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Annex

## THE TURKISH ECONOMY: STRUCTURE AND DEVELOPMENTS

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## Preface

On 14 April 1987 Mr Turgat Ozal, Prime Minister of the Republic of Turkey, submitted on behalf of his Government to the President of the Council of the European Communities his country's application for membership of the European Coal and Steel Community (ECSC), the European Economic Community (EEC) and the European Atomic Energy Community (EAEC).

At its meeting on 27 April 1987, the Council agreed to set in motion the procedure provided for in Article 98 of the ECSC Treaty, Article 237 of the EEC Treaty and Article 205 of the EAEC Treaty. It also voted that, in preparing its opinion, the Commission would remain in close contact with the Member States, on the one hand, and Turkey, on the other.

Contacts with the Turkish authorities have been conducted through the Ministry for Relations with the Community, which is placed under the authority of Mr Ali Bozer, deputy Prime Minister. Through these contacts, the Commission departments have obtained extensive documentation on the situation in Turkey<sup>(1)</sup>.

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This report gives an overview of the socio-economic situation and developments in Turkey as compared with the Community, and in particular its newest members (Greece, Spain and Portugal).

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(1) This report was drawn up by the Commission's interdepartmental working group on Turkey. It was prepared by the Directorate-General for Economic and Financial Affairs following a mission to Turkey in June 1988. Additional contributions were made by the Directorates-General for Industrial Affairs, Competition, Social Affairs and Agriculture following missions to Turkey in June 1989.

## Introduction

Covering an area of 781 000 km<sup>2</sup>, Turkey is the size of France and the Federal Republic of Germany combined.

(Map 1.1)

When it was founded in 1923 by Atatürk, the Republic of Turkey had a population of 10 million; by 1985, this figure had risen to 50 million. Since it is growing by 2.5% a year, the population is expected to top 70 million by the year 2000. Close on 40% of the population is aged 15 or under. Non-agricultural unemployment (surplus ratio) is put at 12.5% in 1988. In spite of a major population drift towards the towns and from the east of the country to the west, just under half of the population still lives in rural areas. The most heavily populated of the 67 provinces in the country are those of Istanbul (5.8 million inhabitants), Ankara (3.3 million) and Izmir (2.3 million). It is in these areas too that industry is concentrated.

(Map 1.2)

Turkey is a secular centralized State. Virtually the entire population is Muslim although there exist ethnic and religious minorities of which the largest is Kurdish.

Education is compulsory up to the age of 11; beyond that, almost half of those attending school leave. The universities have room for only half of those applying for a place. The illiteracy rate is put at around one third.

In 1985, Turkey's Gross Domestic Product (GDP) was equivalent to only 2.1% of Community GDP and in absolute terms is smaller than that of Denmark. Income per head in Turkey is about one third of the Community average (in purchasing power parities) but this conceals some very pronounced regional and individual disparities. Real wages have hardly risen since 1980. The social security system is not very developed.

Over half the labour force still works in agriculture, which accounts for 18% of GDP. In spite of the very low level of productivity in that sector, Turkey has managed to become self-sufficient in food and even exports some products.

Since 1980 Turkey has been embarked on an outward-looking policy that is based on the market economy and marks a break with the twofold policy of State-controlled industrialization (State Economic Enterprises - SEEs) and protectionism (import substitution) followed since 1923. This policy did not survive the 1973 and 1979 oil shocks. Current account deficits and external indebtedness obliged the government to agree in 1980 to a stabilization and structural adjustment plan designed to improve resource allocation.

The Turkish economy has experienced a period of rapid growth (5.4% a year between 1980 and 1986) but in 1989 this is likely to fall to only 1%, the main component being growth in manufacturing (8.2% a year), which provided over 75% of Turkish exports in 1988. The textile industry, which has access to cheap labour, plays a predominant role.

Even so, at the end of 1988, Turkey's external debt remained very high, at almost \$ 38 bn. The cost of servicing the debt, the bulk of which is attributable to the public sector, is put at 8.0% of Gross National Product (GNP) and represents a not inconsiderable drain on such an undeveloped economy as Turkey's. However, the economic policy being pursued appears to inspire sufficient confidence in lenders for them to be willing to provide the foreign loans necessary. Moreover, with the help of receipts from tourism and remittances by Turkish workers abroad, the current account ended 1988 with a surplus of \$ 1.5 bn, equivalent to more than 2% of GNP.

An enduring problem for the Turkish economy is inflation, which exceeded 75% in 1988 and will doubtless be around 70% in 1989. Trimming the public deficit (7.0% of GNP in 1988) is a priority objective. The government hopes to be able to reduce it progressively to 2% of GNP in 1994 by cutting expenditure and at the same time boosting tax receipts. The aim is to bring inflation down to 13.5% in 1994 while maintaining a growth rate of 7% a year in the period 1990-94.

## 2. Economic growth and structures

### 2.1 Economic development

The level of economic development in Turkey is still very low compared with that in the Community even though growth has been very rapid, especially in recent years.

(Graph 2.1.1)

Following the severe difficulties encountered in the second half of the 1970s, Turkey has, since 1980, grown at a much faster rate than the Community. In 1988, however, growth fell to 3.4% and the forecast for 1989 is 1%. The forecasts in the 6th Plan (1990-94) of some 7.0% p.a. for GDP (8.3% for industry and 11.2% for the investment goods sector) are considered by the Turkish authorities to be compatible with the requirements of internal and external macroeconomic equilibrium. This rate of growth, if achieved, would be twice as high as that projected for the Community.

(Table 2.1.1)

(Graph 2.1.2)

However, since the population of Turkey is also expanding very rapidly (by some 2.5% a year compared with 0.25% in the Community), the effect on GDP growth per head is correspondingly less marked.

Measured in terms of purchasing power standards (PPS), GDP per head in 1985 had an index of 34.3 (EUR-12 = 100) compared with 53.1 for Portugal, 55.9 for Greece and 72 for Spain. Expressed in current prices, the index is 13.6.

(Table 2.1.2.)

(Graph 2.1.3.)



The distribution of income in Turkey is very uneven, both from a regional and from a social viewpoint. According to a study by the OECD<sup>1</sup>, the country falls roughly into three areas: the metropolitan areas of Istanbul, Ankara and Izmir with an index figure for income per head of 148 (Turkey = 100), the West, with an index figure of 100, and Eastern Anatolia, with a figure of 68 (1977). According to a study by TUSIAD<sup>2</sup>, 20% of the population accounted for 56% of income at the end of 1986 whereas the poorest 20% received only 4%.

The low level of development in Turkey as compared with the Community is also evident from traditional standard-of-living indicators such as the number of private cars (19 per 1000 inhabitants compared with 327 in the Community), the consumption of electricity (695 KWh a year compared with 4922) and infant mortality (8.3% compared with 1.0%).

(Table 2.1.3.)

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<sup>1</sup> OECD, Regional Problems and Policies in Turkey, 1988, p. 23.

<sup>2</sup> Referred to in Turkey's International Role, Euromoney Publication, 1988, p. 12.

## 2.2. Strategic guidelines for economic policy

Prior to 1980, the approach to economic development in Turkey had been one of autarky and dirigisme. Import substitution was the order of the day and inevitably led to the introduction of protectionist measures. A large number of SEEs were established with a view to speeding up the country's industrialization, especially from the 1960s onwards.

The refusal to adapt to changing circumstances in the wake of the first oil shock in 1973 (the ambitious growth targets were met thanks to public investment; real wages rose by 32% between 1973 and 1977 while the oil bill pushed the current account into deficit to the tune of more than \$ 3 bn in 1977, equivalent to 6% of GNP) plunged the economy into deep crisis. As a result, the government was obliged to rely increasingly on foreign borrowing, especially short-term borrowing, the domestic savings ratio being too low on account of the negative interest rates attributable to runaway inflation. Already in 1977, the deficit of the SEEs, many of which were badly managed, was equivalent to just under 7% of GNP.

Turkey's external debt reschedulings (4 in all between 1979 and 1982) were accompanied by a stabilization plan and by a new structural adjustment policy based on the market economy (measures adopted on 24 January 1980). The Turkish lira was devalued by 33% against the US dollar and a crawling-peg exchange rate introduced. Restrictive tax and monetary policies were brought in together with a realistic policy on interest rates. Price controls were abandoned and public enterprises encouraged to charge prices that covered costs. Current transactions were liberalized and exports encouraged. Between 1978 and 1980, under the impact of rampant inflation, real wages fell by almost 40%.

On the essential points, the new economic policy has been a success: inflation was reined back from close on 120% at the end of 1979 to under 30% in 1982 (although it has spurted again recently), exports climbed from 5% of GDP in 1980 to 16.5% in 1988, economic growth has been firm (around 5.4% a year), manufacturing output has risen at a faster rate and external-debt servicing has gone ahead in spite of major repayments of principal since 1985. The current-account deficit was transformed in 1982 into a surplus of \$ 1.5 bn. The investment ratio, which dropped to below 20% in 1980, has started to climb again (24.4% in 1988).

(Table 2.2.1)

(Graph 2.2.1)

Compared with the situation in the Community, labour productivity is very low in agriculture but less so in industry, where, expressed in current ecus, it is actually higher than industrial productivity in Portugal.

(Table 2.2.2)

Labour productivity in Turkey grew by 2.9% per year over the period 1981 to 1984 and by 3.9% in 1985/7 while in the same periods capital productivity grew by 2.5% and 3% respectively<sup>1</sup>.

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<sup>1</sup> OECD, Economic studies : Turkey; Paris, 1986, p.15.

### 2.3 Production structures and structures in the distributive trades

Over 57% of the labour force is still engaged in agriculture (compared with less than 9% in the Community), but, according to Turkish sources, the situation is rapidly changing. It is estimated that, by the year 2000, agriculture will absorb only one third of the employed population.

(Table 2.3.1)

Agriculture accounts for just under 18% of Turkey's GDP (compared with less than 3% in the Community), and this reflects its relatively poor productivity. Industry broadly defined accounts for over a third of GDP, and manufacturing output grew fastest in the period 1980-1987 (averaging some 8% a year, compared with 3-4% for agriculture and the service sector). As in the Community, manufacturing in Turkey accounts for over 25% of GDP.

(Table 2.3.2.)

Transport plays a leading role in the service sector in Turkey (10% of GDP compared with 5% in the Community); virtually all passenger transport and goods traffic, including the large volume of transit traffic, is by road. As a proportion of GDP, social services are not very significant (5.5% compared with 11.8% in the Community). The fastest rate of growth was recorded in the "water, gas and electricity" sector, which accounts for a higher proportion of GDP in Turkey than in the Community.

(Table 2.3.3)

(Table 2.3.4)

Textiles and clothing occupy a leading place in manufacturing industry (13.5% of industrial production, of which 60% is exported; 13% of total industrial employment). This sector has achieved high growth thanks to increased exports. The steel industry has, in addition to an increase in exports, benefited from a rapid increase in domestic demand and accounts for 6.4% of manufactured products. The food industry (processed agricultural products) accounts for almost 25% of manufactured products and exports 10% of its output. Other sectors of major importance are transport equipment and chemicals. Growth in the

chemical industry is largely due to an increase in domestic demand and high levels of investment in subsectors such as petrochemicals and fertilizers. The leather and glass industries also account for significant shares of Turkish manufacturing industry (2.5% and 2.6% of output respectively). The differences in structure between Turkish industry and that of the Community are clearly shown by the relative shares of production and exports of investment goods, which in Turkey represent only 15% of manufactured output as against 40% in the EC and Turkish exports amount to 10% of output while the Community exports 25% of its output.

(Table 2.3.5.)

The geographical concentration of manufacturing in Turkey is extremely pronounced, with virtually all the largest 500 firms being located in the main urban centres: 284 in Istanbul, 75 in Izmir, 31 in Adana-Mersin-Tarsus and 29 in Ankara (1988 figures). The public sector comprised 389 SEEs in 1985 (or 8% of all firms) and employed 272 987 people (32% of total industrial employment), while the private sector consisted of 4 478 firms (each with a workforce of 25 or over) and employed in all 570 155 people, on top of which there are the 189 349 firms with fewer than 25 employees and with a combined workforce of 565 764 people that produce mainly for the local market (and, in isolated cases, act as subcontractors for large firms). Thus, 40% of the labour force in manufacturing is employed in more than 97% of (small) firms, with over 30% working in the 342 largest firms (employing more than 500 people).

In order to sustain its industrial development, Turkey has to import raw materials (two thirds of imports) and capital goods. It possesses large metallic and non-metallic mineral reserves, the most important products being borax, chromite (and ferrochrome), baryta and magnesite. The mining industry belongs primarily to the public sector (Etibank) but increasing encouragement is being given to mineral prospecting and mining by the private sector including foreign firms. However, the mining law of 1985 stipulates that only Turkish citizens may apply for prospecting and mining permits which means that a foreign company must first create a local company if it wishes to operate in Turkey.

Turkey also depends to a large extent on foreign sources of technology and imports take the form of both purchases of sophisticated equipment and the granting of licences. In the field of industrial machinery, for example, Turkey exports simple electric motors and small electrical appliances but imports computer controlled machines. Despite efforts made by the public authorities and the private sector, Turkish progress in research and development will be insufficient to reduce the country's dependence on foreign suppliers in the near future.

The industrialization process in Turkey is also dependent on a substantial input of energy. Since Turkey, like the Community, has to import some 40% of its energy needs, mainly crude oil (20% of its import bill), development of this sector is a top priority to be achieved primarily through the construction of conventional and hydro-electric power stations (for example, the 2 400 MW Atatürk power station, which will become operational in 1992 and the 1 800 MW Karakaya power station, which is already functioning); as a result, around 50% of electricity will be generated by coal-fired or lignite-fired power stations by 1990 (they currently account for one third of generating capacity). In 1986, Turkey produced just under 40 000 gwh, equivalent to 3% of electricity generation in the Community. Starting in 1990, the USSR will supply 6 bn m<sup>3</sup> of natural gas by pipeline.

(Table 2.3.6.)

Economic growth in Turkey in recent years has, to a large extent, been underpinned by a spectacular increase in exports, more particularly of manufacturing products, largely due to the numerous public incentives. Between 1980 and 1988, Turkish exports rose two and a half times in volume terms, while imports almost doubled (the corresponding figure for Community exports and imports alike was only 35%-40%). The rate of cover of imports by exports in Turkey climbed from 44% in 1980 to over 80% in 1988. As a proportion of GDP, exports expanded from 5.2% to 16,5% between 1980 and 1988 and imports from 11.8% to 20.3% (compared with a 1987 figure of 22% in both cases for the Community). The contraction in exports in 1986 was more than

offset in 1987 and 1988 thanks largely to increased export incentives in the shape of tax refunds, advantageous export credits and a 7% effective devaluation of the Turkish pound<sup>1</sup>.

(Table 2.3.7)

(Graph 2.3.1)

For Turkey, crude oil is the main component of imports (50% in 1980, 29% in 1985 and 17% in 1988), followed in descending order by plant and machinery, chemicals and steel products. As a proportion of imports, capital goods rose from 20% in 1980 to 28% in 1988. Between 1980 and 1988, imports of agricultural products increased tenfold. Consumer goods accounted for less than 8% of total imports in 1988.

(Table 2.3.8.)

The structure of exports has changed drastically since 1980. Agricultural products accounted for 20% of the total in 1988 (as against 60% in 1980), with manufactures benefiting (77% in 1988 against 36% in 1980). In 1988, 32% of exports consisted of textile products, clothing, skins and leather. Steel products, chemical products and machinery are also well represented. While exports of agricultural products have remained virtually static, exports of processed agricultural products are expanding sharply.

(Graph 2.3.2.)

(Table 2.3.9.)

In 1988, Turkey's trade deficit with the Community was ECU 0.9 billion (ECU 1.8 billion in 1987). Exports to the Community consist primarily of textiles and agricultural products. Turkey has overtaken Hong Kong as the leading supplier of textiles to the Community. The bulk of imports from the Community is made up of electrical machinery, machine tools and steel products.

(Table 2.3.10.)

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<sup>1</sup>OECD, Economic Studies: Turkey, Paris 1988, pp. 26/27.

The geographical breakdown of trade highlights the predominant role played by the Community (which took 30% of total exports in 1980 and 44% in 1988), and the OPEC countries, which are still Turkey's main trading partners after the Federal Republic of Germany, which takes more than 18% of Turkish exports and supplies more than 14% of its imports. Italy, with 8% of exports and 7% of imports, is Turkey's second most important trading partner in the Community.

Turkey accounts for around 1% of total Community trade with non-member countries.

The competitiveness of Turkish industry has been the subject of several studies which have catalogued the effects which, according to Turkish industrialists, would result from joining the Community. According to the Foundation for Economic Development (IKV)<sup>1</sup>, 75% of Turkish industry would be capable of withstanding international competition. The SPO reaches similar, though less optimistic, conclusions : 22% of manufacturing industry risk elimination if major transitional measures are not taken while 35% would require a modest degree of adaptation<sup>2</sup>. An analysis made by the Commission's departments confirms the heterogeneous competitive positions of the various sectors and subsectors of Turkish industry. In the textile sector, cotton thread and synthetic fibres would be able to face up to international competition, as would leather goods and some sections of the steel industry.

By contrast, with the exception of glass, industries which depend primarily on domestic demand display some weaknesses (chemicals (especially petrochemicals), automobiles, pharmaceuticals, cement, mechanical and electrical engineering). However, it would be premature at this stage to express a definitive judgment on the competitive capacity of Turkish industry, since it benefits substantially from import protection and export incentives.

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(1) Cf. IKV, Turkey's position in the face of the European Community according to the IKV's studies, June 1988.

(2) Cf. SPO, Reports of the ad hoc Commission on the Competitiveness of Turkish Industry with respect to the EEC, 1988 (3 vol.).

(3) For detailed comments by sector, see Annex 2.



#### 2.4 Domestic microeconomic policies

The liberalization and deregulation policy set in train in 1980 has been continued under the governments of Mr Turgut Ozal (formed in 1983 and 1987). The basic philosophy is to restrict the role of the public authorities to the fields within their purview (such as transport, telecommunications and energy infrastructures) and to leave to private initiative the production of ordinary goods and services in accordance with the market laws of supply and demand. In this context, it remains to be seen what ground rules the Turkish authorities will adopt in examining restrictive or abusive commercial practices which threaten to undermine the effects of competition and the development of trade. Turkey does not as yet have any anti-trust laws.

This change of policy necessitates a withdrawal of the government from the running of the SEEs, which were set up when the Republic was founded but whose role was strengthened significantly in the 1960s in support of the country's industrialization programme. The SEEs are to be found not only in industries such as electricity generation, mining and public transport but also in industries producing products for everyday consumption, such as agricultural products (wheat, milk, tea, meat), tobacco and beverages, textiles, steel products, chemical fertilizers, petrol, coal, etc. They still make up 40% of manufacturing output although their share in gross fixed capital formation fell by a third in 1980, to 25%. They account for roughly one third of employment in manufacturing.

Privatization of the SEEs is one of the main planks of the current government programme. Their operating costs have long been excessive and their productivity too low given that their pricing, production, investment and employment policies have actually been laid down by the government on the basis of criteria that have been more political than market-oriented. What is more, they are responsible for half of the public deficit. The government has already forced upon them a more realistic pricing policy while at the same time cutting them off from preferential credits.

Investment in extra capacity by SEEs in manufacturing has come to a halt. Between 1980 and 1987, their net borrowing from external sources declined from 22% to 15% of turnover.

The present privatization programme is regarded as the appropriate way in which to modernize the SEEs and to restore their competitiveness. It will involve the public sale of shares (some preferential rights will be offered to those employed by the enterprises concerned). In this way, it is hoped to mobilize some of the public savings built up in the form of gold (and valued at over \$50 billion), since the capital market is still rudimentary in Turkey and private saving is channelled directly or indirectly into financing the public deficit. Representatives of the private sector have expressed a willingness to participate in buying part of the public sector but, given the relative financial weakness of Turkish private industry it would seem that a significant inflow of foreign capital will be necessary if the planned sales are to be carried out successfully. The sale of shares in SEEs need not necessarily concern their entire capital provided management passes into private hands.

(Table 2.4.1.)

The first sale, which took place in February 1988 and involved shares in Teletas (a post and telecoms subsidiary) worth \$12 million was a success. Since then cement works have been sold to a French group (August 1988) and the air-catering service USAS to the airline SAS. Other sales could follow but privatization of two giant enterprises on the priority list will doubtless prove more difficult (Petkim in the petrochemicals industry and Sümerbank, a conglomerate comprising, among others, 43 textile firms). Foreign shareholdings are vetted on a case-by-case basis and in the light of certain criteria (injection of fresh capital, technology, export potential, management).

The funds raised by the (total or partial) sale of SEEs will go to the parent company, the Treasury or the State Investments Bank.

It should be pointed out that not all SEEs will be privatized, notable exceptions being in the public transport field and the power generation and supply sector.

(Tableau 2.4.2.)

In pursuing this privatization and deregulation policy, Turkey reflects the general trend towards privatization of publicly owned enterprises in a large number of countries, both in the industrialized and the developing world. It is also equipping itself for the opening up of the single Community-wide market in 1992. Given the size of the public sector in Turkey, even after the privatization programme, better information will be needed on the financial links between the state and public enterprises to determine whether the latter derive any competitive advantage from such links. In Turkey there are commercial State monopolies in respect of a series of products such as alcohol, alcoholic drinks, tobacco and sugar. Exclusive import and marketing rights applied to Community products are not compatible with Community law and would gradually have to be modified where necessary.

In addition to the privatization programme, the government is embarked on an active industrial policy of granting investment premiums, the levels of which vary according to the region. As a general rule, all industries are eligible except, in already developed regions, those on the so-called negative list, in which investment is not encouraged and which include in particular steel, shipbuilding and motor vehicle construction (but not textiles). Special importance is attached to export-oriented activities. (For direct export subsidies, see point 2.5.).

Investment incentives (identical for both Turkish and foreign investors) include inter alia:

- exemption from customs duties for imported plant and machinery;
- a premium equivalent to 25% of the cost of plant and machinery purchased on the domestic market;
- an investment grant of between 30% and 100% depending on the region concerned, to be set against corporation tax (46%)
- an assistance premium equivalent to between 10% and 60% of the equity-capital investment;
- reduced-rate credits;
- various tax reliefs.

In the developed regions, eligibility for investment incentives is restricted to certain sectors of special importance for Turkey's development (tourism, energy, electronics, telecommunications, medical equipment and agriculture).

The "negative" list, apart, virtually all net investment in Turkey qualifies for a premium. In 1986 the total of these premiums represented some 6.3% of private investment. Investment certificates, which confer entitlement to the various incentives, are issued by the State Planning Organization (SPO). Turkish industrialists regard investment aid as compensation for a malfunctioning capital market and excessively high rates of interest and inflation.

The public aid schemes lack transparency, since not only is most of the aid funding not included in the budget but the various aids can be aggregated and no overall ceiling is set for individual firms, which can lead to very high aid levels (up to 77% of the investment cost of a project in developed regions). In addition, the aid schemes are frequently modified.

(Table 2.4.3.)

