national authority to enforce competition rules. Consequently, Ankara must report all instances of state aid to a company, or group of enterprises, to Brussels and vice versa. Both sides have the ability to object to aid that may violate European laws.

These moves have a major impact on the reduction of the state role in the economy in Turkey. One of the main problems in the Turkish economy since the foundation of the Republic has been the lack of private enterprise and dependence of businesses on the state for most of their actions and funding. Now, with the help of the EU, more competition has emerged in the business sector and some of the country's most prominent monopolies have started to face competition. The goal of these new regulations is to reduce unfair competition and slowly integrate or make Turkey ready for the EU internal market. As far as industrial goods are concerned, Turkey has been relatively integrated into the EU's internal market. In addition, economic and legal integration has already increased

with the customs union and will help Turkey make its possible entrance into the EU smoother.

To help Turkey integrate its industry into the market the EU has promised to grant financial aid over a five year period in the amount of ECU375 million. In addition, the European Investment Bank (EIB) has promised loans that could reach ECU750 million. Also, Turkey will have access to the Redirected Mediterranean Policy for structural investments in energy, the environment, communications, and transport. So far, the EU has made many promises and not delivered on them. Turkey has to prove that it will properly implement reform, adhere to conditionality, and use the money it is given wisely, before the EU will deliver on all its promises of aid. For example, Turkey has only recently delegated the authority of dispersing the financial aid to certain institutions within the government. This has increased the relative transparency of how and where the aid is allocated. However, with recent charges of corruption in the Russian Blue Stream pipeline scandal, levels of trust have been reduced in Europeans' dealing with Turkish businessmen.

Some of the progress that has been made towards EU criteria is in terms of reform in the structure. During the July 2000 European Councils

of Helsinki and Fiera, a single framework was developed for coordinating all sources of pre-accession financial aid in one budget. Prior to these councils, Turkey received aid from various different European countries, but now with a single budget it will make control of the aid much easier. In 2001 the “Regular Report on Turkey’s Progress Towards Accession,” the EU requested that Turkey develop new management structures for financial assistance. As a result, the Minister of State, the Deputy Prime Minister of EU Affairs, the Minister of State of Economy, the Under-Secretariat of the Treasury, and the Prime Minister’s office were given the task to coordinate aid from the EU. If the proper institutions are set up to dole out aid efficiently, then the EU might be more willing to send money if it knows its going to be used as intended.

European aid to Turkey has been scant in comparison to aid from other countries. From Table 1 below during the period from 1966 to 1970 only Belgium, Germany, Italy, and the Netherlands contributed to Turkey’s financial aid package. Italy contributed a generous amount of assistance to Turkey, in comparison to other countries. Countries such as Zaire, Rwanda, Burundi, Tunisia, India, Israel, Pakistan, Indonesia, Surinam, Nigeria, Ghana, Cameroon, Malawi, and Cote d’Ivoire all received more

aid from EU members than Turkey. The most generous country towards Turkey was Italy, and the most parsimonious was the Netherlands, while France omitted Turkey all together. Turkey ranked in the middle among states receiving aid from Europe, but is one of the most strategic nations in comparison. Turkey received a little over \$30 million in aid in the 1960s.

**Table 1- The European Aid Donors and Their Major Recipients, 1966-70**

Donor	Total Aid in US\$	Aid as % of GNP	Turkey- \$ and Ranking
Belgium	489 million	0.46	2.2 million, #6/10
Germany	2,653 million	0.32	5.7 million, #4/10
Italy	56 million	0.16	13.4 million, #2/10
Netherlands	670 million	0.61	1.7 million, #7/10
EEC	740 million	-	7.2 million, #4/10

*Source 1-Holder, Sven. "European Foreign Aid. South, East, Both, or Neither?"*

Ten years later the picture only got worse for Turkey. This time, only Germany and the European Economic Community (EEC) general fund provided about \$16 million total for Turkey. The other European countries decided to spend their money elsewhere. Perhaps as the years progressed, and the reputation of Turkey became less and less prominent, this was reflected in the amount of aid it received. Furthermore, as Turkey expressed a stronger desire to join the EU, less money came its way to help reform its infrastructure. Loans in the form of specific project grants are available to a significant degree. However, the Turkish government contributes almost the same amount as the EU to many projects. Without

EU interest, some of these projects may not have even been undertaken. Successful completion of these projects makes Turkey more EU-ready, but also increases Turkey's dependence on the EU for reforms it could be achieving on its own.

