

# 1 Introduction

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The dominant theme in development economics in recent years is the liberalization programmes undertaken by a number of developing countries, either unilaterally or as a part of the World Bank structural adjustment lending programmes. One such programme, which poses a number of analytical issues, is that undertaken by Turkey in 1980. Although Turkey experimented with liberalization of the economy during the 1970s, the measures she implemented then were half-hearted and spasmodic. The 1980 reform package, in contrast, was comprehensive and bold, including not only liberalization of the foreign trade regime but also widespread financial reform and macroeconomic stabilization policies. The economic consequences of the experiment continue to be a matter of debate. The new regime, which came into office in 1993, headed by Mrs Tanau Ciller, a former Professor of Economics, continues to battle with an inflation rate of 109 per cent (the latest figures for percentage change in CPI over the last twelve months), a declining lira and a sizeable public sector borrowing requirement amounting to 16 per cent of the country's GNP. It is all too easy to lay the blame for the current economic problems at the door of the 1980 reforms, dubbed '*the infamous package*' by certain sections of the financial press. Whether or not the current economic problems are a consequence of the reforms is arguable. It is, however, to be noted that despite the relatively high inflation rate Turkey has registered annual growth rates well above those of other OECD countries and the economy is known for its resilience in the face of adversity. It is for these reasons and because Turkey is about to implement another package of reforms designed to contain inflation and improve the competitiveness of her exports and her credit rating, that an evaluation of Turkey's liberalization experiment would be of value.

Turkey's liberalization experiment has been the subject of a number of studies. Most of these studies, however, are not easily accessible and it may also be fair to say that neither the Turkish experiment nor the extensive analysis of it by Turkish economists have received the attention they merit. This volume of papers, written by a group of economists based in Turkey and in Britain, is intended to introduce students and practitioners of development economics to the dramatic

experiment in liberalization undertaken by Turkey and the rich variety of issues it poses. These papers also provide a background for analysing the economic problems Turkey is currently experiencing.

The papers are arranged in three broad groups. The first group consists of two papers which analyse trade and industrialization issues in the context of the liberalization programme. The first of these papers, by Sübidey Togan from Bilkent University in Turkey, provides an exhaustive empirical analysis of the structure and performance of Turkey's foreign trade following the liberalization of the trade regime undertaken in 1980. Utilizing well-known statistical measures and concepts, Togan estimates the height of protection afforded to various industries, the degree of bias against exports prevalent during the 1980s, and evaluates the extent to which liberalization was successful in correcting the bias against exports. He concludes that although the programme of liberalization was successful in reducing the bias against exports, it did not entirely eliminate it. Togan's paper is worth reading not only for its analysis of the impact of the trade regime in place on the competitiveness of Turkey's exports, but also for the manner in which it copes with a vast amount of data to draw meaningful conclusions. The second paper in this group, by David Greenaway of Nottingham University and David Sapsford of Lancaster University, analyses a currently fashionable theme – the relationship between trade reform and the terms of trade. The attractive features of the paper are its lucid survey of the existing literature on the relationship between trade liberalization and the terms of trade and the sophisticated econometric techniques it deploys to test the hypothesis that liberalization leads to changes in terms of trade. Greenaway and Sapsford, on the basis of the econometric evidence they assemble, conclude that it is changes in terms of trade that may have influenced liberalization of trade in Turkey, rather than the other way round.

The second group of papers deal with issues relating to foreign direct investment (FDI), foreign aid and financial liberalization in Turkey. Balasubramanyam of Lancaster University analyses the reasons for the relatively low level of foreign direct investment in Turkey in the recent past and evaluates the likely impact of the programme of economic liberalization on inflows of FDI into Turkey in the future. He also argues that if Turkey could achieve macroeconomic stability and establish credible liberalization measures, she could attract increased volumes of FDI without offering generous tax concessions and other incentives to foreign firms. Oliver Morrissey of Nottingham University discusses Turkey's experience as a recipient of foreign aid. His

analysis of Turkey's experience with structural adjustment loans, a particular form of conditional aid, provides a number of lessons for other developing countries. Amongst other issues, Morrissey discusses the case for gradualism in the adjustment process and the case for utilizing aid funds for investment in infrastructure facilities. Drawing upon Turkey's experience, he also suggests lessons for the World Bank in administering its structural adjustment policies. The final paper in this group, by Nicholas Snowden of Lancaster University, discusses aspects of liberalization in the financial sector. Changes in the regulatory environment in this context can produce awkward problems of transition. These are reviewed systematically in the Turkish context and some new issues in financial liberalization raised.

The third group of papers considers specific policy-oriented issues, such as Turkey's case for the membership of the European Union and the export promotion policies of Turkey. Membership of the EU is high on the agenda of policy makers in Turkey. In a wide ranging essay, Robert Hines of Nottingham University considers the various obstacles Turkey faces in her bid for membership and concludes that a pragmatic solution for Turkey would be to join the European Free Trade Association in the first instance. Such a move would not only provide some of the advantages of membership of the EU, such as better access to EU markets, but also pave the way for eventual membership of the EU. Fatma Taskin and Ernic Yeldan discuss the link between exports on the one hand and employment, growth and functional income distribution in Turkey on the other. They argue that export-based expansion of the economy could not be sustained in the face of the deteriorating real income shares of wage labour and little capital accumulation. Export expansion itself was achieved by suppressing domestic absorption through wage reductions and currency depreciation. They show how this process, however, could not be sustained and that the strategy hit its political limits in the late 1980s. Okan Aktan of Hacettepe University in Ankara provides a critical evaluation of the impact of export subsidies and exchange-rate policies on the export performance of the Turkish economy. The paper argues that the multitude of export promotion measures introduced during the 1980s were not sufficient to eliminate the bias against exports created by the import-substitution policies pursued during the years prior to liberalization. Furthermore, the scaling down of export promotion measures during the second half of the 1980s and the subsequent overvaluation of the lira were responsible in large measure for the slowing down of the growth of Turkish exports.

Turkey is unique amongst the developing countries for many reasons. It is perhaps the only Islamic country which has embraced Western mores and institutions, it is also a country which can boast of a highly educated elite and a literacy rate well above the norm for other developing countries. Turkey's experiment with liberalization is perhaps unique both because of the broad sweep of reforms it envisaged and the determination the country has shown in sticking to the reforms in the face of adversity. For these reasons the analysis of Turkey's liberalization experiment provided by the nine essays in the volume should be of value to both practitioners and students of development.