"Free zones" are another technique that has been applied in order to promote investment and, as their location demonstrates, exports. They offer numerous benefits: total tax exemption for investments (including exemption from corporation and income tax) for a period of 10 years; exemption from customs duties and other charges for imports of goods used in the production process (Turkish products purchased by firms in free zones rank as exports qualifying for the full range of benefits); and authorization to conduct all transactions in foreign currency (protection against devaluation of the Turkish lira and inflation). Loans are available at preferential rates. Strikes and lock-outs are banned for the first ten years of operation of a free zone. Of the four zones planned, two are now operational (Mersin and Antalya). Just under 500 firms, of which 10% will be foreign firms, are expected to set up in those zones. They will for the most part manufacture light industrial or high-technology products. Their development does not seem to be progressing as quickly as expected.

In recent years, Turkey has paid increasing attention to regional policy, which is designed to curb the growth of the main urban areas (Istanbul, Izmir, Ankara) and to promote development areas. Of the 67 provinces, 28 rank as development areas and 13 of these, located in the east of the country, are priority development areas.

(Map 2.4.1.)

A whole battery of measures is available in support of regional policy:

- infrastructures, large-scale (the dams on the Tigris and the Euphrates, including the Atatürk dam) and small-scale (rural electrification, water supply, health services);
- incentives to private investment with subsidies which may exceed 100%.

The development areas account for some 10% of investment and 15% of employment.

At the moment, regional policy in Turkey is geared primarily to social goals. It makes no contribution in the short run to economic growth; on the contrary, it involves large transfers of resources from the rich, better-off, areas to the less-fortunate areas.

The rapid industrial expansion in Turkey in recent years has been based essentially on improved utilization of available capacity, and this has required relatively little investment. This will no longer be the case in the years ahead, when a greater investment effort will be needed in order both to modernize and expand the productive system. Recently, the State has invested massively in the transport and energy sectors, while private-sector investment has been channelled primarily into residential construction. It would seem that in future the public sector (while completing the large-scale projects now under way) will have to place the emphasis on education, research and development and health, while the private sector will have to focus its attention more closely on industrial investment and investment in tourism.

(Table 2.4.4.)

## 2.5. External microeconomic policies

Until 1980, Turkey pursued a policy of import substitution that afforded protection to local industry. Since then, an outward-looking policy aimed at gradually exposing local industry to international competition and at boosting trade with other countries has been in place.

Three instruments have been deployed in this connection:

- a flexible exchange-rate policy with the twin objective of securing a continuous adjustment to international prices and an effective depreciation of the Turkish lira against the major foreign currencies (see point 3.2);
- progressive liberalization of imports;
- export promotion.

Import quotas were scrapped in 1981. Import bans or controls exist for munitions, drugs, etc. The number of products for which an import licence is required was reduced from 1 300 in 1983 to 33 in 1988 and then to 17 in 1989 (including explosives, cocaine, acetic anhydride, electrical machinery and paper for printing bank notes).

At the same time, however, protection has been increased by expanding the special funds financed out of import surcharges and designed to assist fledgling industries or industries deemed to be of essential importance for the Turkish economy. For example, the number of import items generating revenue for the Housing Fund rose from 40 in 1983 to more than 1 400 in 1988. Since 23 September 1989 the number of items has reached 7 880 or 44% of all products covered by the tariff. These import surcharges, many of which are higher than the customs duties themselves, are by no means transparent and can be amended simply by government decree.

(Table 2.5.1.)

Customs tariffs in Turkey (disregarding zero-rated products) range from 5% to 150% (statutory rates) or from 2.5% to 50% (effective rates) depending on the tariff heading concerned. The lowest tariffs are imposed on raw materials such as crude oil and ores and the highest on finished products such as milk, meat, sugar, coffee, tea, beverages, tobacco, leather goods, clothing, carpets, glass, furniture, cars, boats and, more generally, luxury articles. In 1988, the unweighted arithmetic average of the effective rates was 25% as against 20% for the Community (preferential rates). Since 1 January 1989, there have been numerous reductions in erga omnes tariffs, affecting some 11 000 products out of a total of 18 000, and 1 821 items have been exempted from duty.

(Table 2.5.2.)

In 1988, receipts from customs duties made up 3.4% of the cif value of imports but, if stamp duties<sup>1</sup>, wharfage and especially contributions to the special funds<sup>2</sup> (and in particular the Housing Development Fund) are included, the figure rises to 12.2% (6.7% in 1980), indicating that the effective rate of import protection in Turkey is not only much higher than the customs tariffs applicable but is also climbing steadily despite the lowering of customs tariffs. The government also introduced in 1980 an import deposit requirement, which in 1988 was equal to 7% of the cif value on importation<sup>3</sup>.

(Table 2.5.3.)

It should also be pointed out that numerous exemptions from the payment of customs duties exist (for firms that have set up in free zones or that have obtained an investment certificate and, in some cases for local authorities).

Exports, 40% of which go to the Community and which are particularly substantial in the textile sector, benefit from a wide variety of

- (1) By a decree dated 5.10.1988, stamp duties were raised from 6% to 10% of the cif value of the imports.
- (2) By a decree dated 14.10.1988 the tax in favour of the 'Support and Price Stabilization Fund' was raised from 8 to 10% of the cif value of the imports.
- (3) By a decree dated 14.10.1988 this deposit was raised to period to 31.3.1988, to 12% from 1.4.1989 to 30.4.1989 and to 12% from 1.5.1989 to 31.5.1989; thereafter it returned to 7%. By decree dated 19.4.1989, the rate was reduced to 7% as from 1.6.1989.

incentives, the main ones being :

- tax rebates, which in 1987 represented 5% of the total value of exports, ranging from 2% to 8% depending on the product group (these were replaced in 1988 by credit facilities with the Eximbank, including, among others, an export subsidy of 2% of the fob value);
- export subsidies of up to 20% of the fob value for a certain number of products (122); these are expressed in \$ per tonne (to avoid overbilling) and paid out by the Price Support and Stabilization Fund ;
- subsidies for transport by ship ranging from \$3 to \$12 per tonne depending on the destination and likewise paid out by the Price Support and Stabilization Fund ; if transport is by a non-Turkish ship, the subsidy is reduced by half ;
- exemptions :
  - . from customs duties for imported materials ;
  - . from the contribution to the Housing Development Fund in the case of exports of petroleum products ;
  - . from corporation tax to the extent of 20% of profit from exports (18% from 1989) ;
  - . taxes on financial transactions ;
- loans at a preferential rate of 40% (instead of 70%) ;
- reduced-price energy supplies;
- foreign-exchange facilities :
  - . in respect of up to 80% of the value of imports exempt from customs duties ;
  - . authorization to retain and use as they wish 30% of foreign exchange earnings from exports provided the rest is repatriated within three months.

Although a large number of quantitative import restrictions have been lifted, the effective level of protection, which is higher than the corresponding customs duties, is still significant, especially for a number of products that Turkey exports (e.g. glass, textiles). Certain surcharges, including the contributions to the different Funds, are also illegal under the additional protocol to the Association Agreement. Export subsidies, especially to sensitive sectors from a Community point of view, are still generous (at around 10% of the fob value in 1986 and 8% in 1988). These taxes and subsidies introduce an element of distortion into the economic system that runs counter to the avowed policy of liberalization and will require substantial reform to allow development of trade with the Community within the framework of the rules of competition.



## 2.6. Agriculture

The agricultural sector is of considerable importance to Turkey. The wealth of resources of land and water together with the diversity of agro-ecological conditions make Turkey one of the most favoured countries in terms of agriculture. Despite rapid population growth, Turkey has always been self-sufficient in food and is a significant exporter of agricultural products while still meeting the requirements of its domestic industrial consumers of agricultural raw materials. The range of products is very wide and includes not only 'northern' products such as cereals, sugar, meat, etc. but also 'Mediterranean' products - citrus fruit, olives, cotton, tobacco, etc.

(Table 2.6.1.)

The total-arable area amounts to 22 mio hectares or 37% of the Community total. The number of people employed in agriculture is particularly high and is estimated to be 9.4 million people as against around 10 million in the EC. In Turkey this represents 55% of the workforce, compared with 8% for the Community.

In the period 1984 to 1987, Turkey was a net exporter (\$1 430 million per year) of agricultural products. Those exports were both 'northern' (live animals and cereals, primarily to Middle Eastern oil-producing countries) and 'Mediterranean' (especially fruit, vegetables and tobacco, primarily to the Community).

If the Community were enlarged to include Turkey, the consequences would be that the useable agricultural area of the EC would increase by 22%, the number of farms would increase by 41% and the agricultural workforce would almost double.

Agricultural output in Turkey consists predominantly of vegetable products which in 1987 accounted for 65% of final agricultural output, as against 35% for animal products - the corresponding figures for the Community being 48% and 51%. These relative shares have not changed much in the last 20 years.

Cereals form a major part of the output of vegetable products and Turkey is second only to France as a cereal producer in the Mediterranean basin and the seventh largest producer of wheat in the world. It is the leading world producer of nuts (particularly hazelnuts and pistachio nuts), dried fruit, lentils and aubergines.

Mediterranean-type products account for a considerable proportion of total agricultural output and include fruit and vegetables, tobacco, cotton, olive oil, olives, sheep and goats. Compared with the total Community output of these products, Turkish output is high. In the case of tobacco it amounts to 43% of the Community level, while for raw cotton the figure is 116%, for hazelnuts 172%, dried grapes 200%, sheep 49% and goats 139%.

While constantly increasing, yields are in general well below Community levels largely because of insufficient use of modern production technologies, farm structure, inadequate training of farmers and limited development of irrigation.

(Table 2.6.2.)

Turkish agriculture is characterized by major structural and socio-economic deficiencies: an overlarge agricultural workforce which shows no sign of decreasing, a preponderance of small farms, a tendency for the average farm size to decrease, excessive fragmentation and dispersion of farms coupled with negligible progress in countering this situation through the re-parcelling of holdings, widespread soil erosion caused mainly by overgrazing due to the high density of sheep and goats on available pasture, densely populated less favoured areas (there are some 17 000 forest villages where 35% of the rural population live)<sup>1</sup> and climatic conditions which make water the limiting factor for yields on fertile soil.

(Table 2.6.3.)

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<sup>1</sup>M. Telioglu, 'Les structure agricoles, facteurs de blocage de l'agriculture turque dans le contexte de l'intégration de la Turquie à la CEE', CIHAM, Montpellier, 1988.

The State plays an important part in the agricultural sector in Turkey at all levels - production, finance, price and market support, marketing, trade, etc. Most vegetable products benefit from guaranteed prices fixed annually either by the Government or the producers cooperatives or organizations. The list of products subject to a guaranteed price varies from year to year.

As a general rule, in the case of products for which the Government sets the price at the beginning of the season (wheat, barley, maize, rye, sugarbeet, tobacco, cotton, sunflowers, soya beans, dried figs and grapes together with other less important products) the designated intervention bodies (whether public, such as the TMO or Office for Produce of the Soil, or private) are obliged to buy, at the fixed price, whatever quantity is offered to them by producers. In the case of animal products, which are traditionally less subject to support in Turkey, part of the output of meat and milk are bought each year by the relevant intervention bodies.

Price levels are well below those in the Community though it is difficult to make an exact comparison since the support measures in Turkey are often different from those used in the EC. In the case of vegetable products, price levels are often between one half and two thirds of those in the Community, while for meat and animal products prices are close to Community levels. Turkish prices are in general closer to world market prices. The prices of most agricultural inputs in Turkey are set by the market, the exceptions being fertilizers, fuels and water for irrigation, where prices are set by the Government which also gives subsidies for the purchase of some inputs. In 1988 these subsidies are estimated to have cost ECU 425 million. If one also takes into account the cost of market support measures and other state aids to agriculture such as veterinary services, infrastructure, finance, etc., it is estimated that the total expenditure by the State on agriculture in 1988 was about ECU 740 million.

(Table 2.6.4.)

Major efforts have been made, with positive results, to increase yields and to reduce the amount of land lying fallow but much remains to

be done. The rate of use of fertilizers per square metre is still low and about 40% of cultivated land has received no fertilizer at all. Only around 50% of production comes from certified seed. Anti-parasite measures are by no means widespread and lack rationalization. As for re-parcelling of holdings, almost nothing has been done so far, an increase in and rationalization of mechanization is necessary and major efforts are required to combat erosion, improve pastures and encourage reforestation. Almost 4 million ha of suitable land is still not irrigated and almost 6 million ha of fallow land is yet to be cultivated.

Turkish agriculture therefore has great potential but its realization requires substantial capital inputs which will be forthcoming only if there are genuine prospects of profitability.

In the context of the possible entry of Turkey into the Community, a new factor could influence the situation in that the application in Turkey of the Community price and aid schemes would act as an incentive to investment, both private and public, given the prospects for increased profitability.

An intensification of investment, both private and public, could therefore be expected, which would permit the industry's potential to be realized and increase Turkish agricultural production spectacularly.

The South-East Anatolia Project is a good example of what can be achieved. This is the largest project ever undertaken in Turkey and is among the largest in the world in terms of size and objectives (15 dams on the Tigris and Euphrates rivers, of which two are built and a third is in the finishing stages, together with 18 power stations).

This integrated development project will, among other benefits, allow the irrigation of 1.7 million ha of high quality land and substantially increase the output of cotton, tomatoes, rice, maize and fruit and vegetables generally.

## 2.7 Tourism

Tourism is regarded as a priority industry in Turkey, since it is a major source of foreign exchange earnings and job creation. It was the industry in which the greatest effort was made to boost investment in both the private and the public sector in the period 1980-87. In spite of this and the spectacular success in 1988, tourism in Turkey still lags behind tourism in other Mediterranean countries, notably Greece and Portugal, in terms of both revenue and the number of tourist visits.

(Table 2.7.1.)

The potential for developing tourism in Turkey is enormous : 7 000 km of beaches on the Black Sea and Mediterranean coasts, sites of ancient civilizations, both on the coast and inland, snow-covered mountains and a choice of climate (temperate or tropical).

This being so, the government has taken a series of measures to promote investment in tourism (including foreign investment) :

- provision of land and infrastructures ;
- exemption from property taxes for five years ;
- loans at favourable interest rates ;
- investment premium of up to 20%.

The number of hotel beds is set to increase from some 150 000 in 1989 to 350 000 by the end of 1994 and to 500 000 in the year 2000 and receipts from tourism from \$ 2.4 billion to \$ 5 billion, while the number of tourists may top the 10 million mark by the end of the century (4.2 million in 1988).

### 3. Financial policy and stabilization problems

#### 3.1. Inflationary trends

During the 1960s, inflation in Turkey remained below 10% (4% in the Community). Following the 1973 and 1979 oil shocks, inflation climbed to 30% in 1974 and 120% in 1980; after a period of relative calm, inflation again topped 50% in 1984 and 75% in 1988, and this at a time when the Community managed to curb its inflation from more than 10% in 1980 to below 4% in 1988.

(Table 3.1.1.)

(Graph 3.1.1.)

Inflation in Turkey has moved virtually in step with changes in the public deficit (over 10% of GNP in 1979 and 1980, 6% in 1984 and 7.0% in 1987). Since domestic savings are insufficient partly because runaway inflation has, on each occasion, led to negative interest rates, the general government net borrowing requirement has been largely met from borrowing abroad.

Prior to 1980, inflation was probably stoked up both by external factors (oil shocks) and by domestic factors (policy of rapid growth and real increase in wages triggering an excessive expansion in demand). After 1980, domestic factors seemed to take over as the main cause of inflation. In the election years of 1983 and 1987, the public deficit tended to widen, notably because of the failure to adjust the prices charged by SEEs. In any event, inflation does not appear to be the result of excessive domestic demand fed by wage increases since real wages remained fairly stable during the period 1980-87.

The battle against inflation has become a clearly stated priority of economic policy in Turkey. The government hopes to reduce inflation to below 20% in 1991 and to 13.5% in 1994. This is a necessary condition for greater stability and efficiency in the economic system (promoting the necessary investment, including foreign investment) and in industrial relations (collective agreements).

### 3.2. Monetary and exchange-rate policy

An important part of the stabilization and liberalization programme unveiled in 1980 concerns monetary matters and focuses on both the exchange rate and domestic monetary aggregates.

The - overvalued - Turkish lira was devalued that year by 33% against the dollar, corresponding to an effective depreciation of 23%. This marked the beginning of a crawling-peg exchange-rate regime. The central bank fixes an official daily exchange rate in the light of price movements in Turkey compared with those in its major trading partners and providers of external funds (United States and Federal Republic of Germany). The rate set also incorporates a certain element of real depreciation (some 3% a year), the purpose being to ensure that exports remain competitive and to hold back imports somewhat. The manifest drawback of such a policy is its inability to dampen inflation. It also adds to the external-debt burden denominated in foreign currency. Since August 1988, the exchange rate has been determined by the market under the overall control of the Central Bank which intervenes only rarely to correct the exchange rate of the Turkish pound, which now no longer fully reflects inflation.

(Graph 3.2.1.)

The Turkish lira is not a convertible currency. For current transactions, however, there are few restrictions other than that exporters are required to convert into Turkish lira 80% (70% since 10.8.1989) of their foreign currency earnings within three months. Turkish residents are allowed to open foreign currency accounts. By contrast, capital transactions require authorization. However, since 10.8.89, all residents in Turkey can buy up to \$ 3 000 at any one time and for whatever purpose.

Since the Turkish economy is still largely a cash economy (over 80% of financial assets are in the form of notes and coin or bank deposits), use of the discount rate as an instrument of monetary policy is virtually unknown. To keep the monetary aggregates within limits compatible with GNP growth and the desired rate of inflation, the central bank relies instead on interest-rate policy (for term deposits) and reserve requirements.

In this connection, the following important measures were taken on 4 February 1988:

- raising of the interest rate on one-year savings deposits to 65% (36% for sight deposits) with a view to reducing the money supply (in the form of notes) and restoring confidence in the Turkish lira; in October 1988 the ceilings on bank deposit rates were removed, but the Central Bank has asked them not to exceed 85%;
- imposition of restrictions on the use by commercial banks of deposits generated in this way:

- . reserve ratio : 16% of sight deposits to be placed with the central bank (interest-free); the ratio is 20% for foreign currency deposits (but these produce interest); on 12 October 1988 these rates were both set at 20%;

- . liquidity ratio : 27% of their deposits (of which 5% in the form of notes and 22% in the form of Treasury bills) to be held in reserve; from 12.9.1988 this ratio was raised to 30%.

The upshot is that only 45% of deposits can be put back into circulation by commercial banks. This produced a slowdown in the growth of M1 in 1988. However, in 1989, M1 increased rapidly following salary increases for civil servants in July.

In addition, following the increase in the deposit interest rate, the rates for commercial and investment loans, which are not regulated, followed suit. The normal bank interest rate is 75% a year but the real rate is between 100% and 125% since interest has to be paid every three months. It must though be borne in mind that, in most cases, interest payments are allowable against corporation tax (46%). In addition, a large proportion of bank lending (for exports, agriculture, small and medium-sized firms) carries a preferential rate (40%). Here the commercial banks act as intermediaries for the central bank, which makes available reduced-rate loans subject to predetermined ceilings.

(Graph 3.2.2.)

Since May 1987 the central bank has been pursuing an open-market policy, thereby increasing its influence over commercial banks, which hold virtually the entire stock of State bonds. It also intervenes actively on the interbank money market for very short-term loans. In so doing, it is able to withdraw liquidity from, or inject liquidity into, the system.



Even so, the central bank has limited scope for influencing the monetary aggregates since it is not altogether independent of the political authorities in the monetary policy sphere; it is, in fact, required by law to finance a substantial proportion of the public deficit (up to 10% of the consolidated central government budget). Furthermore, in order to keep the monetary aggregates under control, the central bank must also take account of foreign-currency deposits, which climbed from \$3.4 billion at the end of 1986 to \$5.8 billion at the end of 1988 (40% of total bank deposits); a withholding tax of 5% has been introduced in respect of interest paid on these deposits.

For 1988 the central bank has set a target of 45% for the growth in M2, this being compatible in principle with 5% growth and 40% inflation. Although monetary policy was tightened in 1988, this target has not been met; M2 grew by 65%, which is still 10 percentage points below the rate of inflation (75%).

(Graph 3.2.3.)

Through its external and domestic monetary policy, the Turkish government is deploying a twofold strategy: (i) an exchange-rate policy aimed at making exports competitive and removing restrictions on current transactions, and (ii) a restrictive monetary policy aimed at slowing down the growth of the monetary aggregates and hence inflation.

The latter objective has proved particularly difficult to achieve given a financial market that is still not very developed and a seemingly irreducible public-sector deficit. The goal of securing fundamental and lasting monetary stability will still have to be tackled over the next few years and is just as important as the goal of liberalization. In recent years, however, several countries have demonstrated that it is possible to make substantial progress towards monetary stability even starting from very high rates of inflation. But, in general, a necessary condition is a well coordinated action programme on the part of the monetary and budgetary authorities.

### 3.3. Policies to liberalize financial services<sup>1</sup>

The financial system in Turkey is still rudimentary. In spite of the policy of positive interest rates for term deposits, households generally prefer to invest their savings in gold or in fixed assets while commercial banks concentrate on deposit-raising and short-term lending. There is a fairly large degree of discretion as regards the use of foreign exchange (bank accounts for individuals, facilities for exporters).

The capital market is dominated largely by Treasury bills and State bonds (with maturities of three months to two years), which in the main are allocated to banks by tender. The fact that the interest they produce is exempt from tax makes them a very attractive proposition, especially as private bonds are subject to withholding tax on investment income at 10%. In 1987, over half of the banking system's lending was to the central government and 10% to the SEEs. Although the Istanbul stock exchange was re-opened in 1985, share issues are few and far between since the leading industrial enterprises in Turkey are in the hands of family-owned holding companies that are reluctant to turn to the public for capital.

The banking sector in Turkey is highly concentrated, with three deposit banks (out of 32) accounting for 50% of assets. Half of the stock of assets is managed by public banks (of which the Agricultural Bank is the largest) and half by private banks, some of which are linked to family-owned holding companies. At the end of 1987, around 5% of assets were in the hands of 17 foreign banks.

In recent years, banking regulations have been tightened and made more transparent (unified accounting system, external auditing). Central bank supervision has been improved (compulsory reserve ratios, liquidity ratios, compulsory notification by banks of the rates of interest paid on deposits). With the exposure to foreign competition, Turkish banks have become somewhat more efficient (reduction in operating costs).

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(1) See OECD, Economic Studies: Turkey, Paris, 1988, pp. 68-97.

Alongside the deposit-taking banks, there are four investment banks whose main role is to obtain medium- and long-term loans for industrial firms, both in the public and private sectors. The largest of them was renamed the Eximbank in 1987 and specializes in the financing of foreign trade, in particular through borrowing abroad.

Other financial instruments have been created, including investment funds and investment certificates (for public works). The privatization exercises for SEEs, mentioned earlier, must not be forgotten either.

Against a background of high inflation, the system of preferential credits (exports, agriculture, small and medium-sized firms, residential construction) and various subsidies has been expanded as a means of further stimulating investment in the private sector, but this has introduced an element of distortion and inefficiency into the economy. In connection with the liberalization of the financial sector, it would be expedient to reduce or even discontinue - as has already been done in the case of the SEEs (with the exception of the Crop Agency) - the subsidies and preferential treatment of loans as well as the various taxes and contributions levied in order to finance them.

The insurance industry too is still not very developed in Turkey. In 1987, insurance premiums were equivalent to only 0.5% of GNP (compared with 1.1% in Greece, 1.9% in Spain and 2.7% in Portugal). Most insurance companies in Turkey are owned by banks or SEEs. The government fixes premiums and rates. The risks insured relate primarily to the short term: accidents, fire and maritime transport. Medium- and long-term risks (life, engineering, agriculture) are not covered by insurance policies, since the companies cannot adjust premiums in line with inflation or invest in assets that provide cover for the risk insured (e.g. bonds denominated in foreign currency).