Turkey, a long-time ally of the West and a developing country trying to improve its position in the world order, receives a small amount of aid in comparison to other countries that are of less importance to the world order and international stability. The Europeans might be better served by reconsidering their attitude towards Turkey, as this nation strengthens its ties with its neighbors to the east and north. By skimping on foreign aid to Turkey, Europeans may lose a valuable ally to the East, which is necessary during times of terrorism and turmoil in the Middle East.

Conditionality over time has changed with respect to Turkey and the aid it receives from Europe. In the early period, aid to Turkey from Europe was mostly targeted toward development assistance. Each individual country in Europe chose its own particular amount to contribute to Turkey's cause. Even though the Europeans could have benefited from contributing to strengthen Turkey's military to serve as a buffer zone to the East, a great deal of aid was not allocated for this cause. European

disregard for strengthening any military institution is understandable given the aftermath of what they endured in the post-WWI and WWII periods.

With Turkey's bid for EU membership, loans and grants have been attached with conditionality of adherence to EC-Turkey Agreements and the Copenhagen Criteria to guarantee "democratic principles, the rule of law, human rights and fundamental freedoms and international law" (Proposal for a Council Regulation, 2001: 5-6). Since the Helsinki Summit, non-reimbursable grants made available to Turkey have increased to 200 million Euros (EU Programmes, 2004: 2). Presently, some of the conditions that the EU placed on program grants include improvements on: drug addiction, public health, discrimination, gender equality, social exclusion, and employment (EU Programmes, 70). The EU can effectively promote its socialist agenda on Turkey, which willingly takes on reforms to ensure its eventual membership.

However, when applying reforms, levels of dependency are high upon the EU. Rather than undertaking reforms on its own, the government links its actions to the EU. The EU is content that it can press its agenda upon Turkey and sees that its conditions are being fulfilled, because of their specificity and close monitoring by the EU. Without close monitoring by the EU, Turkish attempts to make these reforms single-handedly could

lead to political unrest. Turkish citizens might very well question the government's desire to overhaul certain laws or government institutions. For example, reforming the retirement system in Turkey increased the retirement age. If politicians had taken on this act on their own they would have been met with far-reaching opposition from the public; however, with the reasoning that reforms are being undertaken for EU alignment, the general public reaction would not be as negative. If Turkey eventually becomes a full member of the EU, its reliance on Europe for reforms will stabilize and not create such a dependency problem.

### **3.3 Aid from the World Bank**

IFIs are another major source of aid for Turkey. One of the most important IFIs is the World Bank. The World Bank was founded at the same time as the IMF at the Bretton Woods Conference of 1944. The main goal of the World Bank is to channel the earnings of the developed countries to the developing countries, in order to increase the standard of living and decrease poverty by providing project and program credits (Eğilmez, Kumcu: 2002, 71). The World Bank has 183 members and \$186.4 billion worth of capital. Each member country is required to send a

representative to the Governor's Council who will vote and work for his or her country. The core members are the US, Germany, Japan, France, and the UK.

Turkey was one of the initial recipients of a World Bank structural adjustment loan (SAL) and was the only country to receive a total of five SALs. In addition, one-third of all SAL loans between 1980 and 1986 were allocated to Turkey. The World Bank claims that its project with Turkey was successful (Morrissey, 1995: 295). The reforms, the extent and speed of implementation are all important factors in the relative success of the project. Conditionality on the loans include certain reforms of the economy that must be undertaken by Turkey in order to receive the funding.