For some time now, the idea has been mooted of creating in Turkey an official foreign-exchange market, as this would bring numerous advantages both for businesses (transparency of transactions) and for the central bank, which would then be better able to control not only the exchange rate but also the monetary aggregates (including foreign-currency deposits). For the moment, however, the uncertainty attaching to the trend of inflation and interest rates and the lack of adequate foreign-exchange reserves continue to thwart this idea.

Turkey faces the challenge of having to develop and liberalize financial services simultaneously. The situation is probably similar to that in Greece, Spain and Portugal as they start to come to terms with the liberalization of capital movements within the Community.

### 3.4. Public finance and budget deficits

In 1985 tax and para-fiscal revenue in Turkey was equivalent to 16% of GNP, compared with just under 40% in the Community (and around 30% in Spain and Portugal). Income tax (at between 25% and 50%), corporation tax (46%) and VAT (standard rate of 10% but also a variable rate of between 1% and 15% depending on product category) make up three quarters of tax revenue. Indirect taxes now account for half of total tax revenue compared with only a third in 1980.

(Table 3.4.1.)

The effect of the stabilization measures and tax avoidance was that tax revenue fell from 18.4% of GNP in 1979 to 12.9% in 1984. Following the introduction of VAT in 1985, increases in certain taxes (VAT and petrol consumption tax up from 9% to 26%) and especially the beefing-up of tax-collection measures (checks, tax deductions on the presentation of invoices, computerization of the tax administration), this figure is now rising (put at 16.0% for 1988). In March 1988, the government also introduced a compulsory worker savings scheme (employees' contribution of 2% and employers' contribution of 4%).

Revenue accruing to the municipal authorities, mainly in the form of property taxes, accounts for less than 10% of total taxes. As a result of the policy of decentralization, these authorities are now responsible for balancing their own budgets, if necessary by generating tax revenue of their own. They no longer receive central government subsidies.

Since 1984, a number of special funds have been set up to remedy the inflexibility associated with the traditional administrative set-up (e.g. the Housing Development Fund). They are financed out of levies that now account for a rapidly increasing proportion of para-fiscal revenue (4% of GNP in 1987). In 1988 the government decided that 30% of the revenue accruing to those funds would be transferred to the central government budget.

(Table 3.4.2.)

An analysis of expenditure by function reveals a number of salient features of the Turkish economy:

- social security expenditure is minimal (3.4% of GNP) compared with the situation in the Community (18.2%) and in Portugal (over 10%);
- expenditure on public health and education is very low; it was squeezed in the early 1980s but there are now plans for a special effort to improve the situation, especially in secondary education and vocational training;
- interest on the public debt is rising sharply (4.5% of GDP in 1987);
- expenditure on general services is, relatively speaking, very high: 6.7% of GNP compared with 2.9% in the Community. It comes as no surprise that one of the government's priorities is a clampdown on bureaucracy.

(Table 3.4.3.)

Taking the trend of the public deficit, it can be seen that it fell from 10% of GNP in 1980 to 4.5% in 1986 before climbing again to 7.0% in 1988. On average, the SEEs account for over half of this figure. This is a further illustration of the need for a privatization programme. To a large degree, the deficit is financed by external borrowing although there is a growing tendency to turn to domestic borrowing.

(Table 3.4.4.)

In 1987, an election year, the public deficit expanded sharply (to 8.3% of GNP). Just over one third of the deficit had to be financed by external borrowing since tax revenue was equivalent to only 15.6% of GNP that year. The price rises for SEEs brought in just after the November 1987 elections (paper: 46%; sugar: 40%; electricity: 30%-40%; edible oils: 32%; steel products: 10%-15%; coke: 7%) and the austerity measures in the monetary and tax fields taken on 4 February 1988 and in October 1988 made it possible to redress the situation slightly; the net borrowing requirement amounted to 7% of GNP in 1988.

If, to begin with, the reduction in the public deficit was brought about mainly through public expenditure cuts, the emphasis since 1985 has been on both revenue and expenditure. The situation in Turkey with regard to the public deficit, total public debt and the burden of interest payments is not all that different from the situation in the Community. What is striking in the case of Turkey is the size of its external debt and the burden of interest payments to foreign creditors.

### 3.5 Balance of payments

In spite of the fall in oil prices and the efforts to boost exports, Turkey's trade balance in 1987 showed a deficit of \$3 billion, equivalent to 5% of GDP. In 1988, this figure fell to \$1.8 billion or 2.5% of GDP. This deficit is largely covered by remittances from Turkish workers abroad (\$1.8 billion) and net receipts from tourism (\$2 billion). The structure of Turkey's balance of payments is similar in several respects to that of the Mediterranean countries belonging to the Community (1986 figures).

(Table 3.5.1.)

Although a favourable trend is discernible in the trade balance and in receipts from tourism, together with some stabilization or even a reduction in remittances from workers abroad, the burden of interest payments is mounting, largely because the government now borrows at market rates (8.5%) instead of at the previous preferential rates. The current-account balance has shown a marked improvement; from a deficit of \$3.4 billion in 1980, which narrowed to \$1 billion in 1987, it moved to a surplus of \$1.5 billion in 1988, allowing the government to reduce import duties in 1989.

(Table 3.5.2.)

Direct investment from abroad is still on a small scale (\$110 million in 1987, \$352 million in 1988) although the government is making a major effort to attract investment, notably through the BOT concept (build, operate, transfer), which is designed to allow foreign firms not only to undertake building projects in Turkey (bridges, roads, underground systems, electricity-generating plants) but also subsequently to operate them over a certain period during which charges (e.g. tolls) are imposed on users, before handing them over to the public authorities against payment. The Turkish government considers that direct foreign investment can be a source not only of capital in the form of foreign exchange but also modern management techniques and technology transfers (only 0.3% of Turkish GNP is spent on research). The situation in Turkey contrasts with that in Community countries, and in particular Spain and Portugal, where foreign investment is running at \$2 billion and \$200 million a year respectively.

The major constraint on Turkey's balance of payments is without doubt the servicing of external debt. In this respect, the policy of promoting exports and tourism is essential to the country's economic development. Access to markets abroad is a necessary condition for the success of its economic liberalization and structural adjustment policy.



### 3.6 External debt

The background to Turkey's external debt and the stabilization plan that was introduced was discussed earlier. This section will deal with the debt structure and with the changes expected in the coming years.

Compared with the Community, a feature of the debt situation in Turkey is the extremely high proportion of external debt.

(Table 3.6.1.)

In 1988, Turkey's external debt stood at \$37.7 billion or 53.3% of GNP. The cost of debt servicing was \$5.6 billion, of which \$3.1 billion in principal and \$2.5 billion in interest, equivalent in aggregate to 8.1% of GNP and 53.4% of the value of exports. Short-term debt accounted for 20.4% of that figure. The public sector (including the SEEs) was responsible for about 60% of Turkey's external debt. Some two thirds of lenders are in the private sector (commercial banks, etc.).

(Table 3.6.2.)

According to the central bank's forecasts, Turkey's external debt servicing will probably stabilize at around 7.2%-7.4% of GNP, equivalent to 58% of the value of exports in 1988, and 41% in 1991. At the same time, the current-account deficit is predicted to narrow from \$1 billion in 1987 to less than \$0.5 billion in 1991 (0.6% of GNP).

A coordinating committee was set up at the beginning of 1988 with the task of improving the redemption schedule for external debt and ensuring that no new borrowing is contracted - by the local authorities or by the SEEs - without central government authorization. Turkey wishes to maintain its creditworthiness on international markets by making its debt repayments and interest payments on time. As a result, in 1988 certain public investment projects were spread over a longer period and even abandoned, although it would have been possible under the BOT scheme to finance the direct investment that was needed.

In terms of the absolute level of its long-term external debt, Turkey ranks seventh in the world (after Brazil, Mexico, Argentina, Venezuela, the Philippines and Niger). However, if the amount of debt is expressed as a percentage of GNP and external-debt servicing as a percentage of exports, the situation in Turkey compares more favourably with that in other countries. Thus, the burden of interest payments on external debt as a percentage of exports stood at 14% in 1986, a figure exceeded by fifteen other countries. Applying this criterion, the level of indebtedness in Turkey is scarcely higher than that in Greece or Portugal.

(Table 3.6.3.)

#### 4. Human resources and labour market

##### 4.1. Population

When founded by Mustafa Kemal (Atatürk) in 1923, the Republic of Turkey had 10 million inhabitants. In 1985, the figure had risen to 50 million, with a figure of over 70 million being predicted for the year 2000. This contrasts with the situation in the Community, where the population is likely to increase from 322 million in 1985 to only 330 million by the year 2000.

(Table 4.1.1.)

Between 1980 and 1985, Turkey's population expanded on average by 2.5% a year (0.25% in the Community). This figure breaks down into a birth rate of 3.2% and a death rate of 0.7% (the corresponding figures for the Community being 1.25% and 1.0%).

This growth rate of 2.5% can be expected to continue until the end of the century, the reason being that, while the fertility rate (number of children per woman of child-bearing age) is falling (still 3.9% in 1985 compared with 1.7% in the Community) notably as a result of the increasing proportion of the population living in urban areas, the death rate, and in particular infant mortality (still 8% in Turkey in 1985 compared with 1% in the Community), is also expected to decline. This means that there will probably not be any significant slowdown in the rate of population growth before the end of the century.<sup>1</sup> If, after the year 2000, the population were to expand at a rate of 2.0% a year, the 100 million mark could be reached by the year 2020.

<sup>1</sup> The Sixth Plan covering a five-year period forecasts population growth of 2.16% per year in the period 1990-95 while infant mortality is expected to fall to 5%.

Close on 40% of Turkey's population is aged 15 or under (60% is under 20), compared with 20% in the Community. By contrast, less than 5% of the population is aged 65 or over (13% in the Community). The age structures of the population in Turkey and in the Community are altogether different and will doubtless remain so for a long time to come.

(Table 4.1.2)

Population density in Turkey is 62 inhabitants per km<sup>2</sup>, compared with 143 inhabitants per km<sup>2</sup> in the Community (Greece and Spain: 75; Portugal: 110). It is very low in the eastern provinces.

(Map 4.1.1.)

Over half of the population lives in towns with 10 000 inhabitants or more (less than 25% in 1950). Close on 15 million people (i.e. 30%, the same as in the Community) live in urban areas with over 1 million inhabitants, the largest being:

Istanbul	:	5.9 million
Ankara	:	3.5 "
Izmir	:	2.3 "

The European part of Turkey has some 7 million inhabitants although it accounts for only one thirtieth of the area of the country. Along with the west coast, it is the part of Turkey with the greatest concentration of population.

In April 1988, some 2.4 million Turkish nationals were living abroad (of whom over 1 million are workers). They are to be found primarily in the Federal Republic of Germany (1.5 million of which 0.6 million are workers). Together with receipts from tourism, remittances by expatriate Turks are a major source of the foreign exchange needed to plug Turkey's trade deficit.

(Table 4.1.3)

Following a period in which more than 100 000 workers left the country each year to work abroad (136 000 in 1973), mainly in Europe, outmigration came to a virtual halt in the mid-1970s. In the early 1980s, when incentives were introduced by a number of countries in Western Europe, a large number of Turkish families who had emigrated returned (between 1979 and 1987 more than 1.3 million Turkish nationals returned to Turkey from the Federal Republic of Germany alone). In recent years, a slight increase in the numbers leaving Turkey has been recorded (over 40 000 in 1987), the main destinations being Arab countries (Saudi Arabia, Libya, Iraq). This new wave of outmigration is a much more temporary phenomenon than the previous one. The workers concerned, the vast majority of whom possess specialist skills, have not been accompanied by their families.

In recent years, a large number of Iranians (probably over a million) have found temporary refuge in Turkey in the hope of obtaining a visa for the United States or a country in Western Europe. They live in certain areas of Istanbul, Ankara and Izmir. Many of them live on the fringes of society while others have set up thriving businesses. In 1989, a significant number (estimated at 300 000) of Bulgarians of Turkish origin emigrated to Turkey.

#### 4.2. Employment and unemployment

Out of a population of 32.4 million of working age (1987 figures), just under 16 million work in the different branches of the Turkish economy and 2.9 million are unemployed, while 750 000 individuals are enrolled in the army or the police force. The corresponding figures for the Community are 220.4 million, 123.1 million, 15.7 million and 2.9 million.

Over half the active population in Turkey is still engaged in agriculture (compared with only 8% in the Community) but the intense industrialization of the country is so rapid that the figure will probably have fallen to one third by the year 2000. A slight decline in agricultural employment is being accompanied by a rapid growth of employment in industry and the service sector (some 5% in recent years) whereas in the Community only the service sector is still creating jobs.

(Table 4.2.1)

Since 1980, the population of working age has risen by 2.8% a year in Turkey (1.0% in the Community), with the result that the economy needs to grow rapidly (by around 7%) if the unemployment rate is not to show a dramatic rise.

Between 1980 and 1987, the number of persons in employment increased by 1.4% a year, i.e. exactly half the rate of increase in the number of people of working age. The participation rate in Turkey has also fallen, from 63% in 1980 to 58% in 1987, perhaps because people have been discouraged from looking for employment by the fact that the number of job-seekers far exceeds the number of jobs on offer. By contrast, a slight increase is discernible in the participation rate in the Community.

It is difficult to compare unemployment rates between countries because of problems of definition. In Turkey, unemployment is defined as the number of people on the unemployment register but, since there is no system of unemployment benefits, registration is not compulsory; this rate was 6% at the end of 1988.

It would appear though that the estimated unemployment rate in 1988 is higher than that in the Community (15.3% - or 12.5% or 9.8% - according to Turkish statistics and 15.9% using OECD statistics) and tending to increase.

(Table 4.2.2)

#### 4.3 Education system and vocational training

The education system in Turkey currently comprises four levels:

- compulsory primary education (7 to 11 year-olds) ;
- three years of secondary education (12 to 14 year-olds);
- three to four years of upper-secondary education (general or vocational) (15 to 17/18 year-olds);
- two to six years of university education (or the like).

While compulsory education in Turkey lasts four years, in the Community it varies between nine and twelve years in Member States.

Education in Turkey is organized by the State and is free. There are, though, a number of private schools at upper-secondary level.

During the 1987/88 school year, virtually all (98%) of the children concerned (6.8 million) received primary education while some 57% (2.1 million) of the 12-14 age group were in secondary education and 34% (1.2 million) of the 15-17/18 age group in upper-secondary education or its equivalent. Just over 11% of adults (481 000) were at university. Around 60% of children who completed primary education entered the secondary system, and 75% of these went on to an upper-secondary establishment or its equivalent. By contrast, only a quarter of those successfully completing their upper-secondary education are able to go on to higher education.

It is extremely difficult to compare enrolment rates between countries. It would appear, though, that Turkey is lagging behind the Community somewhat in this respect, at the level of both secondary and higher education.

(Table 4.3.1.)

The illiteracy rate in Turkey is reckoned to be 34.4% (1980 figures), compared with 20.6% in Portugal (1981), 9.5% in Greece (1981) and 7.1% in Spain (1981).<sup>1</sup>

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<sup>1</sup> UNESCO, Statistical Yearbook, 1986.

If it is to secure economic development through rapid industrialization, Turkey will have a growing need for skilled manpower. As a result, special emphasis is being increasingly placed on technical education and continuing vocational training. Teachers are being trained so that the percentage of children in technical education can be increased from 15% at the moment to 22% in 1991. The necessary budget resources have been earmarked for this purpose. Each year some 1 million people follow vocational training courses outside the traditional education system.

The universities do not have enough buildings or lecturers to allow all would-be students to attend courses. A general entrance examination is therefore held each year in order to classify all candidates. Those with the highest marks can choose which faculty to attend while those lower down the list are obliged to accept a place at those faculties that have spare places. Only half of the candidates obtain a place. Those who are not accepted can follow their course on television and sit the examinations.



#### 4.4. Organization of the labour market and trade-union rights

With the exception of civil servants, members of the armed forces, teachers in private education and apprentices, any Turkish worker may belong to a trade-union organization. Out of a total of 3.4 million workers covered by a contract of employment, some 2 million or 63% belong to a union (beginning of 1988). There are three trade-union confederations in Turkey, the largest being TURK-IS with 1.8 million members.

Membership of a trade union is evidenced by a document certified by a notary with the result that there can be no disputing the number of members. To be representative, a trade union has to satisfy two conditions, i.e. it must represent at least 1% of the workers in a particular branch of industry nationwide and at least 50% of the workers in a particular firm. This dual statutory requirement is challenged by the Geneva-based International Labour Office (ILO).

Collective bargaining agreements are concluded at company level or, failing that, at the level of the branch of industry concerned (private or public). As a rule, they run for a period of two years and are concerned mainly with wages (featuring, in a growing number of cases, a six-monthly inflation-adjustment clause), conditions of employment and fringe benefits. In Turkey, fringe benefits are very important and, in general, are equivalent to 150% of wages proper (social security contribution, paid holidays, various allowances for heating, clothing, food, etc.). In 1987, some 2 343 collective agreements were signed covering almost a million workers (1.6 million in 1988). Their main purpose is to maintain workers' purchasing power (compensation for inflation). Increases in real wages are, in many cases, dependent on higher labour productivity in firms and industries.

Strikes (or lock-outs) are prohibited by law in sectors deemed to be of vital importance for the national economy (water, gas, electricity, oil, petrochemicals, public transport, fire service, funeral undertaking, hospitals, schools, banks and notarial services). Around

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10% of union members work in these sectors. Strikes are also banned in free zones for the first ten years of their existence.

If a lawful strike is deemed dangerous to public health or national security, it can be suspended for sixty days by ministerial decree. If no solution is found during that period, the Higher Arbitration Tribunal can intervene to negotiate or impose an agreement, as it did in the case of 282 agreements covering 46 241 workers in the period 1984-87. This arrangement is also challenged by the ILO. Despite this arrangement, some 2 million working days were lost in 1988 because of strikes.

The maximum duration of the working week in Turkey is 45 hours. The principle of equal wages for both men and women is laid down by law, as is a minimum salary on recruitment (LT 250 000 or about \$105 a month as at 1 August 1989, to which are added fringe benefits).

The law also provides for certain forms of compensation in the event of dismissal: for each year of employment, 15 days' notice must be given and an allowance equal to 30 days' wages (including fringe benefits, the entire amount being tax-exempt) is payable. More advantageous arrangements may be negotiated under collective agreements, which generally recognize the principle of "last in, first out".

The Turkish Constitution guarantees the freedom of association, the right to collective bargaining and the right to industrial action. However, the limitations imposed by the Constitution itself and by implementing legislation and practice largely deprive these rights of any substance. In practice, therefore, the number of Turkish workers able to benefit from collective bargaining or to go on strike is very small.

It should also be pointed out that children can work legally from the age of twelve and that a woman cannot enter into a contract of employment without her husband's consent. Turkish women in general face a difficult situation on the labour market and in 1985, out of a total of 6.4 million employees, only 950 000 or 15% were women.

#### 4.5. Trend of real incomes

In the period 1980-88, Turkey's GNP and domestic private consumption rose in volume terms by 5.4% a year while the population grew by just under 2.5% a year.

(Graph 4.5.1.)

(Table 4.5.1.)

Private consumption per head thus increased by 3.1% a year although real wages remained virtually unchanged from their 1980 level (following a decline of 40% between 1978 and 1980 caused by soaring inflation). Real incomes in agriculture showed no change either. As a result, the increase in disposable income primarily benefited the remuneration of capital and entrepreneurs. The share of GNP accounted for by farmers and employees is reckoned to have contracted from over 60% at the end of the 1970s to around 30% in 1988. This without doubt further accentuated the very marked inequality in the distribution of incomes.

Annual real wage costs fell by just under 50% in Turkey in the period 1979-85, and this compared with only a slight decline of 3.5% in the Community.

(Table 4.5.2.)

Hourly wage costs in manufacturing in Turkey are probably some 13% of those in the Community (ranging from 11% in the tobacco industry to 18% in the beverages industry).

(Table 4.5.3)

On account of demographic pressures, the existence of a relatively high level of unemployment, the difficulty of finding work abroad and the lack of any unemployment benefit scheme in Turkey, labour supply easily exceeds demand, which, incidentally, is rising sharply. As a result, downward pressure is being exerted on wages even in those industries in which collective agreements can be concluded.

#### 4.6. Social security

The social security system is not highly developed in Turkey. There are no unemployment benefits or benefits for dependent children. Only half of the population has insurance cover for sickness and industrial accidents and pays pension contributions.

There are three types of social security institution in Turkey:

- the retirement fund for government civil servants (and municipal employees), which pays out retirement pensions, survivor's pensions, etc. to government employees, who are themselves also required to contribute to the financing of the fund (1.5 million people covered);
- the social insurance institute for individuals tied by an employment contract to one or more employers, which provides accident and sickness insurance cover and pays out retirement and survivor's pensions (3.7 million people covered);
- the "Bag-Kur" (social security fund for the self-employed, including farmers, who may join on a voluntary basis), 2 million people covered).

Private funds have also been set up by banks, insurance companies, the stock exchange, etc. There are twenty-five such funds in all covering fewer than 100 000 people.

All the social security funds are financed by contributions from employers (amounting to between 19.5% and 27% of wages) and employees (14%; 11% for civil servants), with minimum and maximum levels of contribution (bases of LT 126 000 and LT 640 000 per month in 1988). The State does not provide any subsidies. All of the funds operate according to the capitalization method. They also provide social assistance (building loans, study loans, extraordinary advances, etc.).

In Turkey, pensions are payable to men at the age of 55 and to women at the age of 50 and, in any event, after 25 years' service and 5 000 days of contributions. They are equivalent to 60% of the wage received over the last five years of employment, subject to minimum and maximum amounts. The social security institutions have their own hospitals, which provide services free-of-charge. Private clinics also exist.

It is the Turkish government's intention to promote private insurance so that it covers 75% of the population by the end of the Sixth Plan (1994) and to introduce rapidly a system of family allowances and even unemployment benefits.

Employment offices exist in Turkey for job-seekers and various social institutions have been set up to care for children, the handicapped, the elderly and the poor.

The absence of a developed social security system is one factor in the low level of labour costs in Turkey, where wages are already much lower than in the Community, including Greece and Portugal. Ahead of possible membership, some limitations will doubtless be placed on the comparative advantage accruing from the pool of cheap labour in Turkey in so far as the Community will impose some minimum social requirements within the context of the single internal market.

## 5. Principal challenge for the future

In submitting its request to accede to the European Community, Turkey poses a challenge of considerable proportions.

For the Community, Turkey would be its largest Member State in land area and, more important, by the early years of the next century, by far its largest in population size. On the other hand, its present level of economic development is some way behind that of the Member States that joined the Community most recently.

The challenges for Turkish economic and social policy are several.

Joining the Community implies transforming the Turkish economy into a modern, open market economy. On this count, progress during the present decade has, in several fundamental respects, been promising. Economic policy strategy has clearly been pointing in the right direction since 1980. The economy has been significantly liberalized internally and externally and has shown its capacity to respond to these changes, as witnessed by a fast aggregate growth rate and, even more so, by a spectacular growth of exports of industrial products.

While much remains to be done, the political willingness to move further in this direction seems to exist.

It must also be remembered though that this process of economic liberalization, which is aimed at making Turkish industry more competitive, is still far from complete by the current standards of the Community. Import levies, combining custom duties and several other types of special taxes, are very high and have even increased since 1980, offsetting in some degree the effects of eliminating quantitative restrictions. The process of privatizing State Economic Enterprises has only just begun and is proceeding very slowly. Distortions caused by the complex system of export subsidies and other tax incentives remain numerous and are significant in their impact. Several of these subsidies and incentives would doubtless be incompatible with Community law. Indeed, they already are incompatible with the Additional Protocol to the Association Agreement.

Macroeconomic equilibrium is far from having been attained. While fast economic growth has limited the increase in unemployment, itself aggravated by rapid demographic growth and not helped by the limited job opportunities in the Community, serious financial and monetary imbalances still exist.

The rate of inflation has accelerated again in the last two years, to around 75%, stimulated by a renewed rise in the deficits of the public authorities and concomitant monetary expansion. The exchange rate was, until 1988, managed so as to secure some real improvement in competitiveness. This is understandable in view of the precarious state of Turkey's external indebtedness, but it also means that there has been limited monetary policy scope for fighting inflation. While restrictive monetary and budgetary measures were taken in 1988, a fundamental stabilization therapy still has to be devised and put into practice.

On the other hand, according to available statistics, the current-account balance improved substantially in 1988, moving into surplus for the first time in several years. This is, of course, conducive to a gradual reduction in the heavy burden of external debt.

A process of sustainable long-term economic growth that was such as to secure gradual convergence on the average level of development in the Community also requires heavy investment not only in research and technology but also in human and physical capital. Investment in education is, for economic and social reasons, ultimately of the most fundamental importance. It is here that needs in Turkey are enormous.

Social and employment policies are, in many respects, still very poorly developed in Turkey in comparison with the situation in the Community, even in those countries that joined in recent years. This is most noticeable in the organization of the labour market, the education system and the provision of social security benefits. Of course, it is essential that a developing economy should not burden itself at an early stage with excessive social security costs. Here, therefore, there is a delicate task of medium-term or long-term planning to be performed with a view to preparing the way for balanced progress in the social policy and employment policy fields without

however, impeding the return to a sound external financial position or creating new imbalances on Turkey's own labour market.

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Finally, it is necessary to bear in mind that the Turkish application is addressed to a Community which is itself evolving at a significant pace in economic, political and institutional terms. As regards the economic policies of the Community, they are concerned principally with the 1992 programme for full liberalization of the market in goods, services, capital and labour and with some of the major associated policy developments, e.g. the structural Funds, the social dimension, and monetary integration.

In general terms, these developments make more ambitious the adjustments that Turkey will have to undertake.

As regards the 1992 programme for completing the internal market, it is quite possible for Turkey to set about autonomously adjusting its domestic policies in line with these new Community measures. There are indications that the Turkish Government envisages such a process of moving forward in parallel with the 1992 programme. An approach of this kind has clear advantages, in terms of both the efficiency of microeconomic policies and political preparations in relation to the Community.



As regards the structural Funds, Turkey is able to witness the extent of the effort the Community made in 1988 on behalf of its new Member States and presumably supposes that it would receive comparable treatment as a full member of the Community. Such a hypothesis could entail considerable changes in the relative position of the other Member States in relation to the structural Funds.

As regards the social dimension of the internal market, it will probably be a more important factor in Turkey's application than in the case of all the other enlargements to date. There are two reasons for this: (i) the Community's social dimension will assume a more pronounced profile, and (ii) the initial social policy situation in Turkey is less advanced than that in the present Member States. The Community will doubtless embrace minimal social policy standards in the future which, at the outset, would not impose any real constraints on the existing Member States but would certainly do so in the case of Turkey.

By analogy, the work currently being done on economic and monetary union implies that, in this field too, the Community could become much more ambitious as regards the standards of monetary stabilization expected of new Member States.

## Annex 1

### Developments in the EEC-Turkey Association Agreement

The Association Agreement, which was signed in Ankara on 12 September 1963 and entered into force on 1 January 1964, comprised three stages of association:

- a preparatory stage lasting five years (1964-69);
- a second stage involving transition to the customs union;
- a final stage entailing closer coordination of economic, tax and competition policies.

Article 28 of the Agreement states that:

"As soon as the operation of this Agreement has advanced far enough to justify envisaging full acceptance by Turkey of the obligations arising out of the Treaty establishing the Community, the Contracting Parties shall examine the possibility of the accession of Turkey to the Community."

The first stage was intended to strengthen the Turkish economy; the Community introduced annual import quotas for tobacco, dried grapes and figs and hazelnuts, which at the time made up almost 40% of Turkish exports to the Community; under the first Financial Protocol, renewable after five years, special loans totalling 175 million u.a. were also to be made available.

By the end of the 1960s, it was becoming evident that neither Turkey nor the Community could honour their undertakings in full. And so, in 1970, an Additional Protocol was negotiated setting a timetable for the gradual establishment of freedom of movement for Turkish workers (over the period 1970-86), for the dismantling of quantitative restrictions and for the elimination of customs duties starting in 1973 with a view to aligning the Turkish customs tariff on the Common Customs Tariff (CCT). Two

lists of products, including in particular agricultural and industrial products, were drawn up: the first provides for reductions in Community import tariffs on agricultural products coming from Turkey while the second sets out tariff reductions - spread over twenty-two years (instead of the normal twelve-year period) - for imports into Turkey from the Community of sensitive industrial products. A second Financial Protocol was also signed in 1970, the year marking the beginning of the transitional period of between twelve and twenty-two years that would have resulted in the establishment of a customs union. This Protocol also prohibited taxes having equivalent effect, such as those levied for the benefit of the Special Funds.

At the end of 1970 negotiations were started with a view to extending application of the Agreement to the United Kingdom, Ireland and Denmark with effect from 1974.

The slowdown in economic activity in the Community was fairly soon to dash the hope of gradually establishing freedom of movement for Turkish workers,<sup>1</sup> and Turkey abandoned the timetable for tariff reductions when its economic situation began to deteriorate in 1977. The upshot was that at the end of 1977, tariff reductions amounted to only 20% and 10% depending on the industrial product in question, instead of 100% and 40% respectively.

Implementation of the Association Agreement has experienced its ups and downs. In 1977, the Community introduced import quotas and restrictions (notably for cotton yarn and T-shirts). Turkey took measures against imports of iron and steel. At the end of 1981, ECU 600 million in aid provided for under the fourth Financial Protocol was frozen because of the Community's reservations regarding the human rights situation in Turkey in the aftermath of the military coup. The Turkish government argued in vain for the resumption of discussions on the introduction in 1986 of freedom of movement for Turkish workers, the Community's initial offer being regarded as inadequate

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<sup>1</sup> A partial solution to the problem involved an initial stage of four years in which to begin removing restrictions.

Despite the prohibition laid down in the Additional Protocol, various taxes having equivalent effect to customs duties have been introduced since 1980 and, in numerous cases, have even been increased in respect of imports from the Community, and this has had the effect of reinforcing the degree of protection against such imports enjoyed by the Turkish market.

It was only on 1 January 1988 that Turkey decided to resume dismantling tariffs on industrial products, applying on that date a 10% reduction, and it was only on 1 January 1989 that it took the initial step of putting into effect a 20% alignment of its external tariff on the CCT.

However, since the beginning of 1988, Turkey has extensively modified its import arrangements, often in the form of reductions in customs duties applicable erga omnes, resulting in the removal of numerous tariff preferences for which products from the Community should be eligible. On account of the proliferation of duty reductions since the summer of 1989, this situation now affects more than half of the tariff headings. The effects of these reductions have, in any event, been nullified for certain products by the numerous increases in import taxes, especially those levied for the benefit of the Special Funds, which Turkey has continued to charge on imports from the Community, including in 1989, in violation of the provisions of the Additional Protocol.

Since 1 January 1987, industrial and agricultural products<sup>1</sup> have entered the Community duty-free (except for a number of oil and agricultural products because of the need to observe the import prices fixed by the Commission for some of them) and free from any

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<sup>1</sup> Decision of the Association Council of 1 January 1974 on industrial products; Decision of the Association Council of 1 July 1980 on agricultural products.

quantitative restrictions (except for quotas and certain "seasonal" restrictions on agricultural products and for quantitative restrictions on a few textile products). However, in the case of Turkish agricultural products for which there is a common organization of the market in the Community, levies are still applied in the same way as with imports of those products from other non-member countries, including those with which the Community has signed preferential agreements.

The following amounts of financial aid have been granted by the Community to Turkey:

(ecu million)

		<u>EIB</u>	<u>Special loans</u>	<u>Grants</u>
First Protocol	(1964-69)	-	175	-
Second "	(1971-77)	25	185 + 47 million u.a. <sup>1</sup>	-
			(UK, DK)	
Third "	(1979-81)	90	220	-
Fourth " (frozen)	(1982-86)	225	325	50
Special aid	(1980)	-	-	75

These resources have helped primarily to finance projects in the energy sector (54%), agriculture (7.5%), the infrastructure sector (6.3%) and chemicals (4.6%).

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<sup>1</sup>The figure of 47 million u.a. became ECU 32 million under the 1973 Supplementary Protocol (enlargement).

## Annex 2

### FINDINGS OF STUDIES ON THE COMPETITIVENESS OF TURKISH INDUSTRY

The competitiveness of Turkish industry has been the subject of several studies cataloguing the effects which, according to Turkish industrialists, would result from joining the Community. According to the Foundation for Economic Development (IKV),<sup>1</sup> 75% of Turkish industry would be capable of withstanding international competition. Of the 53 industrial sectors studied only 15, representing around 22% of industrial output, would be in a weak competitive position.

The products which the IKV study considers best able to fend off competition from European industry are : textiles and clothing (cotton), carpets, leather goods, cellulose, synthetic fibres, glass, cement, steel tubes, aluminium castings, some commercial vehicles, consumer durables, and some sectors of the agri-food industry (milling, pasta, tomato-based products, fats and vegetable oils, beer). However, Turkish industrialists consider that qualitative and technological adaptation will be needed in several sectors, including agri-food products such as biscuits, olive oil, sugar, fruit juices, alcoholic beverages and tobacco, woollen textiles and clothing, footwear, laminates, paper, tyres, chemical products including pharmaceuticals, steel, machinery, electrical machinery and equipment, small commercial vehicles, automobile parts and accessories and most ceramic products.

According to the IKV, non-competitive sectors include wood products, cosmetics, automobiles and, in the agri-food industry, meat processing, dairies, preserves, sugar, wine and animal feedstuffs.

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<sup>1</sup> IKV, Turkey's position in the face of the European Community according to the IKV's studies, June 1988

The Turkish State Planning Organization (SPO)<sup>1</sup> reaches similar, but less optimistic conclusions regarding the competitiveness of Turkish industry in the light of accession to the Community : 22% of manufacturing industry faces elimination if significant transitional measures are not taken while 35% will require some transitional measures.

In the present situation, where the emphasis is on protecting the domestic market and encouraging exports, it is difficult to assess the competitiveness of Turkish industry in comparison with the Community. Bearing this in mind, initial comparative analysis by Commission departments clearly show the heterogeneity of the competitive position of the main sectors and subsectors of Turkish industry.

In the case of the textile industry, the analysis confirms that cotton spinning, even without State support, is probably able to withstand international competition, as is the production of synthetic fibres. While these two sectors have well-run modern plant, the same is not true of cotton weaving, where both the quality of product and productivity are low and the factories are old. The competitive position of clothing manufacturers is weakened by the absence of efficient up-stream producers (weaving and finishing) and deficiencies in commercial policy and publicity. The wool sector does not appear to be competitive.

The leather industry, in particular the production of leather garments, is achieving levels of performance which point to ever increasing competitiveness thanks to the availability of good-quality raw materials at competitive prices, relatively low labour costs and the use of modern technology.

<sup>1</sup> SPO Report of the ad hoc Commission on the competitiveness of Turkish industry vis-à-vis the Community, 3 volumes, not translated.

The steel industry also presents a mixed picture. Labour productivity, which overall is about two thirds of the EC level, varies considerably with the size of firms (from 100 to 900 tonnes per man-year). Some Turkish companies can be considered to be competitive such as Erdemir at Eregli, the only producer of sheet steel, and, among the suppliers of long products, the larger and more modern mini-steelworks.

Among those industries which depend primarily on the domestic market the glass industry seems to be sufficiently developed both in terms of technology and investment to withstand competition from Community producers. Other industries in this category, however, all have weakness: the chemical industry, especially petrochemicals; pharmaceuticals, where production is centred on traditional medicines (antibiotics, pain killers, vitamins); cement; automobiles, where productivity is low compared to the Community; mechanical and electromechanical industries, which suffer from lack of technology and a skilled workforce. Only traditional electrical goods appear to be competitive.



Annex 3

T A B L E S

G R A P H S

M A P S

Table 2.1.1

GDP GROWTH  
in volume  
(annual percentage change)

	1970-75	1975-80	1980-85	1986	1987	1988 Estim.	1989 Forecast	1990 Forecast
EUR 12	3,0	2,6	1,4	2,6	2,8	3,8	3,4	3,1
-Greece	5,0	5,1	0,9	1,3	- 0,6	3,9	3,5	2,7
-Spain	5,2	2,1	1,4	3,5	5,5	5,0	4,7	4,0
-Portugal	4,1	4,1	1,1	4,3	4,7	3,9	4,6	4,4
Turkey (a)	8,0	3,3	4,9	8,0	7,4	3,4	0,8	..

(a) GNP at market prices.

Source : Eurostatistics, Data for short term economic analysis (Series 1B 1987).

EEC, Annual Economic Report 1989-1990

OECD, Economic studies, Turkey, Paris, 1985, 1986, 1987, 1988.

SPO, Main economic indicators, Ankara (monthly)

Table 2.1.2

**GDP PER HEAD**  
(1985)

	Purchasing power parities		Current prices	
	PPP (a)	Index	ECU	Index
EUR 12	12.568	100	10.340	100
- Greece	7.019	55,9	4.389	42,5
- Spain	9.089	72,3	5.612	54,3
- Portugal	6.689	53,1	2.658	25,7
Turkey	4.311	34,3	1.404	13,6

(a) In 1975 GDP per head for EUR 12 was the same in ECU and PPA-4012.

Source : Eurostat, Purchasing power parities and Gross Domestic Product in real terms, Results 1985, Series 2 C, 1988.

Table 2.1.3

INDICATORS OF STANDARD OF LIVING

1985

	Private cars	Telephones	T.V. sets	Doctors	Hospital beds	Life expectancy	Infant mortality	Consumption of electricity
	PER 1000 INHABITANTS					years	%	KWH/year
EUR 12	327(a)	466(b)	333(b)	2,5(a)	8,9(a)	75(a)	1,0(b)	4.922
- Greece	127	375	272	2,9(a)	5,8(a)	72(c)	1,4	2.859
- Spain	240	352(b)	258(b)	3,3(a)	6,2(a)	73(c)	0,7(b)	3.256
- Portugal	159(a)	169(b)	151(a)	2,4(a)	5,4(a)	69(c)	1,8	2.103
Turkey	19	45	151	2,1	2,0	65	8,3	605

(a) 1984

(b) 1983

(c) 1980/85

Sources : Eurostat, Review 1976-1985 (Series 1 A)

Eurostat, Regions, Statistical Yearbook, 1987 (Series 1 A)

SIS, Statistical Yearbook of Turkey 1987

State Planning Organisation SPO

Official Gazette, Government Program, 1988

SIS, Turkey in Figures, 1986

SIS, Statistical pocket book of Turkey, 1988

Table 2.2.1

**INVESTMENT RATIO**  
(GFCF as % of GDP at current market prices)

	1970	1975	1980	1985	1986	1987	1988 forecast
EUR 12	23,9	22,5	21,9	19,2	18,9	19,3	20,0
- Greece	23,6	20,8	24,2	19,1	18,5	17,4	8,1
- Spain	26,5	26,6	22,1	18,9	18,7	20,7	22,5
- Portugal	23,2	25,9	28,6	21,7	21,6	25,0	27,8
Turkey	21,1	20,8	19,5	19,6	22,3	23,8	24,4

Sources : EEC, Annual Economic Report 1989-1990  
 OCDE, Historical Statistics, 1960-1984  
 SPO, Fifth Five Year Development Plan of 1985/1989  
 Tüsiad, The Turkish Economy, 1987

Table 2.2.2

**PRODUCTIVITY**

(GDP per head of civilian employment)  
(ECU 1985)

	Agriculture	Industry	Services	Total	Index
EUR 12	13.943	30.824	27.063	27.397	100
- Greece	7.635	12.420	14.390	11.887	43
- Spain	7.345	23.175	23.669	16.271	59
- Portugal	2.452	7.377	8.634	6.660	24
Turkey	1.393	9.506	8.577	4.574	17

Source : Own calculations based on :

OECD, Purchasing Power Parities, 1985, Paris, 1987.

Eurostat, Review 1976-1985, 1987.

Eurostat, Purchasing power parities and Gross Domestic Product in real terms, Results 1985 (Series 2 C) 1988.

Table 2.3.1

SECTORAL BREAKDOWN OF CIVILIAN EMPLOYMENT

1985

	Agriculture forestry and fisheries %	Industry (including construction) %	Services (including tourism) %	Total  (millions)
EUR 12	8,6	33,8	57,6	121,0
-Greece	28,9	27,4	43,7	3,6
-Spain	16,9	32,1	50,9	10,4
-Portugal	23,9	33,9	42,2	4,1
Turkey	57,4	17,4	25,2	15,2

Source : Eurostat, Employment and Unemployment, 1987.  
OCDE, Economic Studies, Turkey, Paris, 1987.

Table 2.3.2

**SECTORAL BREAKDOWN OF GDP  
1985**

	Agriculture	Industry	Services	Total
	%	%	%	ECU billion
EUR 12	2,9	38,6	58,5	3.329
- Greece	17,1	29,3	53,6	43
- Spain (a)	6,0	35,9	58,1	216
- Portugal	7,7	36,7	55,6	27
Turkey	17,9	36,2	45,9	69

a) 1983

Sources : Eurostat, Statistiques de base de la Communauté,  
25ème édition, Luxembourg, 1988.



Table 2.3.3

**SECTORAL BREAKDOWN OF GDP AT CURRENT MARKET PRICES**

( as % of GDP )

	EUR-10	GREECE	SPAIN	PORTUGAL	TURKEY
	1985	1985	1985	1983	1985
Agriculture, forestry, and fisheries (a)	3,3	15,3	6,2	7,9	17,6
Mining and quarrying	1,5	1,9	..	3,4	2,3
Manufacturing industry :	25,9	16,3	27,3	24,5	25,6
- food	6,0	..	..	6,1	6,4
- textiles	2,4	3,9	..	6,5	2,9
- steel	3,0	..	..	..	1,6
- chemicals	2,3	2,1	..	1,8	1,0
- metal goods	2,5	1,0	..	1,9	1,0
Electricity, gas, and water	3,2	2,3	3,2	2,7	4,2
Construction	6,2	5,7	6,8	7,6	3,8
Wholesale and retail trade	11,4	11,7	14,3	20,6	17,3
Transport and communications	5,1	6,7	4,4	7,2	10,0
Banking and insurance	8,0	6,9	13,1	6,9	7,2
Social services	11,8(b)	12,7	9,6	12,7(b)	5,5

(a) Because of differences in definition.

(b) Non-market services.

Sources : OECD, National Accounts, 1973-1985, Paris, 1987.

Eurostat, National Accounts, 1988 (Series 2 C).

SPO, Economic Report, 1986

and DG II estimates.

The percentages shown here for EC Member States are slightly different from those in Table 2.3.2.

Table 2.3.4

BREAKDOWN OF VALUE ADDED BY ECONOMIC SECTOR

T U R K E Y

	1987 LT million	% GDP	Average annual growth 1980-87
1) AGRICULTURE	9.010.447,5	17,9	3,2
- animal and vegetable production	8.511.986,6	16,9	3,3
- forestry	328.910,6	0,7	- 2,4
- fisheries	169.550,3	0,3	2,6
2) INDUSTRY	16.139.250,9	32,1	7,8
- Mining and quarrying	1.096.867,5	2,2	1,6
- Manufacturing industry	12.929.272,5	25,7	8,3
- Electricity, gas, water	2.113.110,9	4,2	9,4
3) CONSTRUCTION	2.084.605,9	4,1	3,0
4) WHOLESALE AND RETAIL TRADE	8.551.054,4	17,0	7,1
5) TRANSPORT AND COMMUNICATIONS	5.074.222,5	10,1	4,3
6) FINANCIAL INSTITUTIONS	1.409.956,3	2,8	2,7
7) HOUSING CONSTRUCTION	2.165.746,9	4,3	3,0
8) MARKET SERVICES	2.670.365,3	5,3	5,6
9) NON-MARKET SERVICES	3.216.532,2	6,4	4,1
10) GDP AT FACTOR COST	50.322.181,9	100	5,1

Source : SIS, Statistical Yearbook of Turkey, 1987.

Table 2.3.5

STRUCTURE OF MANUFACTURING INDUSTRY

1985

	Production		Exports as share of production %	
	EUR 12	Turkey	EUR 12	Turkey
Consumer goods	35,2	41,4	6,7	22,9
- Food	17,9	23,8	4,6	11,3
- Textiles	7,7	10,3	13,7	(60,0)
Intermediate goods	23,5	43,4	14,7	12,3
- Petroleum products	7,1	13,1	..	5,7
- Steel	(1,5)	6,4	21,7	25,4
- Chemicals	7,1	4,0	18,1	9,7
Investment goods	41,3	15,2	25,1	10,5
- Metal goods	4,9	3,9	9,7	7,0
- Road vehicles	11,1	3,8	25,1	9,0
TOTAL	100,0	100,0	16,3	16,6

Source : SPO, Economic Report, 1986 and DG II estimates.

Table 2.3.6

PRODUCTION OF PRIMARY ENERGY

1986

TOE million

	Coal	Lignite and peat	Crude oil	Natural gas	Nuclear energy	Primary (a) electricity	Total
EUR 12	142,8	34,7	148,5	123,9	121,7	18,0	599,5
- Greece	-	4,8	1,3	0,1	-	0,3	6,5
- Spain	9,0	4,4	2,2	0,3	9,8	2,4	28,9
- Portugal	0,1	-	-	-	-	0,8	0,9
Turkey	17,3	7,1	2,4	..	..	0,8	(27,3)

(a) Essentially hydroelectric.

Sources : Eurostat, Rapid statistics, Energy, No 7, 1987  
SIS, SPO and DG II calculations.

Table 2.3.7

## GROWTH OF TRADE IN GOODS

	EXPORTS					IMPORTS				
	Annual change in volume			% GDP (a)		Annual change in volume			% GDP (a)	
	1980 1986	1987	1988	1980	1988	1980 1986	1987	1988	1980	1988
EUR 12	4,2	3,6	5,8	21,2*	22,1*	3,8	8,1	9,1	24,3*	22,2*
-Greece	10,3	13,5	10,8	12,9	14,0	8,7	10,8	7,9	23,7	28,0
-Spain	7,6	5,8	8,0	10,1	12,2	4,8	22,1	14,5	16,3	18,1
-Portugal	..	11,1	7,8	19,7	26,9	..	28,3	17,7	38,9	42,1
Turkey	21,0	29,3	5,6	5,2	16,5	12,0	20,7	-3,0	11,8	20,3

\* Intra and extra.

a) at current prices and exchange rates (GNP for Turkey).

Sources : Eurostat, National Accounts ESA (Series 2 C) and Volimex data base.