These reforms include changes in the exchange rate, trade policy, taxation and public spending, public enterprises, financial sector, industry and energy policy, and agricultural policy (Morrissey, 298). Some detailed examples of the changes that would turn the nature of reform from an inward oriented strategy to an outward oriented strategy are as follows. In terms of exchange rate reforms, these were intended to enhance incentives for exporters and improve the administrative structure for exports. Reforms of trade policy included developing export credit insurance, reducing administrative procedures for exports, studying protectionism, and liberalizing imports. In relation to the tax system, restructuring was

encouraged along with a strengthening of the tax administration. Next, revising public investment was encouraged through reorienting it to infrastructure and concentrating on high priority projects. In the financial sector, savings was to be encouraged by real rates of interest and the establishment of a Capital Market Commission. Energy sector investments were to be made in developing domestic energy sources.

In general, the compliance rate with these projects was good especially in the exchange rate and export promotion division (Morrissey, 302). Satisfactory compliance was seen in reducing the budget deficit and increasing public investment. Reforms were neglected in the reduction of import restrictions, reduction of staffing in public enterprise, access to credit, legislative reforms, and internal reforms. The rate of implementation of these reforms varies from speedy to gradual. Rapid reforms tend to be more effective since they are implemented without giving too much chance for opposition to emerge. However, gradual reforms can oftentimes be more successful since they have a more natural integration into the system. Many of these reforms were made without altering the political system, which shows that the World Bank can provide aid for solely economic purposes without political motivations.

World Bank conditionality in SALs for Turkey mostly focused on trade policy and only showed implementation of export promotion

conditions; public sector conditionality did not exhibit full compliance (Morrissey, 1995: 318). Some conditions were industrial related; however, no conditions were set upon agriculture or labor treatment. Oliver Morrissey (1995: 318) makes the observation that the Bank should become more flexible in regards to enforcing its strict conditions upon countries. In later years, the Bank saw fit to make certain adjustments in its lending and conditionality requirements.

The World Bank has most recently changed its guidelines for policy-based lending while making conditionality country-specific because the institution has concluded that Adjustment Lending is not as effective as Development Policy Lending (World Bank, 2004). More than just a name change, conditionality was originally specified for certain programs whereas now it will be specified according to each individual country. The World Bank has found that it will specifically work with each country to determine conditions that are exclusively targeted for the country in question. Also, funding will be provided for completed projects rather than proposed projects. While the Bank's program has been deemed successful, it also created levels of dependency on the funds provided. Morrissey (1995: 315) points out that the funds that arrived opened the way for a potential debt crisis. The Turkish government became confident that

it could merely take out another SAL if deemed necessary by state economists.

### **3.4 Aid from the International Monetary Fund**

The IMF was the other important IFI founded at the famous Bretton Woods conference. Turkey first joined the IMF, three years after it was founded, in 1947 with a quota of \$43 million, which meant that Turkey had a right to draw up to \$43 million in the event of a financial crisis. The government believed it was only proper to withdraw money during a crisis in order to pay off foreign debts. Since 1947, the quota increased to \$70 million in 1967, \$151 million in 1970, \$200 million in 1979, and in 2001 up to \$964 million. When Turkey first started borrowing from the IMF in the late 1940s, it borrowed approximately \$30 million up until the mid 1950s. The standard amount borrowed each year until 1970 ranged from \$32 million to \$55 million; then Turkey started borrowing anywhere from \$132 million to \$4 billion. Turkey has borrowed approximately a total of \$7.2 billion in 2001 and is the organizations seventh largest borrower.<sup>7</sup>

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<sup>7</sup> Turkey is seventh after Mexico, Russia, Korea, Argentina, India, and England (Alpago: 2002, 95).

It has signed 18 stand-by agreements with the IMF since 1960. Some blame the failure of Turkey in not using the loans obtained from the IMF in the proper way, on the greater amount of attention paid to funding modernization (Şanlı: 2002, 135). For example, the army and defense was funded instead of general sectors of the economy that might have been in need of more development. However, after the earthquake of August 1999 more funding came in and was targeted in sectors that were considered more necessary.