Eurostat, External Trade (Series 6 C) and CRONOS data base.

EEC, Annual Economic Report, 1989-1990.

OECD, Economic Studies, Turkey, Paris, 1988.

SPO, Turkey, Main Economic Indicators (monthly).

Table 2.3.8

## TRADE BY PRODUCT

(in US\$ million)

Turkey	Exports				Imports			
	1980	1985	1987	1988	1980	1985	1987	1988
Agriculture	1.672	1.719	1.853	2.341	50	375	782	499
- fruit and vegetables	754	561	..	..	..	..	..	..
- tobacco	234	330	314	266	..	..	..	..
- cereals	181	234	..	..	..	..	..	..
Mining	191	244	272	377	4.006	4.186	3.034	2.861
- crude oil	..	..	..	..	2.952	3.321	2.711	2.434
Manufactured goods	1.047	5.995	8.065	8.944	3.759	7.052	10.342	10.979
- food	209	647	954	885	301	481	715	738
- textiles	424	1.790	2.707	3.201	79	146	204	260
- skins and leather	50	484	722	514	..	..	74	51
- steel	34	969	852	1.458	462	1.060	1.537	1.655
- machinery	30	..	681	333	843	1.551	2.454	2.400
- chemicals	76	266	527	734	727	1.294	1.937	1.984
- electrical machinery	11	334	293	294	270	664	940	1.075
- motor vehicles	..	..	110	118	226	812	550	690
TOTAL	2.910	7.958	10.190	11.662	3.909	11.613	14.158	14.340
of which :								
-raw materials	..	..	..	..	2.158	7.836	9.180	9.241
-investment goods	..	..	..	..	1.581	2.603	3.817	3.989
-consumer goods	..	..	..	..	170	905	1.161	1.110

Sources : OECD, Economic Studies, Turkey, Paris, 1987.  
SPO, Turkey, Main Economic Indicators, Ankara (monthly).  
Tüsiad, The Turkish Economy (annual reports).

Table 2.3.9.

## THE STRUCTURE AND GROWTH OF TURKISH EXTERNAL TRADE

Industry	Exports			Imports		
	1987 US\$ million	%	average annual growth rate in value % 1980-87	1987 US\$ million	%	Average annual growth rate in value % 1980-87
<u>Agriculture</u>	1852,5	18,2	1,5	782,3	5,5	48,1
<u>Mining and quarrying</u>	272,3	2,7	5,2	3034,1	21,4	- 3,9
-Crude oil	-	-	-	2711,1	19,1	- 1,2
-Coal	-	-	-	181,3	1,3	8,8*
-Other	-	-	-	141,7	1,0	0, *
<u>Manufactured goods</u>	8065,2	79,1	33,9	10346,6	73,1	15,6
-Food	953,9	9,4	24,2	719,5	5,1	13,3
-Petroleum products	232,3	2,3	29,0	245,4	1,7	-17,1
-Cement	7,0	-	-	49,5	-	153,4*
-Chemicals	526,5	5,2	31,9	1937,3	13,7	8,1
-Rubber and plastic	257,5	2,5	48,7	487,9	3,4	15,2
-Skins and leather	721,9	7,1	46,4	73,6	-	91,3*
-Wood	31,9	-	34,5	6,8	-	13,5*
-Textiles	2707,1	26,6	30,3	203,6	1,4	14,5
-Glass and ceramics	204,7	2,0	28,2	117,1	0,8	18,8
-Iron and steel	851,8	8,4	58,4	1536,9	10,9	18,7
-Non-ferrous metals	134,0	1,3	33,2	418,1	3,0	25,1
-Metal goods	107,0	1,1	60 *	55,8	-	13,5
-Machinery	680,5	6,7	54,9*	2454,6	17,3	16,5
-Electrical machinery	293,3	2,9	59,8	940,0	6,6	19,5
-Motor vehicles	110,2	1,1	12,0	549,9	3,9	13,7
-Other	245,6	2,4	58,0	550,6	3,9	22,5
TOTAL	10190,0	100	19,6	14163,0	100	8,7

\* 1987/1984.

Sources: OECD, Economic Studies, Turkey, Paris, 1984 and 1988.  
SPO, Main Economic Indicators (monthly).

Table 2.3.10.

TRADE BY REGION  
1988  
(as % of total flow)

	EXPORTS TO :					IMPORTS FROM :				
	EEC	JAPAN	USA	EFTA	OPEC	EEC	JAPAN	USA	EFTA	OPEC
EUR 12	59,5	1,9	7,9	10,7	3,4	58,1	9,8	7,4	4,5	3,4
-Greece <sup>a</sup>	66,7	1,0	7,0	4,0	4,0	63,6	5,5	3,0	4,5	7,0
-Spain	60,5	0,9	7,3	3,8	4,2	56,5	5,7	8,9	4,7	6,6
-Portugal	71,5	0,8	6,0	10,5	1,1	66,4	7,3	4,4	3,5	5,2
Turkey	43,7	1,8	6,5	4,5 <sup>b</sup>	23,5 <sup>c</sup>	41,1	6,8 <sup>b</sup>	10,5	3,9	20,2 <sup>c</sup>

Sources : Eurostat, External Trade (Series 6 C).  
OECD, Economic Studies, Turkey, Paris 1987.  
SPO, Main economic indicators (monthly).

(a) Estimation.

(b) 1986.

(c) 1987.



Table 2.4.1.

**LIST OF TURKISH COMPANIES TO BE PRIVATIZED**  
(Decision of the Public Participation Fund Council of 30 April 1987)

	<u>Field</u>	
<b>I. <u>SEEs transferred to the PPFA</u>(a)</b>		
1. PETKIM	Petrochemicals	
2. SUMERBANK	Textiles, Banking	
<b>II. <u>Subsidiaries of the SEEs transferred to the PPFA</u>:(a)</b>		
1. AFTYON Cimento Sanayi T.A.S.	Cement	
2. ANKARA Cimento Sanayi T.A.S.	Cement	
3. BALIKESIR Cimento Sanayi T.A.S.	Cement	
4. PINARHISAR Cimento Sanayi T.A.S.	Cement	
5. SOKE Cimento Sanayi T.A.S.	Cement	
6. BOGAZICI Hava Tasimaciligi A.S.	Charter and Cargo	
7. USAS Ucak Servici A.S.	Catering	
8. TURBAN Tourism Establishments	Tourism	
<b>III. <u>Participations of SEEs transferred to the PPFA</u> :(a)</b>		
		<u>% of government ownership</u>
1. NETAS	Telecommunications	49,0
2. TELETAS	Telecommunications	40,0
3. ARCELIK	Household applications	15,0
4. BOLU CIMENTO	Cement	35,3
5. CELIK HALAT	Steel rope	29,6
6. CUKUROVA ELEKTRIK	Electricity	25,0
7. EREGLI DEMIR-CELIK	Iron and Steel	51,5
8. GUBRE FABRIKALARI	Fertilizers	30,0
9. KEPEZ ELEKTRIK	Electricity	43,7
10. CANAKKALE SERAMIK	Ceramics	23,8
11. MIGROS	Supermarket Chain	42,3
12. TOFAS TURK	Automobiles	23,1
13. TOFAS OTO	Automobiles marketing	39,0
14. TURK KABLO	Cables	38,0
15. GIMA	Supermarket Chain	50,0
16. KONYA CIMENTO	Cement	39,8
17. CUKUROVA CIMENTO	Cement	47,3
18. MARDIN CIMENTO	Cement	46,2
19. UNYE CIMENTO	Cement	49,2
20. IPRAGAZ	Liquid Gas	49,3
21. DITAS	Spare parts	14,5
22. KAYSERI YEM	Animal Feeds	13,3
23. BANDIRMA YEM	Animal Feeds	24,6
24. AKSARAY YEM	Animal Feeds	40,0
25. SIVAS YEM	Animal Feeds	25,0
26. CORUM YEM	Animal Feeds	30,0
27. KARS YEM	Animal Feeds	32,0
28. ESKISEHIR YEM	Animal Feeds	45,0
29. HEKTAS	Agricultural Chemicals	5,5
30. AROMA	Beverages	52,5
31. FRUKO-TAMEK	Beverages	36,0
32. GUNEY SANAYI	Textiles	20,0
33. TAMEK-GIDA	Food and beverages	31,0
34. ANSAN	Food and beverages	88,3
35. TOROS GUBRE	Fertilizers	25,0

(a) PPFA = Public Participation Fund Administration, the agency in charge of the privatization operation of the SEEs.

Source : EBA Newsletter.

Table 2.4.2.

## TOP 50 FIRMS OF TURKEY RANKED BY SALES IN 1986

Firm	Owner	Sector	Sales (Billion TL)	Firm	Owner	Sector	Sales (Billion TL)
TÜPRAS	Pub.	Petroleum Refining	2441.8	AKSA	Pri.	Chemicals	156.2
Petrol Ofisi	Pub.	Petroleum Marketing	1637.6	Çukurova Celik	Pri.	Steel	148.7
TEKEL	Pub.	Electricity	1262.4	TOFAS	Pri.	Passenger Cars	143.3
Tekel	Pub.	Tobacco & Beverages	1136.7	SA-SA	Pri.	Synthetic Fibres	138.8
Shell-Turkey	Pri.	Petroleum	426.3	Karabük De-Çe	Pub.	Iron and Steel	138.2
Ereğli De-Çe	Pub.	Iron and Steel	357.8	OYAK	Pri.	Passenger Cars	128.5
Mobil Oil	Pri.	Petroleum	358.0	Çolakoglu Met.	Pri.	Steel	125.5
T. Seker Fab.	Pub.	Sugar	306.0	Çukurova Elek.	Pri.	Electricity	125.4
İskan De-Çe	Pub.	Iron and Steel	300.1	BEKO	Pri.	Home Appliances	124.0
Çay İşletmesi	Pub.	Tea	188.9	Yardımcı Pet.	Pub.	Petrochemicals	122.9
ALPET	Pub.	Petrochemicals	184.6	Otosan	Pri.	Cars and Trucks	118.2
Arçelik	Pri.	Home Appliances	177.5	TPAO	Pub.	Petroleum	116.4
British Pet.	Pri.	Petroleum	163.2	Netas	Pri.	Telecommunication	111.5

Firm	Owner	Sector	Sales (Billion TL)	Firm	Owner	Sector	Sales (Billion TL)
Unilever	Pri.	Food	110.8	Seydisehir Al.	Pub.	Aluminium	79.4
T. Gübre San.	Pub.	Fertilizers	105.8	ALARKO	Pri.	Machinery and Electronics	79.1
TKI-Çarş. Lin.	Pub.	Coal	100.8	METAS	Pri.	Iron and Steel	78.0
Tetra	Pri.	Electronics	94.0	Profilo	Pri.	Home Appliances	76.2
Uzel Makine	Pri.	Machinery and Parts	93.6	Aygaz	Pri.	Liquidified Gas	75.9
Toros Gübre	Pri.	Fertilizers	92.7	Kordsa	Pri.	Tire Cord	71.8
EBK	Pub.	Meat Processing	90.9	Rabak	Pri.	Copper Products	66.7
LASSA	Pri.	Tires	87.2	TKI-Ege Lin.	Pub.	Coal	64.9
Otomosan	Pri.	Buses and Trucks	85.0	Bosna	Pri.	Textiles	64.9
Teleas	Pri.	Telecommunication	83.7	SİMC	Pri.	Machinery and Trucks	63.8
MAN	Pri.	Buses and Trucks	82.7	TARIS	Pri.	Food and Washing Powder	63.5
BAGFAS	Pri.	Fertilizers and Chemicals	79.4	Chrysler	Pri.	Trucks	63.0

Source: Istanbul Chamber of Industry, ISO Review, October 1987 No. 20.

Table 2.4.3.

**FINANCIAL ADVANTAGES ARISING FROM INVESTMENT INCENTIVES: A  
HYPOTHETICAL CASE DIFFERENTIATED BY REGIONS**

	(as a percentage of initial investment cost)	
	Developed regions	Less-developed first-priority regions
<b>At the investment stage:</b>		
- Exemption from customs duties	13	13
- Investment loans at low interest rates	36	52
- Exemptions from taxes and levies	15	23
- Investment support premium	5	14
- Incentive premium	1	1
- Other incentives	6	6
<b>Total</b>	<b>77</b>	<b>109</b>
<b>At the operational stage:</b>		
- Investment incentive rebate	15	50
- Investment Financing Fund	3	3
- Loans at low interest rate	39	51
<b>Total</b>	<b>57</b>	<b>104</b>

Sources and notes: General information about incentive system and taxation of foreign capital (Document supplied by the Turkish delegation to the OECD, 1986, p. 23)

Table 2.4.4.

**INVESTMENT IN TURKEY**  
(structure and growth)

	1987 LT billion	1987 %	Average annual growth 1980/1987 (in volume)
<b>PRIVATE SECTOR</b>			
Agriculture	447,6	3,2	4,3
Manufacturing industry	1650,3	11,7	2,0
Mining	99,6	0,7	11,5
Energy	59,2	0,5	11,9
<b>Services</b>			
- Transport	797,7	5,6	9,2
- Tourism	246,9	1,7	31,6
- Housing	2831,5	20,0	8,4
- Education	29,8	0,2	23,3
- Health	37,8	0,3	24,6
- Other services	248,0	1,8	6,4
<b>TOTAL PRIVATE SECTOR</b>	<b>6447,7</b>	<b>45,6</b>	<b>6,9</b>
<b>PUBLIC SECTOR</b>			
Agriculture	685,6	4,8	9,5
Manufacturing industry	504,2	3,6	-14,8
Mining	281,8	2,0	-6,1
Energy	1911,5	13,5	6,1
<b>Services</b>			
- Transport	2508,3	17,7	13,0
- Tourism	182,0	1,3	31,1
- Housing	113,4	0,8	2,4
- Education	242,2	1,7	5,4
- Health	114,1	0,8	4,1
- Other services	1159,5	8,2	17,6
<b>TOTAL PUBLIC SECTOR</b>	<b>7702,8</b>	<b>54,4</b>	<b>5,1</b>
<b>TOTAL INVESTMENTS</b>	<b>14150,5</b>	<b>100,0</b>	<b>5,9</b>
of which: <b>State Economic Enterprises</b>	<b>3364,6</b>	<b>23,8</b>	<b>..</b>

Source : OECD, Economic Studies, Turkey, Paris, 1988.  
SPO, Main economic indicators, Ankara (monthly).

Table 2.5.1

**IMPORT TAXES IN TURKEY**

(as at 1 September 1989)

a. Customs duties (1)

They range from 0% to 40% (occasionally up to 50%) of the c.i.f. value, depending on the goods concerned. The highest tariffs apply in general to finished products such as textiles, leather goods, furniture, private cars and buses, some agricultural products (coffee, tea, sugar, tobacco) and to a lesser extent mechanical and electrical machinery. Primary products (crude oil, minerals, hides and skins), animal feedstuffs and aircraft have lower rates. The unweighted arithmetic average of the rates of customs duty is estimated at 25% (preferential rate of 20% for the Community) as against an arithmetic mean of 7% for the Common Customs Tariff.

b. Municipality tax

This has been in force since 1950 at a flat rate of 15% of customs duties applied under (a).

c. Stamp duty

Stamp duty was introduced in 1963 for all imports. The rate has been 10% of the c.i.f. value since 5 October 1988.

d. Support and Price Stabilization Fund

The Fund was set up at the end of 1986. Its purpose is to subsidize agricultural inputs and finance export-oriented investments. The rate is 6% (10% since 14 October 1988) of the c.i.f. value (3% for government imports or for investments which have been granted the necessary certificate, 0% for goods which are exempt from customs duties).

e. Mass Housing Fund

This fund was set up at the beginning of 1984 with the aim of making loans at preferential rates (15% to 20% over 15 years) to build public housing. The tax varies according to product; not all are liable, and may be specific (US\$ per tonne or square meter or unit) or ad valorem on the basis of the c.i.f. value (e.g. 15%) or the customs duties plus all additional taxes (e.g. 60%).

f. Resource Utilization Support Fund

This was created at the end of 1984 to promote investments sanctioned by the SPO (State Planning Office). The rate is 6% of the c.i.f. value of all products benefiting from import credits.

g. Quay duty (Transportation infrastructures duty)

In force since 1957 and applicable to all goods imported by sea at the rate of 5% of the c.i.f. value, this tax was replaced on 20 June 1989 by a transportation infrastructures duty, which applies to all imports at a rate of 4% (ships) or 3% (all other means of transportation) of the c.i.f. value plus all above charges.

In total, these import taxes represent 12.5% of the c.i.f. value (less VAT) of imports in 1987, but for many finished goods the figure reaches 100% or more.

(1) These are the effective customs duties which reflect the various multilateral concessions negotiated and not the statutory customs duties imposed unilaterally for each product, which are, by definition, higher.

Table 2.5.2.

EFFECTIVE CUSTOMS DUTIES IN TURKEY

(as at 1 July 1988)

Section I

Live animals; animal products.

	General	EEC
1 Live animals	15,76	15,08
2 Meat and edible meat offals	39,04	38,17
3 Fish, crustaceans and molluscs	22,08	22,08
4 Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	37,13	36,80
5 Products of animal origin, not elsewhere specified or included	20,21	15,93

Section II

Vegetable products

6 Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	16,54	14,58
7 Edible vegetables and certain roots and tubers	20,33	20,09
8 Edible fruit and nuts; peel of melons or citrus fruit	22,37	22,37
9 Coffee, tea, mate and spices	44,65	44,19
10 Cereals	10,22	10,22
11 Products of the milling industry; malt and starches; gluten; inulin	32,66	31,85
12 Oil seeds and oleaginous fruit, miscellaneous grains, seeds and fruit, industrial and medical plants; straw and fodder	28,54	27,91
13 Lacs; gums, resins and other vegetable saps and extracts	45,53	36,10
14 Vegetable planting materials; vegetable products not elsewhere specified or included	32,61	23,13

Section III

Animal and vegetable fats and oils and their cleavage products; prepared edible fats; animal and vegetable waxes

15 Animal and vegetable fats and oils and their cleavage products; prepared edible fats; animal and vegetable waxes	26,43	24,37
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Section IV

Prepared foodstuffs; beverages, spirits and vinegar; tobacco

16 Preparations of meat, of fish, of crustaceans or molluscs	40,00	40,00
17 Sugars and sugar confectionery	33,04	32,43
18 Cocoa and cocoa preparations	40,00	38,50
19 Preparations of cereals, flour or starch; pastry-cooks' products	42,61	42,61
20 Preparations of vegetables, fruit or other parts of plants	39,49	39,49
21 Miscellaneous edible preparations	40,38	37,81
22 Beverages, spirits and vinegar	41,39	39,10
23 Residues and waste from the food industries; prepared animal fodder	8,18	8,18
24 Tobacco	43,00	43,00

Section V

Mineral products

	General	EEC
25 Salt; sulphur; earths and stone; plastering materials, lime and cement . . . . .	23,42	17,09
26 Metallic ores, slag and ash . . . . .	4,90	3,61
27 Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes . . . . .	16,97	12,35

Section VI

Products of the chemical and allied industries

28 Inorganic chemicals; organic and inorganic compounds of precious metals, of rare earth metals, of radio-active elements and of isotopes . . . . .		
29 Organic chemicals . . . . .	15,43 9,67	11,90 7,46
30 Pharmaceutical products . . . . .	21,22	13,29
31 Fertilisers . . . . .	0,00	0,00
32 Tanning and dyeing extracts, tannins and their derivatives, dyes, colours, paints and varnishes; putty, fillers and stoppings, inks . . . . .	16,13	14,39
33 Essential oils and resinoids; perfumery, cosmetic or toilet preparations . . . . .	41,26	40,32
34 Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing and scouring preparations, candles and similar articles, modelling pastes and "dental waxes" . . . . .	25,57	21,99
35 Albuminoidal substances, glues, enzymes . . . . .	26,43	20,33
36 Explosives; pyrotechnic products; matches, pyrophoric alloys, certain combustible preparations . . . . .	68,33	60,95
37 Photographic and cinematographic goods . . . . .	30,30	21,13
38 Miscellaneous chemical products . . . . .	25,58	18,15

Section VII

Artificial resins and plastic materials, cellulose esters and ethers, and articles thereof; rubber, synthetic rubber, factice, and articles thereof

39 Artificial resins and plastic materials, cellulose esters and ethers; articles thereof . . . . .	22,38	19,76
40 Rubber, synthetic rubber, factice, and articles thereof . . . . .	30,29	21,71

Section VIII

Raw hides and skins, leather, furskins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of gut (other than silkworm gut)

41 Raw hides and skins (other than furskins) and leather . . . . .	2,56	2,56
42 Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut) . . . . .	43,46	38,75
43 Furskins and artificial fur, manufactures thereof . . . . .	21,44	21,44

Section IX

Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw, of esparto and of other plaiting materials; basketware and wickerwork

	General	EEC
44 Wood and articles of wood; wood charcoal . . . . .	17,57	14,60
45 Cork and articles of cork . . . . .	28,75	26,00
46 Manufactures of straw, of esparto and of other plaiting materials; basketware and wickerwork . . . . .	47,00	32,90

Section X

Paper-making material; paper and paperboard and articles thereof

47 Paper-making material; paper and paperboard and articles thereof . . . . .	0,00	0,00
48 Paper and paperboard; articles of paper pulp, of paper or of paperboard . . . . .	29,96	27,19
49 Printed books, newspapers, pictures and other products of the printing industry; manuscripts, type-scripts and plans . . . . .	16,55	12,56

Section XI

Textiles and textile articles

50 Silk and waste silk . . . . .	37,78	34,61
51 Man-made fibres (continuous) . . . . .	20,25	19,85
52 Metallised textiles . . . . .	43,33	41,67
53 Wool and other animal hair . . . . .	9,91	8,95
54 Flax and ramie . . . . .	18,18	15,27
55 Cotton . . . . .	11,22	10,78
56 Man-made fibres (discontinuous) . . . . .	19,49	19,49
57 Other vegetable textile materials; paper yarn and woven fabrics of paper yarn . . . . .	22,50	17,04
58 Carpets, mats, matting and tapestries; pile and chenille fabrics; narrow fabrics; trimmings; tulle and other net fabrics; lace; embroidery . . . . .	47,46	47,46
59 Wadding and felt; twine, cordage, ropes and cables; special fabrics; impregnated and coated fabrics; textile articles of a kind suitable for industrial use . . . . .	30,28	23,45
60 Knitted and crocheted goods . . . . .	40,08	40,08
61 Articles of apparel and clothing accessories of textile fabric, other than knitted or crocheted goods . . . . .	40,36	39,87
62 Other made-up textile articles . . . . .	46,67	45,91
63 Old clothing and other textile articles; rags . . . . .	36,67	35,67

Section XII

Footwear, headgear, umbrellas, sunshades, whips, riding-crops and parts thereof; prepared feathers and articles made thereof; artificial flowers; articles of human hair

64 Footwear, gaiters and the like; parts of such articles . . . . .	32,50	32,50
65 Headgear and parts thereof . . . . .	48,00	44,00
66 Umbrellas, sunshades, walking-sticks, whips, riding-crops and parts thereof . . . . .	50,00	40,75
67 Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair . . . . .	47,50	47,50



Section IX

Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw, of esparto and of other plaiting materials; basketware and wickerwork

	General	EEC
44 Wood and articles of wood, wood charcoal . . . . .	17,57	14,52
45 Cork and articles of cork . . . . .	28,75	28,00
46 Manufactures of straw, of esparto and of other plaiting materials; basketware and wickerwork . . . . .	47,00	32,91

Section X

Paper-making material; paper and paperboard and articles thereof

47 Paper-making material; paper and paperboard and articles thereof . . . . .	0,00	0,00
48 Paper and paperboard; articles of paper pulp, of paper or of paperboard . . . . .	29,96	27,19
49 Printed books, newspapers, pictures and other products of the printing industry; manuscripts, type-scripts and plans . . . . .	16,55	10,51

Section XI

Textiles and textile articles

50 Silk and waste silk . . . . .	37,78	34,67
51 Man-made fibres (continuous) . . . . .	20,25	19,89
52 Metallised textiles . . . . .	43,33	41,67
53 Wool and other animal hair . . . . .	9,91	8,99
54 Flax and ramie . . . . .	18,18	15,27
55 Cotton . . . . .	11,22	10,78
56 Man-made fibres (discontinuous) . . . . .	19,49	18,49
57 Other vegetable textile materials; paper yarn and woven fabrics of paper yarn . . . . .	22,50	17,04
58 Carpets, mats, matting and tapestries; pile and chenille fabrics; narrow fabrics; trimmings; tulle and other net fabrics; lace; embroidery . . . . .	47,46	47,64
59 Wadding and felt, twine, cordage, ropes and cables; special fabrics; impregnated and coated fabrics; textile articles of a kind suitable for industrial use . . . . .	30,28	23,45
60 Knitted and crocheted goods . . . . .	40,08	40,28
61 Articles of apparel and clothing accessories of textile fabric, other than knitted or crocheted goods . . . . .	40,36	39,87
62 Other made-up textile articles . . . . .	46,67	43,91
63 Old clothing and other textile articles; rags . . . . .	36,67	35,67

Section XII

Footwear, headgear, umbrellas, sunshades, whips, riding-crops and parts thereof; prepared feathers and articles made thereof; artificial flowers; articles of human hair

64 Footwear, gaiters and the like; parts of such articles . . . . .	32,50	31,50
65 Headgear and parts thereof . . . . .	48,00	—,00
66 Umbrellas, sunshades, walking-sticks, whips, riding-crops and parts thereof . . . . .	50,00	47,75
67 Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair . . . . .	47,50	47,50

Section XIII

Articles of stone, of plaster, of cement, of asbestos, of mica and of similar materials; ceramic products; glass and glassware

	General	EEC
68 Articles of stone, of plaster, of cement, of asbestos, of mica and of similar materials	43,27	30,84
69 Ceramic products	35,27	22,67
70 Glass and glassware	38,41	33,79

Section XIV

Section XIV

Pearls, precious and semi-precious stones, precious metals, rolled precious metals, and articles thereof; imitation jewellery; coin

71 Pearls, precious and semi-precious stones, precious metals, rolled precious metals, and articles thereof; imitation jewellery	9,82	8,49
72 Coin	0,00	0,00

Section XV

Base metals and articles of base metal

73 Iron and steel and articles thereof	21,53	19,24
74 Copper and articles thereof	25,99	19,30
75 Nickel and articles thereof	24,79	18,85
76 Aluminium and articles thereof	27,46	24,82
77 Magnesium and beryllium and articles thereof	13,33	10,67
78 Lead and articles thereof	26,56	26,56
79 Zinc and articles thereof	25,63	23,31
80 Tin and articles thereof	24,87	23,87
81 Other base metals employed in metallurgy and articles thereof	11,31	8,08
82 Tools, implements, cutlery, spoons and forks, of base metal; parts thereof	38,72	31,12
83 Miscellaneous articles of base metal	46,09	46,02

Section XVI

Machinery and mechanical appliances; electrical equipment; parts thereof

84 Boilers, machinery and mechanical appliances; parts thereof	35,39	20,73
85 Electrical machinery and equipment; parts thereof	29,70	19,54

Section XVII

Vehicles, aircraft, vessels and associated transport equipment

86 Railway and tramway locomotives, rolling-stock and parts thereof; railway and tramway track fixtures and fittings; traffic signalling equipment of all kinds (not electrically powered)	22,13	12,54
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	<u>General</u>	<u>EEC</u>
87 Vehicles, other than railway or tramway rolling-stock, and parts thereof . . . . .	40,59	25,16
88 Aircraft and parts thereof, parachutes, catapults and similar air-ala launching gear; ground flying trainers . . . . .	2,17	1,52
89 Ships, boats and floating structures . . . . .	44,15	34,85

*Section XVIII*

Optical, photographic, cinematographic, measuring, checking, precision, medical and surgical instruments and apparatus; clocks and watches; musical instruments; sound recorders or reproducers; television image and sound recorders or reproducers; parts thereof

90 Optical, photographic, cinematographic, measuring, checking, precision, medical and surgical instruments and apparatus; parts thereof . . . . .	21,60	12,17
91 Clocks and watches and parts thereof . . . . .	29,38	27,92
92 Musical instruments; sound recorders or reproducers; television image and sound recorders or reproducers; parts and accessories of such articles . . . . .	34,72	33,53

*Section XIX*

Arms and ammunition; parts thereof

93 Arms and ammunition; parts thereof . . . . .	41,67	40,83
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*Section XX*

Miscellaneous manufactured articles

94 Furniture and parts thereof; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings . . . . .	50,00	45,71
95 Articles and manufactures of carving or moulding material . . . . .	43,80	43,50
96 Brooms, brushes, powder-puffs and sieves . . . . .	41,82	32,27
97 Toys, games and sports requisites; parts thereof . . . . .	39,72	33,51
98 Miscellaneous manufactured articles . . . . .	47,74	40,20

*Section XXI*

Works of art, collectors' pieces, and antiques

99 Works of art, collectors' pieces, and antiques . . . . .	0,00	0,00
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Table 2.5.3

**AVERAGE RATES OF PROTECTION VIS-A-VIS IMPORTS INTO TURKEY**  
(TL billion)

	1981	1982	1983	1984	1985	1986	1987	1988
1. Customs duties	35,0	43,6	83,0	142,3	214,3	283,7	419,4	583,6
2. Duties on crude oil	4,6	5,7	8,1	15,0	6,3	6,6	7,3	12,8
3. "Single and cut-off tax"	1,1	4,1	5,3	6,5	3,5	2,4	1,9	2,4
4. Stamp duty	6,4	7,2	11,6	20,1	84,1	133,4	295,5	499,7
5. Quay duty	14,5	16,5	29,3	45,9	70,4	61,4	92,5	130,4
6. Municipality tax (15% of 1)	5,2	6,5	12,5	21,4	32,2	42,6	62,9	87,5
7. Contributions to special funds	-	-	-	37,8	117,6	318,1	591,2	1190,1
8. Total	66,8	83,6	149,8	289,1	528,4	843,2	1470,7	2506,5
9. Value of imports (cif)	1002,4	1461,4	2127,1	4034,9	5994,8	7561,2	12353,0	20470,6
10. 8 as % of 9	6,7	5,7	7,0	7,2	8,8	11,2	11,9	12,2
11. GNP (at current market prices)	6553,6	8735,0	11551,9	18374,8	27789,4	39177,2	55757,2	100154,3
12. 8 as % of 11	1,0	1,0	1,3	1,6	1,9	2,2	2,6	2,5

Source: DG II calculations based on information supplied by the "State Planning Organization" (SPO).

Note: In evaluating changes in the average rate of protection, it must be borne in mind that 65% of Turkish imports are of raw materials subject to zero or very low rates of duty. Furthermore, in certain circumstances imported investment goods can be exempt from taxes. For want of adequate data, it has not been possible to calculate the average rate of protection vis-à-vis manufactured goods imported into Turkey.

Table 2.6.1

SELECTED CATEGORIES OF AGRICULTURAL PRODUCTION  
1987  
:000 t

	EUR 12	Greece	Spain	Portugal	Turkey	% of EUR 12
Cereals (excl. rice)	154 691	5 045	20 215	1 589	29 007	19
Rice	1 909	114	496	144	165	9
Sugar (white)	13 211	182	1 005	2	1 346	10
Oil seeds	12 343	453	1 173	30	2 343	19
Fruit (excl. citrus fruit)	21 611	2 066	4 290	434	7 333	34
Citrus fruit	7 435	592	4 202	155	1 343	18
Vegetables	40 763	3 807	9 430	1 650	15 222	37
Potatoes	41 506	948	5 552	1 283	4 300	10
Wine (1000 hl) 86/87	211 420	4 334	37 042	8 017	25	-
Tobacco	394	155	32	4	185	47
Meat (excl. poultry)	24 456	414	2 440	452	1 200	5
Poultry	5 784	149	786	171	345	6
Cow's milk	111 501	645	5 941	1 258	2 805 (a)	2,5
Ginned cotton	256	176	80	-	537	210
Unginned cotton	825	571	854	-	1 394	169
Cotton seed	445	308	137	-	259	193

(a) Estimate 1986.

(b) 1984.

Sources : EC, The Agricultural Situation in the Community, 1988, Brussels, 1989.

SIS, Statistical Yearbook of Turkey, 1987.

Table 2.6.2

## YIELDS IN AGRICULTURE

1987

	Hard wheat t/ha	Soft wheat t/ha	Milk Kg/cow	Sugar beet Tons per hectare <sup>(a)</sup>	Tobacco <sup>(c)</sup> t/ha	GVA/AWU EUR 12 = 10 <sup>9</sup> ( <sup>b</sup> )
EUR-12	2,6 -	5,02	4.287	50,92	1,8 - 2,81 <sup>(c)</sup>	100 ( <sup>e</sup> )
-Greece	2,65 -	2,64	2.768	58,05	1,38 - 2,94 <sup>(c)</sup>	48
-Spain	2,36 -	2,06	3.355	39,43	1,28 - 1,67 <sup>(c)</sup>	77
-Portugal	1,67 -	1,68	3.400	30,00	2,15 - 2,28 <sup>(c)</sup>	..
Turkey		2,036	585,8 <sup>(d)</sup>	30,695	0,933	15 ( <sup>f</sup> )

(a) In white sugar value.

(b) Gross value added (GVA) at factor cost per annual work unit (AWU) in ecus.

(c) Depending on variety.

(d) 1984.

(e) EUR 11.

(f) DG II estimate.

Sources : Eurostat, Statistical Yearbook - Agriculture (Series 5 A)  
Eurostat, Agricultural incomes (Series 5 D)  
EC, The Agricultural Situation in the Community - 1988 report.  
SIS, Statistical Yearbook of Turkey, 1987.  
SIS, Statistical pocket book of Turkey, 1988.

Table 2.6.3

SIZE OF AGRICULTURAL HOLDINGS (a)

1985

	EUR 12 (b)	GREECE	SPAIN (c)	PORTUGAL (d)	TURKEY (e)
Number of farms ( ' 000)	6911	706	1524	349	3076
UAA per farm, ha.	16,5	5,7	15,3	8,9	7,3
% of farms					
1 - 5 ha	49	70	57	78	55
5 - 10 ha	16	20	16	13	24
10 - 20 ha	14	7	12	5	14
20 - 50 ha	14	2	9	2	6
50 ha	7	1	6	2	1

(a) = Only farms of 1 ha or more.

(b) = 1985 for EUR-10.

(c) = 1982.

(d) = 1979/1980.

(e) = 1980.

Sources : EC; The Agricultural Situation in the Community 1988 Report, Brussels, 1989.

EUROSTAT, Agriculture, Statistical Yearbook, 1988 (Series 5 A).

S.I.S., Statistical Yearbook of Turkey, 1987.

Table 2.6.4

## COMPARISON OF AGRICULTURAL PRICES IN THE EC AND TURKEY

ECU/t  
(ECU 1 = TL 957,6)

Product and price in EC	EC 12 1987/88	Turkey 1987 Support price	% of EC price	Turkey 1987 Producer price	% of EC price
	(1)	(2)	(3=2/1)	(4)	(5=4/1)
1. Durum wheat (a) ;	207	101	49%	102,3	49%
2. Common wheat (a)	163	101	62%	96,1	59%
3. Barley (a)	149	83,2	56%	80,4	54%
4. Maize (a)	163	90,2	55%	101,3	62%
5. Rice (b)	260-314			419-491	156-160%
6. Sugarbeet					
Minimum price A	40,7	) 23,8	58%	19,8	49%
Minimum price B	24,74	)	96%		80%
7. Olive oil (b)	2.162	1.410	65%		
8. Sunflower seeds (a)	534,7	224,5	42%	227,7	43%
9. Soya beans (d)	489,4	208,9	43%	185,9	40%
10. Unginned cotton (d)	912,3	360-606	39-66%	566-592	62-65%
11. Tobacco (b)	2.740-5.117	1.507	29-55%		
12. Tomatoes (e)	500			188	38%
13. Oranges (e)	600	209	35%	157-212	26-35%
14. Lemons (e)	550	209	38%	203,6	37%
15. Aubergines (e)	600			204	34%
16. Apples (e)	370			198,4	54%
17. Dried grapes (f)	942,48	544-595	58-63%		
18. Milk (b)					
3.7% fat milk equivalent (b)	258,4	141	55%		
Market price	212-348			212	61-100%
19. Butter (b)	3.132			2.320,4	
20. Beef					
Intervention price	3.440	1.984	74%		
Market price	2.546			2.140,8	84%
21. Sheepmeat					
Basic price	4.323,2	2.193	51%	2.297,4	53%
22. Poultry meat					
70% of wholesale price	1.274,3	892,9	70%	1.096,5	86%
23. Eggs (e)	85,73			54,3	63%

(a) Buying-in price for intervention.

(b) Intervention price.

(c) Basic intervention price.

(d) Minimum price.

(e) Producer price.

(f) Minimum import price.

Sources: - EEC, The Agricultural Situation in the Community, 1987.  
 - Information from DG VI (EEC)  
 - Statistics provided by the Turkish authorities.



Tableau 2.7.1

**TOURISM**

1986

	Revenues US\$ million	Number of visitors ('000)
EUR 12	57.135,2	..
- Greece	1.835,1	7.025
- Spain	11.945,2	47.389
- Portugal	1.582,5	5.409
Turkey	1.227,9	2.391

Source : OECD, Tourism policy and international tourism in OECD member countries, Paris, 1987.

Table 3.1.1

**ANNUAL INFLATION RATES**  
**1986**  
 (Private consumption price deflator)

	1970-75	1975-80	1980-85	1986	1987	1988 forecast	1989 forecast
EUR 12	10,3	11,4	8,7	3,8	3,4	3,6	4,9
- Greece	11,2	15,1	19,8	22,0	15,7	13,9	14,3
- Spain	12,1	18,3	12,0	8,7	5,4	5,1	6,8
- Portugal	11,7	22,4	22,8	13,5	10,2	9,6	13,0
Turkey (a)	20,5	51,1	41,4	34,6	38,8	75,4	..

(a) Based on the SIS consumer price index. Different results are obtained if the wholesale price index and the implicit GDP deflator are used.

Sources : EEC, Annual Economic Report 1989-1990.  
 OECD, National Accounts, 1960-1985, Paris, 1987.  
 OECD, Economic Studies, Turkey, Paris, 1988.  
 SPO, Main economic indicators, Ankara (monthly).

Table 3.4.1

**TAX REVENUE AND SOCIAL SECURITY CONTRIBUTIONS  
OF PUBLIC ADMINISTRATIONS**  
(as % of GDP)  
1985

	Taxes on income and profits		Consumption taxes		Other	Social Security	Total
	Personal income taxes	Corporation taxes	General <sup>1</sup>	Specific <sup>2</sup>			
EUR 12	10,9	3,0	6,5	5,1	2,5	11,5	39,5
- Greece	4,9	1,0	6,0	7,5	3,4	12,2	35,0
- Spain	6,5	1,6	4,1	3,6	1,1	12,0	28,9
- Portugal	8,0 <sup>3</sup>	-	3,9	8,8	2,3	8,1	31,1
Turkey	5,4	1,9	4,6	2,4	1,0	0,8	16,1

1 VAT and other.

2 Excises and other.

3 No breakdown is available between personal income tax and corporation tax.

Sources : OECD, Revenue Statistics of OECD Member Countries, Paris, 1987.

Table 3.4.2

**PUBLIC EXPENDITURE BY FUNCTION**  
(as % of GNP)

1985

	General services	Defence	Other services (transport etc)	Health	Educa-tion	Debt interest	Social Secu-rity
EUR 12 (a)	2,9	3,4	9,1	5,8	5,3	5,0	18,2
-Greece	7,6	6,3	..	2,0	3,3	5,4	..
-Spain	1,0(b)	2,1	9,5	4,5	1,9	3,4	13,5
-Portugal(c)	2,4	3,3	2,9 (d)	4,5	4,6	7,8	10,1
Turkey	6,7	3,0	6,5	0,6	2,4	2,1	3,4

(a) Estimates.

(b) Central Government only.

(c) 1981.

(d) Transport and communications.

Source : OECD, Economic Studies, Turkey, Paris, 1987.  
OECD, National Accounts, 1973-1985, Paris, 1987.

Table 3.4.3

## GROWTH OF THE PUBLIC SECTOR DEFICIT

	1980	1981	1982	1983	1984	1985	1986	1987 (a)	1988 (b)
<u>Source (% GNP)</u>									
-Central government	- 3,3	- 0,8	- 2,0	- 2,6	- 4,2	- 1,7	- 1,2	- 3,9	- 4,2
. Local authorities	0,2	0,2	0,1	-	0,2	0,2	- 0,2	- 0,4	- 0,4
-SEE (c)	- 6,7	- 4,6	- 4,0	- 2,6	- 2,3	- 3,2	- 3,3	- 4,4	- 2,8
TOTAL (d)									
-% GNP	- 10,0	- 5,4	- 6,0	- 5,2	- 6,5	- 4,9	- 4,5	- 8,3	-7,0
-US\$ billion	5,7	3,1	3,0	2,7	3,2	2,6	2,6	5,7	5,0
<u>Financing (% of total)</u>									
-External borrowing (e)	35,5	62,8	49,5	23,9	51,6	15,3	53,6	34,5	28,3
-Domestic borrowing (e)	30,2	17,2	37,8	64,9	37,3	59,1	31,7	53,6	62,3
-Central bank	34,3	20,0	12,7	11,2	11,1	25,6	14,7	11,9	9,4

(a) Estimates.

(b) Provisional.

(c) State Economic Enterprises.

(d) Including the receipts of special funds and working capital.

(e) Net.

Source : OECD, Economic Studies, Turkey, Paris, 1987 and 1988.

Table 3.4.4.

**PUBLIC FINANCE IN TURKEY**  
(% of GNP)

	1980	1981	1982	1983	1984	1985	1986	1987	1988
<b>Revenue</b>									
- Central government	20,6	21,3	19,4	20,0	15,3	16,1	17,2	17,2	17,3
. Taxes	16,9	18,2	17,4	16,7	12,9	13,8	15,2	15,5	14,5
direct	8,4	..	..	..	7,5	6,6	7,9	7,7	6,9
indirect	8,5	..	..	..	5,4	7,2	7,3	7,9	7,7
. Non-tax revenue	3,7	3,2	2,0	3,3	2,4	2,3	2,0	1,9	2,8
- Local authorities	0,9	1,5	1,5	1,8	1,8	2,3	3,2	3,5	3,3
- Special Funds	-	-	-	-	0,4	1,4	2,6	4,2	4,8
- Social security	3,2	3,6	3,9	4,0	3,7	3,4	..	..	3,0
<b>Expenditure</b>									
- Central government	23,3	22,3	21,2	21,7	20,6	19,0	20,3	21,7	21,4
. Current	10,5	9,2	9,4	9,2	8,1	7,5	7,8	7,8	7,3
. Capital	5,0	5,6	5,3	4,2	3,7	3,6	4,1	4,0	3,6
. Transfers	7,8	7,5	6,5	8,3	6,4	5,5	5,5	6,0	5,1
of which SEEs	3,8	2,9	2,6	2,6	1,5	0,7	0,4	0,8	1,0
- Local authorities	2,0	1,7	1,6	2,0	1,8	2,3	3,3	3,9	3,7
- Special Funds	-	-	-	-	0,0	0,7	3,1	3,3	4,5
- Social security	3,2	3,3	3,6	4,0	3,6	3,5	4,7	4,4	4,8
<b>Net lending or borrowing(-)</b>									
- Central government	-3,3	-0,8	-2,0	-2,6	-4,2	-1,7	-1,2	-3,9	-3,9
- SEEs	-6,7	-4,6	-4,0	-2,6	-2,3	-3,2	-3,3	-4,4	-2,5
- Local authorities	0,2	0,2	0,1	..	0,2	0,2	-0,2	-0,4	-0,4
- Special Funds (*)	0,2	0,8	0,7	..	0,5	0,5	2,1	0,5	0,3
Total	-10,0	-5,4	-6,0	-5,2	-6,5	-4,9	-4,5	-8,3	-6,5

(\*) Including "revolving funds".

Sources : OECD, Economic Studies, Turkey, Paris 1987 et 1988.

Central Bank of Turkey, Turkey, Economic Developments, Policies and Prospects, Ankara, April 1988.

Table 3.5.1.

**BALANCE OF PAYMENTS**  
1986  
(as % of GDP)

	Current balance						Total	Capital balance	
	Goods	Services	of which :		Unrequited transfers			Long term	of which: direct investment
			Tourism	Interest (a) payments	Private	Public			
EUR 12	1,1	0,8	0,2	-0,2	-0,0	-0,5	-1.5	-0,6	-0,6
- Greece	-11,6	0,9	3,5	3,3	2,5	3,6	-4.5	5,7	1,2
- Spain	-2,8	4,1	4,6	-0,9	0,7	-0,2	1.8	-0,7	1,4
- Portugal	-5,7	-0,1	4,3	-3,5	9.2	0,7	4.0	-1,7	0,8
Turkey	-5,3	-0,7	1,1	-3,6	2,6	0,4	-2.6	1,8	0,2

(a) For EUR 12, Greece, Spain and Portugal - interest on capital.

Sources : Eurostat, Balance of Payments (Series 2 B)  
Tusiad, The Turkish economy 1987.

Table 3.5.2

**TURKEY'S BALANCE OF PAYMENTS**  
(in US\$ million)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Exports f.o.b.	2261	2910	4703	5890	5905	7389	8255	7583	10322	11846
Imports f.o.b.	-4815	-7513	-8567	-8518	-8895	-10331	-11230	-10664	-13551	-13646
Trade balance	-2554	-4603	-3864	-2628	-2990	-2942	-2975	-3081	-3229	-1800
Receipts from tourism (net)	179	212	277	262	284	271	770	637	1028	1997
Services balance	-867	-1198	-907	-725	-915	-850	-806	-1033	-1199	-864
of which - interest	-1010	-1138	-1443	-1566	-1512	-1586	-1753	-2134	-2507	-2799
Transfers by expatriate workers	1694	2071	2490	2187	1554	1807	1714	1634	2021	1755
Current balance	-1413	-3408	-1919	-835	-1828	-1407	-1013	-1528	-982	1503
Capital balance	740	2342	1129	1207	587	1195	1731	2128	2010	-701
of which - direct investment	75	18	95	55	46	113	98	125	110	352
Total balance (a)	-87	90	-5	168	152	-66	123	786	993	888
GNP	70776	58329	58925	53736	51237	50362	53612	58724	67615	70540

(a) This is the change in reserves and not the "basic balance" as defined by Eurostat.

Sources: Tüsiad, The Turkish Economy, 1987.

Central Bank, Turkey, Economic Development, Policies and Prospects, April 1988.