Some argue that the IMF is designed to increase ties between the US and the third world, thus, making the third world dependent on the US to bail it out of various economic crises (Şanlı, 202). In some poor African countries, in order to pay off their debts, have shifted agricultural production to cash crops rather than staple crop production. Along with paying off their debt to the IMF, these countries struggle with paying the interest on their loans. The former president of Tanzania commented that, in order to pay off the country's debts, it was necessary to starve its children to death (Şanlı, 201). The IMF is able to pressure small countries with little political power to pay off their debt whereas more powerful countries can postpone their payments. Also, these countries have the ability to pull capital from various sources whereas poorer countries may be more limited as to where they can get funding. As a result, loans from

the IMF can do serious damage to a country's foundations and lead to investment solely to make quick profits.

Conditionality on IMF funding was very specific. For example, the program for Turkey in 1980 consisted of many stipulations including: reduction of government involvement in production encouraging market forces, an export oriented strategy of import substitution, enhancing foreign investment, reducing subsidies in agriculture, removing certain price controls, and institutional changes through the creation of a Money and Credit Committee (Kirkpatrick and Onis, 1991: 12). Conditions were filled in part and remained on the target list when not completed. The nature of IMF conditionality remained similar over the years, shifting its emphasis to reducing high levels of inflation. The IMF played a large role in creating dependence upon assistance to Turkey's economy. It was important to be free of the IMF and never dependent upon it again (Kumcu, 2004: 86). Turkey faithfully paid back many of its loans and tried to fulfill the conditions which were very country specific, increasing their effectiveness.

### 3.5 Aid from the Organization of Economic Cooperation and Development

The OECD, an organization headquartered in Paris, is responsible for disbursing Agency for International Development (AID) funds allocated to Turkey. In 1979, the OECD promised \$916 million in order to bail Turkey out of its balance of payments emergency. By April of 1980 only half of that money was allocated for use because most of it was commodity or project credits that the Turkish government could not directly use (Senate Report, 1980: 9). The greatest amount of support for Turkey came from West Germany and the US in order to influence the OECD in providing more funding at better rates.<sup>8</sup> Part of the problem with the fiscal equilibrium in Turkey is the lack of revenue collected from taxes. The relative amount of tax revenue compared to GNP is the lowest in the OECD area. Sixty percent of Turkey's trade is with OECD countries.

Besides the aid aspect, the OECD also publishes reports on the state of various advancements and reforms in Turkey. For example, it recently published a report on scientific studies carried out by various agencies. Research on seismology, molecular biology, genetic engineering,

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<sup>8</sup> Other countries providing OECD funding for Turkey in 1981 include: Austria, Belgium, Canada, Denmark, France, Italy, Japan, Luxembourg, Netherlands, Norway, Sweden, and the United Kingdom. Finland was excluded (House Hearing: 1983: 151).

biotechnology, the Turkish brain drain, and globalization are all being carried out by various research oriented groups.<sup>9</sup> Another such report is prepared on the environment. Turkey has made significant advances in developing plans to protect its environment especially in the big cities. Also, tourism becomes an issue with the influx of millions of vacationers each year to the Mediterranean coast. As a research organization, the OECD helps increase the amount of transparency in the system regarding how certain funding may be used by Turkey, and how improvements are being made.

In terms of OECD conditionality, it was based on policy reforms and sometimes agreement on IMF stabilization programs. Turkey was seen as playing a pivotal role in protecting NATO's southern flank from Soviet influence during the Cold War. Thus, Turkey's economic and political weakness had to be prevented by outside sources of funding (Kirkpatrick and Onis, 13). Another event that increased aid for Turkey was the Iranian Revolution of 1979, increasing the urgency of resolving Turkey's difficulties. The OECD was another institution that increased Turkey's dependence on the West for economic support. Not as well known as the IMF, the OECD did not have as controversial a reputation when it came to

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<sup>9</sup> These groups include: the Ministry of Defense, Higher Education Council, Under-secretariat of Defense Industry, the Scientific and Technical Research Council of Turkey (TÜBİTAK), Technology Development Foundation of Turkey (TTGV) and the Turkish Telecommunication Corporation (TURK TELEKOM).

public opinion. As a result, OECD conditionality would have been more easily implemented without governmental efforts to pretend that IMF conditions were actually thought up by the Turkish government.