SPO, Turkey, Main economic indicators, Ankara (monthly).

OECD, Economic Studies, Turkey, Paris, 1988.



Table 3.6.1

**PUBLIC SECTOR DEBT AND INTEREST PAYMENTS**

(as % of GDP 1985)

	Public sector debt		Interest payments	Public sector deficit
	Total	External		
EUR 12	57,4	4,7(a)	5,0	5,2
- Greece	62,6	45,3(b)	5,4	13,6
- Spain	46,5	10,5(b)	3,4	6,7
- Portugal	64,8	20,5(b)	7,8	11,0
Turkey	56,2	47,4(b)	3,3 (c)	4,6

(a) Central government only.

(b) Data from national banks.

(c) Interest payments on external debt as % of GNP.

Sources : EC, European Economy, No 34, novembre 1987.

Eurostat, Money and Finance, (Series 2 B).

OECD, Economic Studies, Turkey, 1986, Paris, 1987.

Table 3.6.2

**TURKEY'S EXTERNAL DEBT**  
(in US\$ million)

	1985	1986	1987	1988	1989 estimate	1990 forecast	1991 forecast
TOTAL	25.349	31.228	38.304	37.694	40.100	40.900	41.600
Medium and long term	20.590	24.317	29.612	29.990	30.400	30.900	31.300
Multilateral	6.157	6.588	7.780	7.750			
IMF	1.326	1.085	770	299			
BIRD, IDA, IFC	3.470	3.643	4.452	5.005			
EIB	429	573	676	575			
Bilateral	7.955	10.187	12.316	11.066			
OECD	6.528	8.270	10.324	9.714			
OPEC	640	1.027	1.118	896			
Banks	4.351	4.833	5.702	7.224			
Private	2.127	2.709	3.814	3.950			
Short term	4.759	6.911	8.692	7.704	9.700	10.000	10.300
Debt as % of GNP	47,4%	53,5%	56,6%	53,3%	56,1%	54,8%	53,5%
Debt service							
-Principal	2.113	2.523	3.001	4.355	3.913	35.445	3.342
-Interest	1.753	2.134	2.507	2.950	2.022	1.957	1.732
Debt service as % of exports	46,8%	61,4%	53,4%	57,9%	51,0%	46,7%	41,0%

Source : Central Bank, Turkey, Economic Developments, Policies and Prospects, April 1988.  
OECD, Economic studies, Turkey, Paris, 1988.  
Central Bank of Turkey, Annual Reports.

Table 3.6.3

## LONG-TERM: EXTERNAL DEBT

End 1986

	<u>US\$ billion</u>	<u>% of GNP</u>	<u>Interest payments as % of exports</u>
Brazil	114,5	41,0	30,2
Mexico	105,0	83,8	32,7
Argentina	49,4	65,8	33,1
Venezuela	33,9	70,8	22,5
Philippines	29,0	93,6	19,0
Niger	27,0	45,5	11,6
Turkey	23,3	41,4	14,1
Yugoslavia	21,8	33,0	7,7
Chile	20,5	138,8	29,5
Morocco	17,3	126,7	25,4
Peru	16,7	62,4	29,0
Colombia	15,1	46,8	16,6
Greece	15,0	38,2	13,8
Portugal	13,9	49,9	12,1
Ivory Coast	9,1	122,7	17,1
Ecuador	9,0	83,5	24,4
Bolivia	4,6	118,3	31,5
Costa Rica	4,6	118,7	18,9
Uruguay	3,8	63,4	15,3
Jamaica	3,8	197,3	17,4

Source : World Bank, World Debt Tables, 1987-1988.

Table 4.1.1.

**POPULATION**  
(millions)

	1970	1980	1985	2000	Average annual rate of growth 1985-2000
EUR 12	303,4	318,0	322,0	329,7	0,2
-Greece	8,8	9,0	9,9	10,4	0,3
-Spain	33,8	35,5	38,6	41,0	0,4
-Portugal	9,0	9,0	10,2	11,0	0,5
Turkey	35,3	44,4	50,3	73,0	2,5

Source : Eurostat, Employment and Unemployment (Series 3 c), 1987.  
Eurostat, Basic statistics of the Community, 1987.  
SIS, Statistical Yearbook of Turkey, 1987.

Table 4.1.2.

**AGE STRUCTURE OF THE POPULATION  
1985**

(% of total)

	0 - 14 years	15 - 64 years	65 years or over
EUR 12	19,8	66,8	13,4
-Greece	21,1	65,6	13,3
-Spain	23,4	64,7	11,9
-Portugal	23,8	64,3	11,9
Turkey	36,6	59,3	4,1

Source : Eurostat, Demographic and Labour Force Analysis, (series 3 D)  
SIS, Statistical Yearbook of Turkey, 1987.  
SPO, Structure of Turkish Populations, 1987.

Table 4.1.3.

**TURKISH EMIGRATION**

a. Emigration of Turkish workers

	Total	of which : EEC	of which: Germany (FR)
1961-1973	790.289	733.063	648.029
1973-1980	125.257	22.750	9.412
1981-1984	206.426	490	409
1985	46.353	39	23
1986	35.608	32	17
1987	40.807	51	27

b. Turkish migrants living abroad (workers in brackets)

	Total	of which : EEC	of which: Germany (FR)
End 1980	2.023.102 (888.290)	1.765.788 (711.671)	1.462.400 (590.623)
End May 1984	2.404.031 (1015.544)	1.060.626 (706.726)	1.552.328 (542.512)
End April 1987	2.347.807 (1058.014)	1.946.677 (814.015)	1.481.369 (609.515)

Source : Turkish Ministry of Work and Social Welfare, Annual Reports.

Tableau 4.2.1

**LABOUR MARKET**  
1987

(in '000)

	EUR 12	Greece	Spain	Portugal	Turkey
Population	323.067	10.000	38.832	9.755	52.059
Population aged from 15 to 64	220.432	6.323	25.453	6.556	32.354
Civilian labour force	139.443	3.849	14.365	4.280	18.804
Activity rate %	63,3	60,9	57,9	65,6	58,1
Civilian employment	123.133	3.564	11.420	3.972	15.948
- Agriculture	10.220	1.016	1.839	870	8.757
- Industry (a)	41.003	1.001	3.666	1.354	2.281
- Construction					686
- Services	71.910	1.547	5.915	1.748	4.224
Unemployment	15.725	284	2.950	310	2.256 (b)
Unemployment rate (%)	11,7	7,4	20,5	7,2	12,0%

(a) Including construction except for Turkey.

(b) Excluding seasonal unemployment in agriculture.

Sources : Commission, Economic forecasts, June 1988.  
OCDE, Economic studies, Turkey, Paris, 1988.

Table 4.2.2.

**UNEMPLOYMENT RATES**  
(%)

	1975	1980	1985	1987		1988		1989	
				(e)		Estimates (d) (e)	Forecasts (d) (e)		
EUR-12	(3,9)	(6,1)	11,6	11,4	10,8	10,0	10,2	9,0	9,8
-Grèce	..	..	7,8	7,4	7,4	8,5	7,6	8,5	7,8
-Espagne	(1,9)	(11,8)	19,5	20,5	20,5	19,6	19,5	17,6	18,3
-Portugal	(2,7)	(6,7)	7,7	7,2	7,1	5,6	5,6	5,2	5,5
Turquie (a)	..	14,8	16,3	15,2	15,2	15,3	15,9	..	16,8
(b)	..	10,7	12,6	12,0		12,5		..	
(c)	..	11,6	11,7	9,5		9,8		..	

(a) Including seasonal unemployment in agriculture.

(b) Excluding seasonal unemployment in agriculture.

(c) New definition for Turkey..

(d) New definition for EC.

(e) OECD figures.

Sources: EEC, Annual Economic Report 1989-1990.

OECD, Economic Studies, Turkey, Paris, 1985, 1987, 1988.

SPO, Main economic indicators, Ankara (monthly).

OECD, Perspectives de l'emploi, Paris, juillet 1989.

SPO, Sixth Development Plan, 1990-94.



Table 4.3.1

NUMBER OF PUPILS AND STUDENTS

1985-1986

(as % of age group)

	Primary level 7 - 12 years	Secondary level 13 - 18 years	University 19 - 24 years
EUR 12	(100,0)	(85,0)	(20,0)
- Greece	(100,0)	87,6	22,8
- Spain	(100,0)	84,4	23,3
- Portugal	(100,0)	58,0	9,8
Turkey	83,6	39,0	8,3

Sources : Own calculations based on :

EEC, The structure of education in the Member States of the EEC, 1986;

Eurostat, Demographic Statistics (Series 3 C);

SIS, Statistical Yearbook of Turkey, 1987.

Table 4.5.1

GROWTH OF WAGES IN TURKEY

	1987 LT per day	Growth of wages in %						1987(a)
		1981	1982	1983	1984	1985	1986	
<u>Average wages</u>								
Nominal	5.026	59,8	12,7	40,5	47,0	58,7	24,2	35,9
Real (b)		9,8	-5,3	6,9	-1,0	9,4	-7,9	-2,0
<u>Minimum legal wage</u>								
Nominal	1.932	117,6	0,0	50,2	66,9	86,4	0,0	73,7
Real		80,8	-24,7	14,3	12,5	28,5	-25,5	25,1
<u>Labour productivity</u>		2,7	3,9	3,2	4,2	3,1	5,2	4,1

(a) Provisional

(b) Deflated by the SIS index of consumer prices.

Source : OECD, Economic Studies, Turkey, Paris, 1987 and 1988.

Table 4.5.2.

GROWTH OF ANNUAL REAL WAGE COSTS

Index (1979=100)

	1979-1985
EUR 12	96,5
- Greece	104,9
- Spain	108,1
- Portugal	89,7
Turkey	52,4

Sources : EEC, European Economy, No 34, November 1987.  
OECD, Economic Studies, Turkey, Paris, 1987.

Table 4.5.3

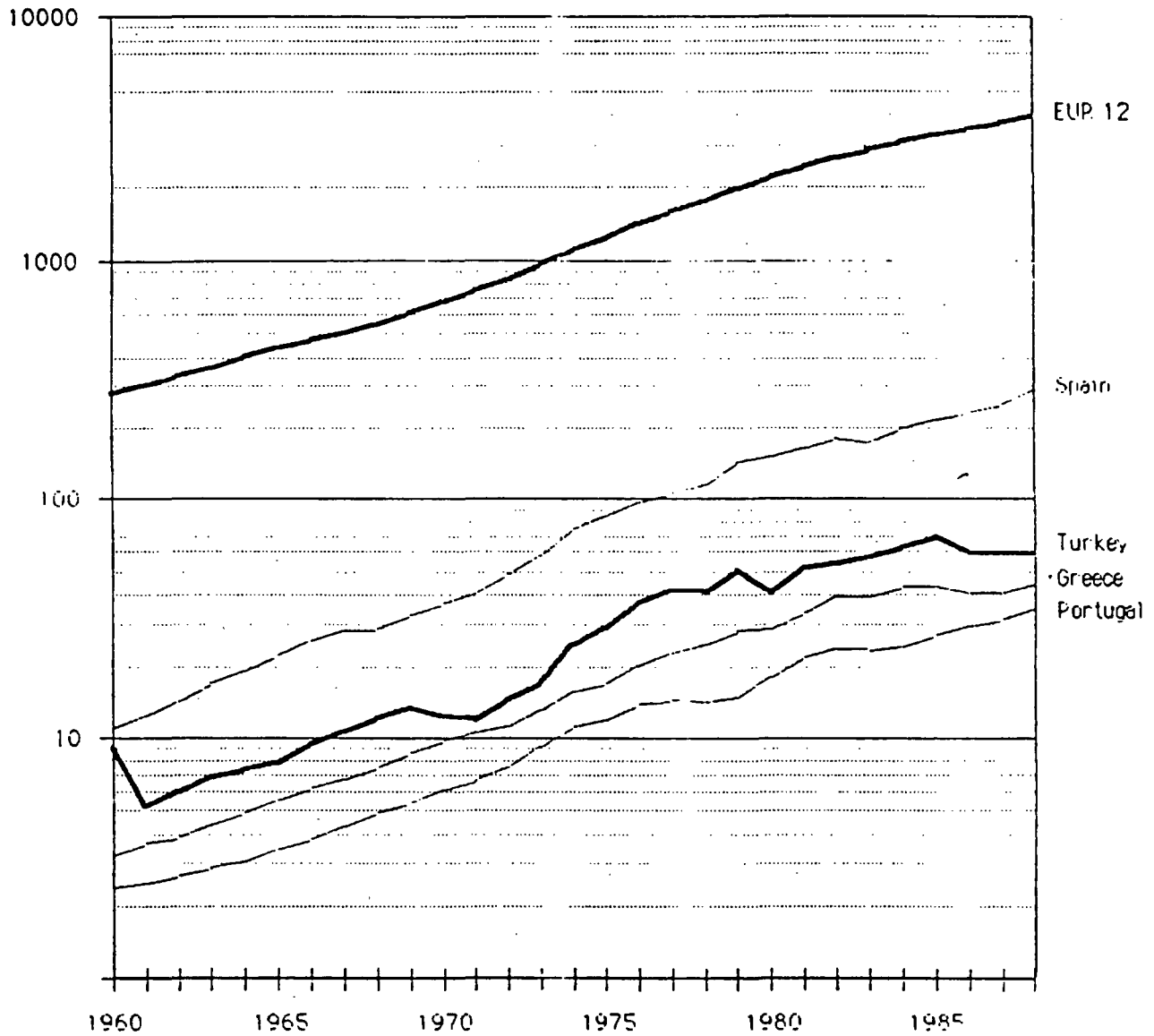
**HOURLY LABOUR COSTS**  
(wage and salary earners)  
(1984)

SECTORS	EUR 12	GREECE	SPAIN	PORTUGAL	TURKEY
Food	8,5	3,6	4,3	2,0	1,3
Drinks	10,6	4,4	5,2	2,8	2,0
Tobacco	10,7	3,8	4,5	3,4	1,1
Food, drinks and tobacco	9,0	3,7	4,4	2,2	1,2
Footwear, clothing	6,2	2,9	3,4	1,6	0,9
Wood and wooden furniture	7,8	3,3	3,9	1,8	0,9
Paper and printing	8,9	4,1	4,8	2,7	1,7
Chemicals	11,7	4,8	5,7	3,7	1,9
Non-metallic minerals	9,4	4,3	5,0	2,2	1,3
Production and processing of metals	11,2	5,6	6,7	3,9	1,8
Metal goods	9,8	4,3	5,1	2,7	1,5
Other manufacturing industry	7,8	3,0	3,6	1,7	0,7
Total manufacturing industry	9,7	4,1	5,2	2,4	1,3
Index	100	42	54	25	13

Sources : DG II estimates based on :  
Eurostat, Population and social conditions, 1987;  
SIS, Statistical Yearbook of Industry, Turkey.

Graph 2.1.1.

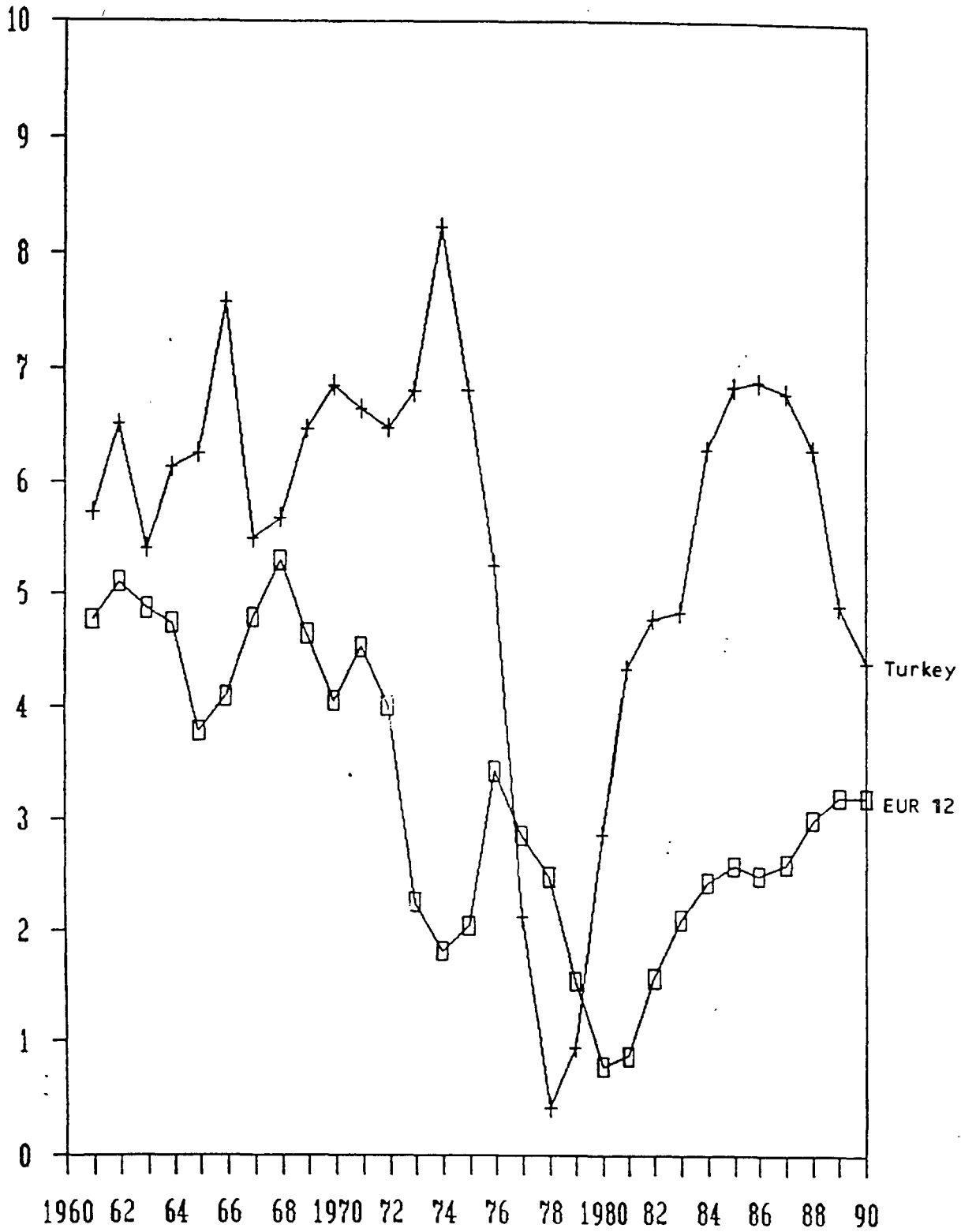
**GDP AT CURRENT PRICES AND EXCHANGE RATES**  
(ECU billion)



Source : OECD, National Accounts, Vol. 1 : Principal Aggregates, 1960-1987, Paris 1989.  
EUROSTAT, National Accounts, Aggregates (Series 2 C).  
EC, Annual Economic Report 1988-1989 (n° 38, Nov. 1988).

Graph 2.1.2.

GDP VOLUME GROWTH  
(three-year moving average)



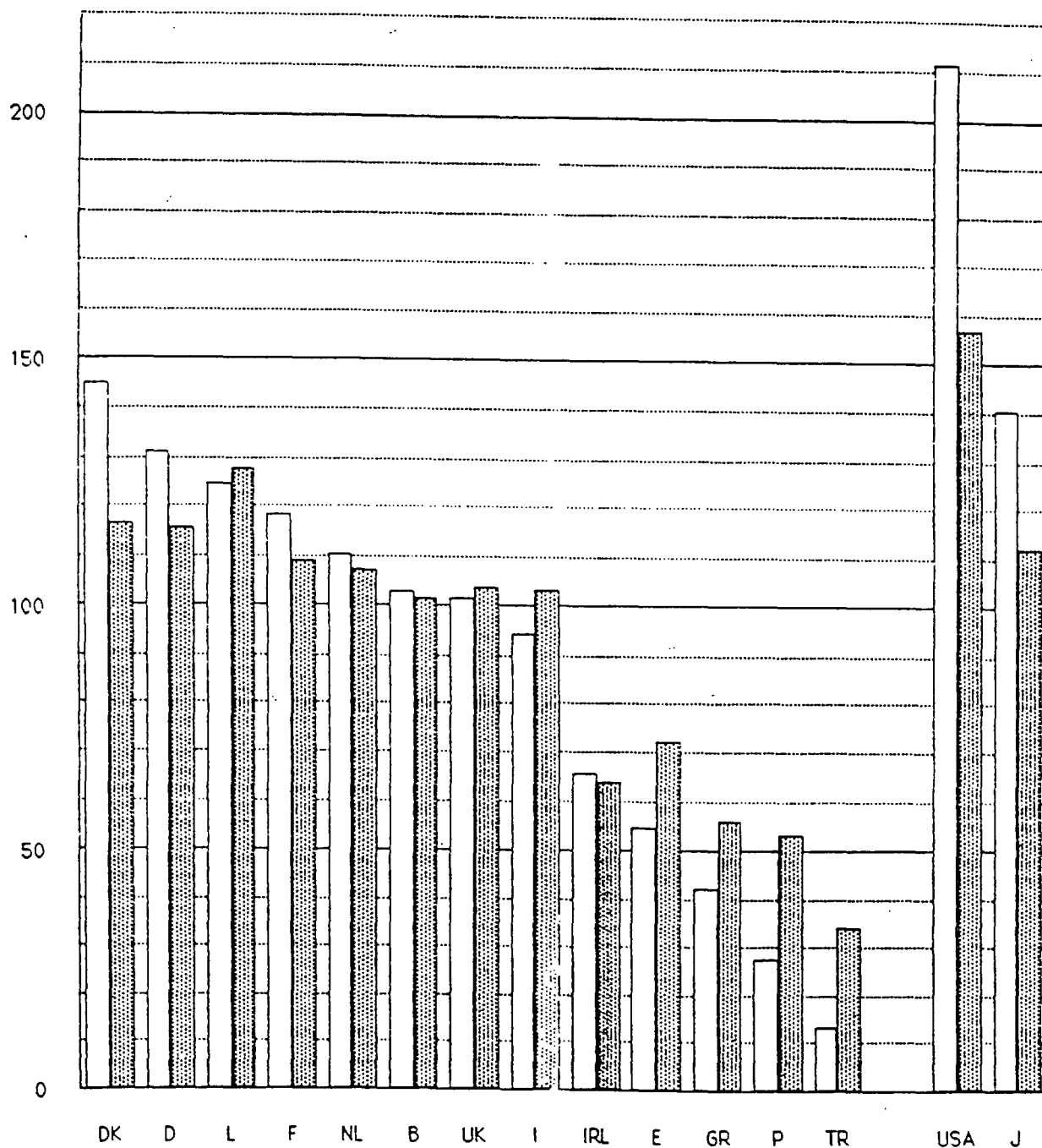
Source : OECD, National Accounts, Vol. I : Principal aggregates 1960-1987, Paris, 1989.

Graph 2.1.3.