## CHAPTER 4

### CONCLUSION

Turkey's future can be said to be tied to its past. The amount of economic assistance that Turkey has received over the years definitely had an effect on the progress that was made towards development or not. If foreign aid over the years has not created too much dependence, Turkey will be better off in years to come, since it will be able to stand on its own feet economically. Problems with the economy and the recent economic crisis will hopefully be left behind. With the most recent events in international politics in relation to the Iraq War of 2003, some interesting developments have transpired. Turkey is caught in the middle of two super powers, both vying for her support as an ally.

All the years that Turkey has been receiving aid from the West it has developed a sort of dependency upon the superpowers. By providing aid to developing countries the West tries to guarantee that these countries will be financially dependent upon them. This would have a detrimental effect on Turkey's development and economy in the long term. If Turkey knew that every time there was a problem, the superpowers would be ready to bail her out, then she would be less likely to take economic mishaps seriously. Also, rather than trying to develop industry by her own means, she looks to the West for funding.

It is questionable whether Turkey would be in a better position today if so much aid had not been dumped into the economy. On the flipside, maybe Turkey would have benefited from greater amounts of aid to develop various projects and sectors of the economy. However, in recent years those providing the aid have started to establish stricter regulations on the implementation of aid and have required the setting up of various institutions in order to dole out the aid. These improvements will hopefully lead to the more effective implementation of aid thus, increasing its relative level of effectiveness. Thus, conditionality has evolved throughout the years from attempting to guarantee democracy to improving the general well-being of the economy.

The economy in Turkey is problematic because there is an imbalance between interest rates, inflation, and exchange rates. In order to achieve stability, domestic interest rates must be kept higher than inflation and at the same time controlling exchange rates to be in line with consumer and wholesale prices. Certain problems with the public sector and the preservation of statist policies are the main burden on the economy, as stated in conditionality requirements of the numerous IFIs.

Even before and certainly following the major economic crisis of 2001 the IMF pledged \$19 billion to Turkey and the World Bank extended credits. Both threatened that May 2001 would be the last time for assistance. As a result of the recession, the Turkish Lira (TL) lost 40 percent of its value, the economy shrank, and unemployment rates increased. This time, lenders required greater reforms in various sectors in order to help alleviate structural problems for the short-term. The Turkish Lira was floated after this crisis, causing a 40 percent reduction in its value. Banks also suffered a great deal from the crisis. The main problem with the banks was either that they were state run and a tool for politicians to influence voters or they were run corruptly by incompetent individuals.

In the wake of this economic crisis, the state of the economy has made some improvements for Turkey's future. For example, inflation has reached targeted rates and has fallen to approximately 30 percent. Also,

the exchange rates for the Dollar and the Euro have remained relatively low and stable. If the economy continues to move in this direction, the outlook will be positive for Turkey, reducing dependence on foreign aid.

Turkey's reaction to the most recent Iraq War came as a bit of a surprise to the US government. After all, the US had supplied a great deal of aid for the Turkish military over the years. This aid was not provided for development purposes, but was given with the intentions that the US will eventually benefit from a stronger Turkish army. However, with Turkey's recent reaction to US desires to establish a northern front for the war at Turkey's south-eastern border, the Department of Defense was taken by surprise. Ever since the end of WWII, it had been pushing for military aid to Turkey in order to guarantee support in the event of a Middle Eastern crisis. Department of Defense lobbyists had always pointed out how Turkey was a steadfast ally when compared to other countries in the region such as Greece. This recent event, however, has functioned as a black mark on Turkey's record as a dependable ally to the US. Turkey was only able to open its air space for use by the US Air Force. Even such a small contribution by Turkey caused a stir in Europe, which was against the war. Turkey's failure to assist the US in its endeavors in Iraq does not mean that it will never receive military aid ever again. However, this episode does give anti-Turkish lobbyists one more example

of reasons why Turkey should not be given aid. In addition, those in support of Turkey will be put under pressure in Congress to answer tough questions regarding Turkey's recent behavior. With regards to the Kurdish question, Turkey cannot have much to complain about its eventual outcome, without participation in its development. Moving away from its devoted relationship to the US, Turkey might develop closer ties to the EU.

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