GDP HER HEAD OF POPULATION  
(in ECU and PPP)  
(Index: EUR 12=100)

□ ECU    ■ PPP

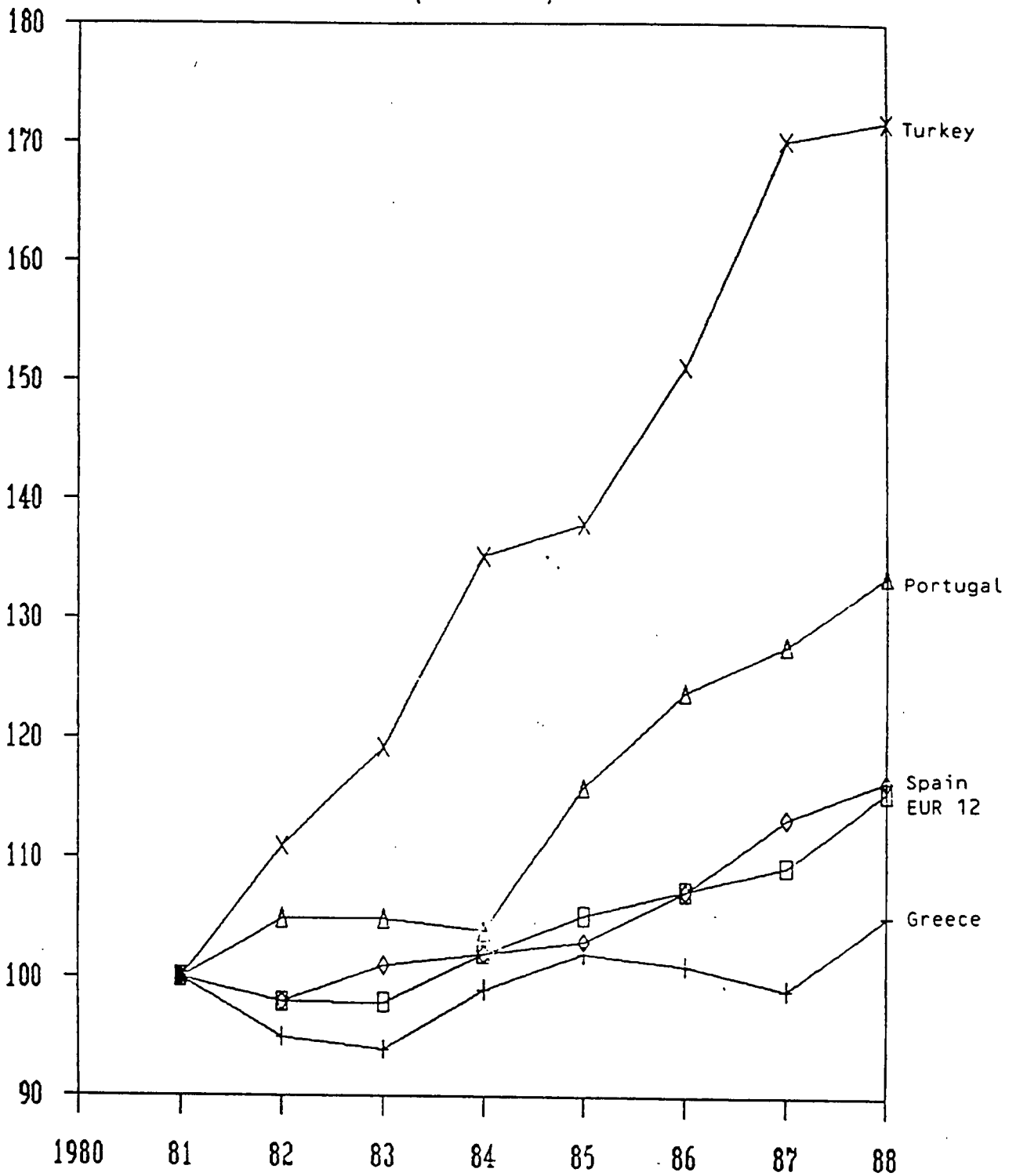
1985



Source : Eurostat, Purchasing Power Parities and Gross Domestic Product in real terms, Results 1985, 1988 (Series 2 C).

Graph 2.2.1.

INDICES OF INDUSTRIAL PRODUCTION  
(1981 = 100)



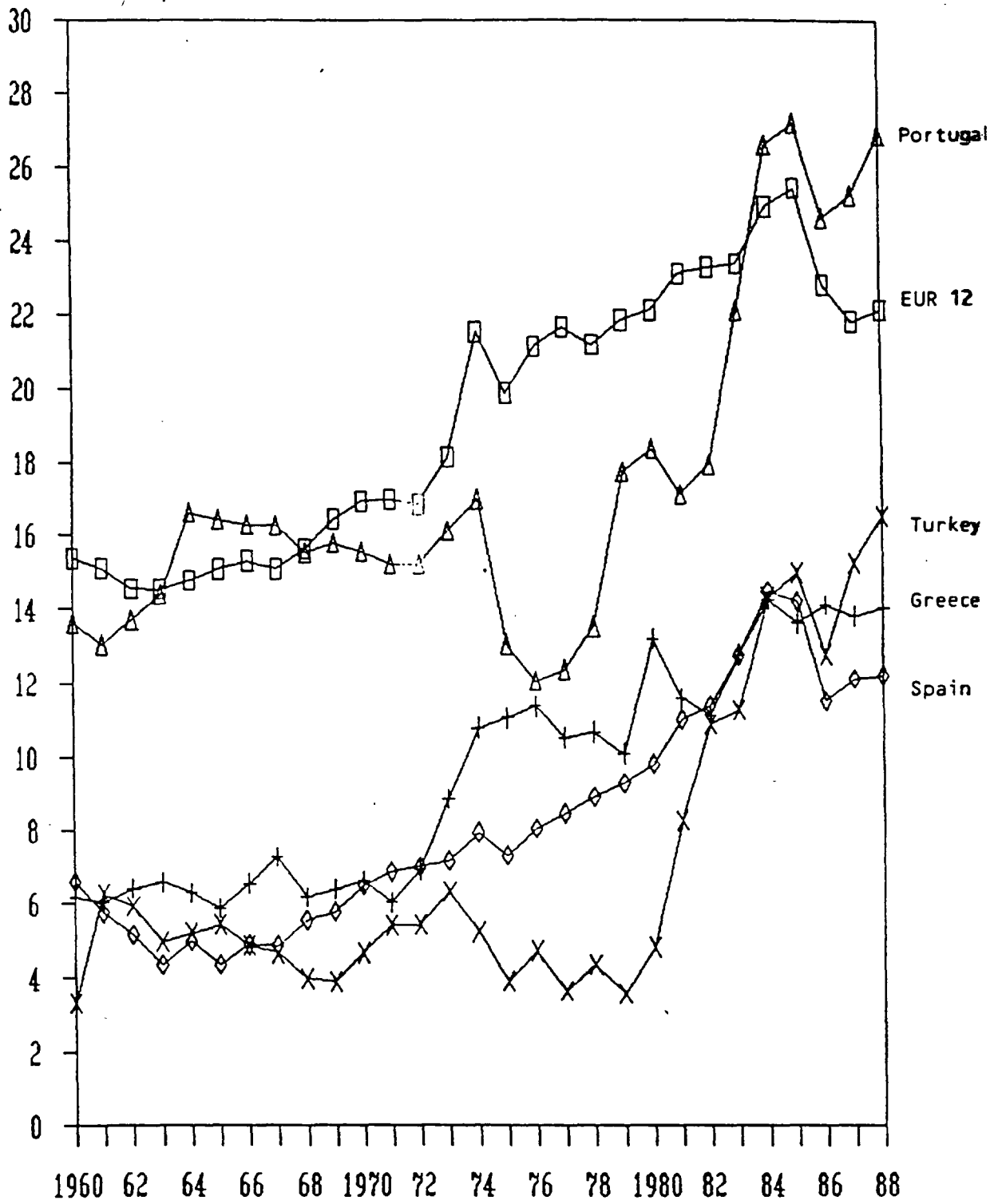
Manufacturing industries

Source : OECD, Main Economic Indicators, Paris.  
EC, European Economy, n° 38, November 1988.  
SIS, Statistical Yearbook of Turkey, 1987.



Graph 2.3.1.

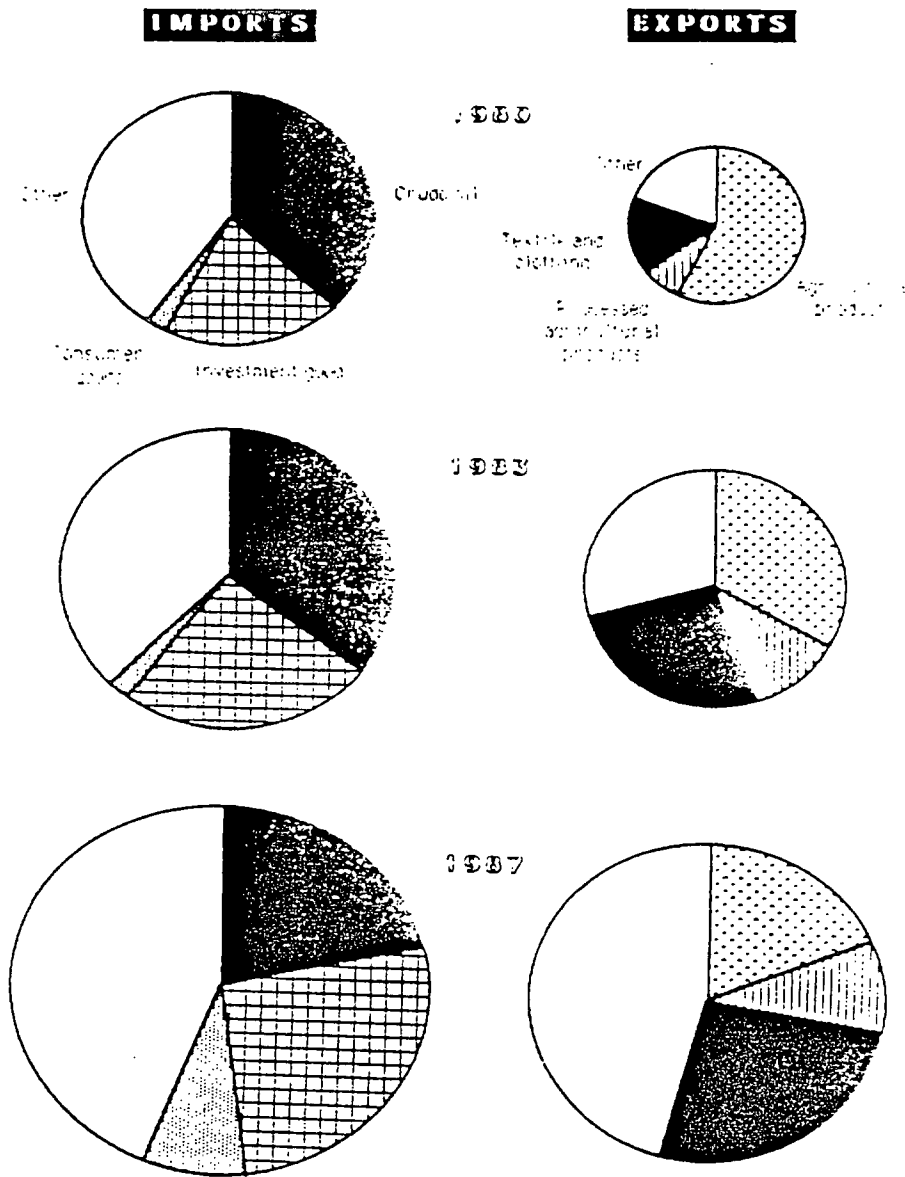
EXPORTS AS PERCENTAGE OF GDP



Source : OECD, National Accounts, Vol. I : Principal aggregates 1960-1987  
Paris, 1989.

Graph 2.3.2.

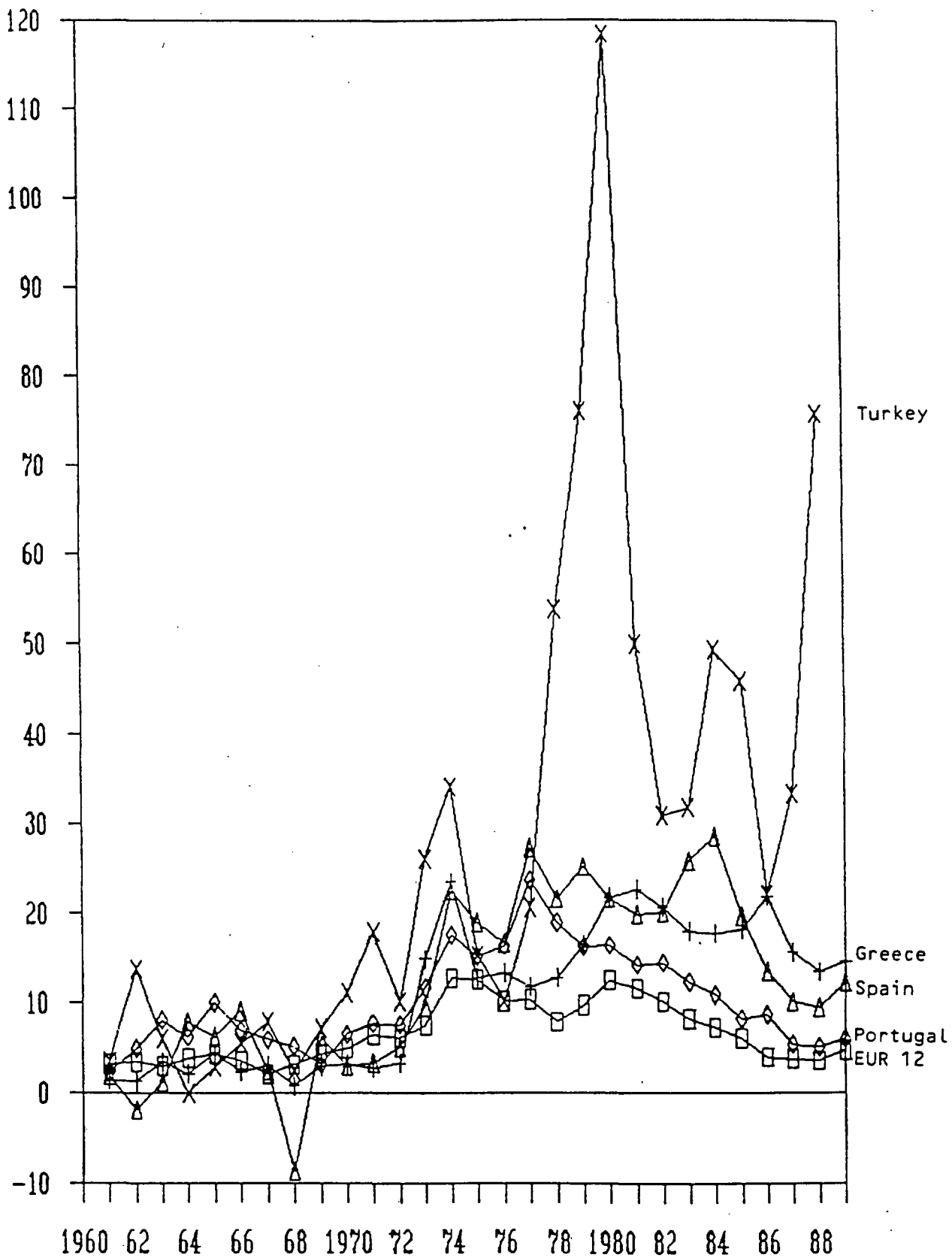
STRUCTURE AND GROWTH OF TURKEY'S EXTERNAL TRADE



Sources: OECD, *Economic Surveys — Turkey*, Paris, 1987  
 SPO, *Main Economic Indicators*, Nov. 1987  
 State Institute of Statistics, *Statistical Yearbook of Turkey*, 1982 and 1987  
 Foreign Economic Relations Board, *Turkey*, 1982

Graph 3.1.1.

ANNUAL INFLATION RATES  
(private consumption deflator)

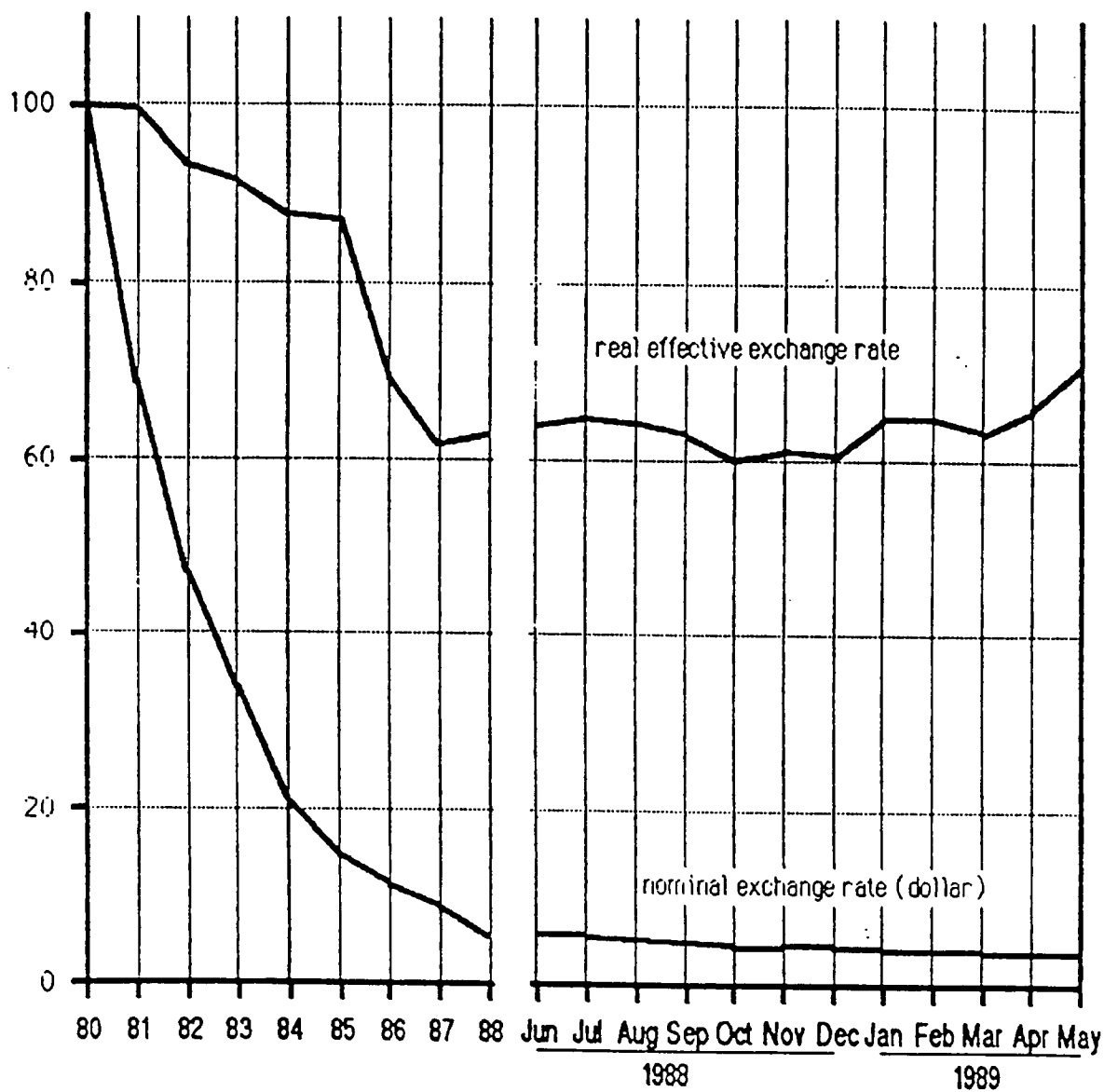


Source : OECD, National Accounts. Principal Aggregates, 1960-1987, Paris, 1989.  
EC, Annual Economic Report, 1989-1990.

Graph 3.2.1.

NOMINAL AND EFFECTIVE EXCHANGE RATES

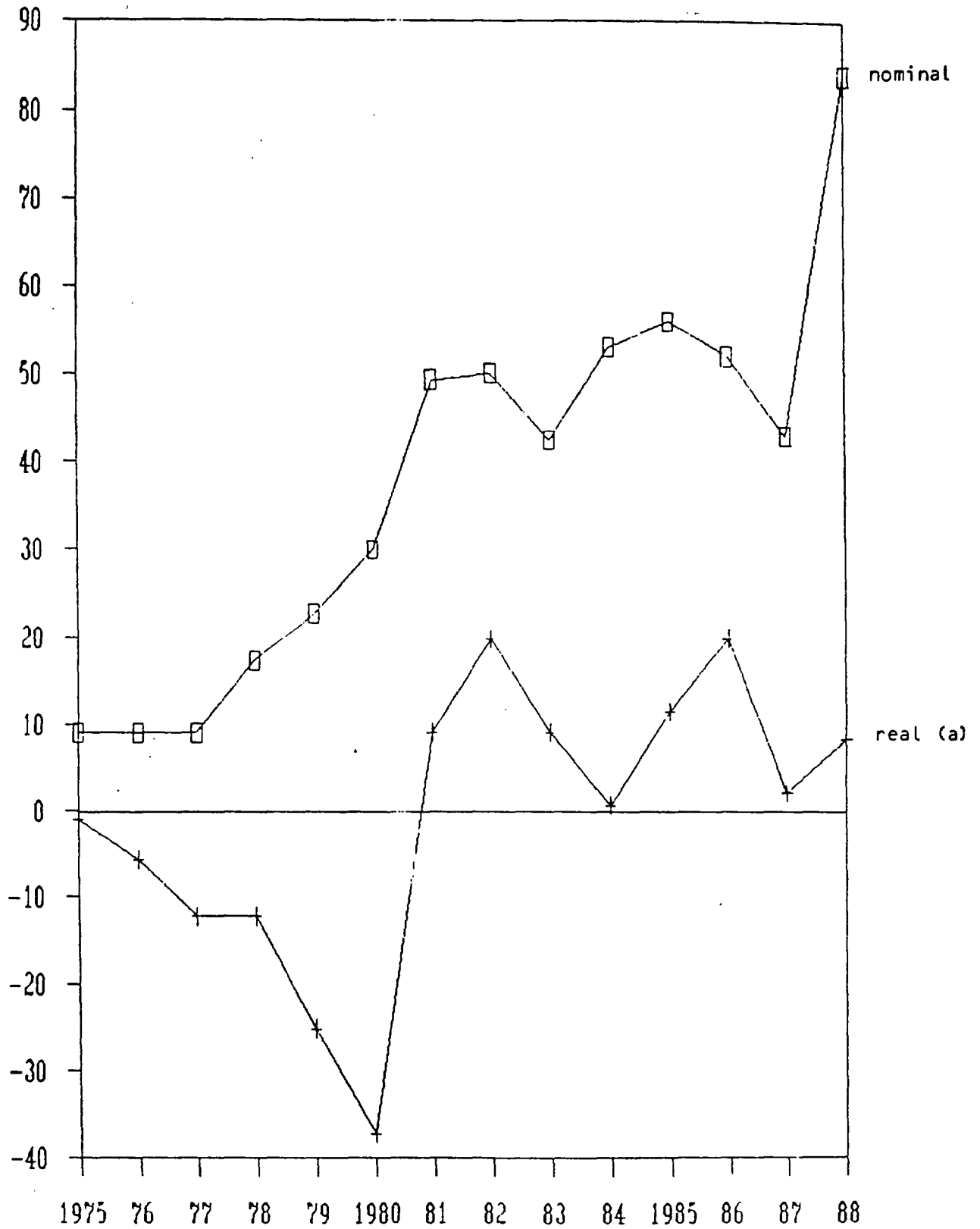
1980 = 100



Source : OECD, Main Economic Indicator, Paris.  
Morgan Guaranty Trust Company, World Financial Markets,  
August 1987, April 1988.

Graph 3.2.2.

INTEREST RATES IN TURKEY  
(12-month deposits)

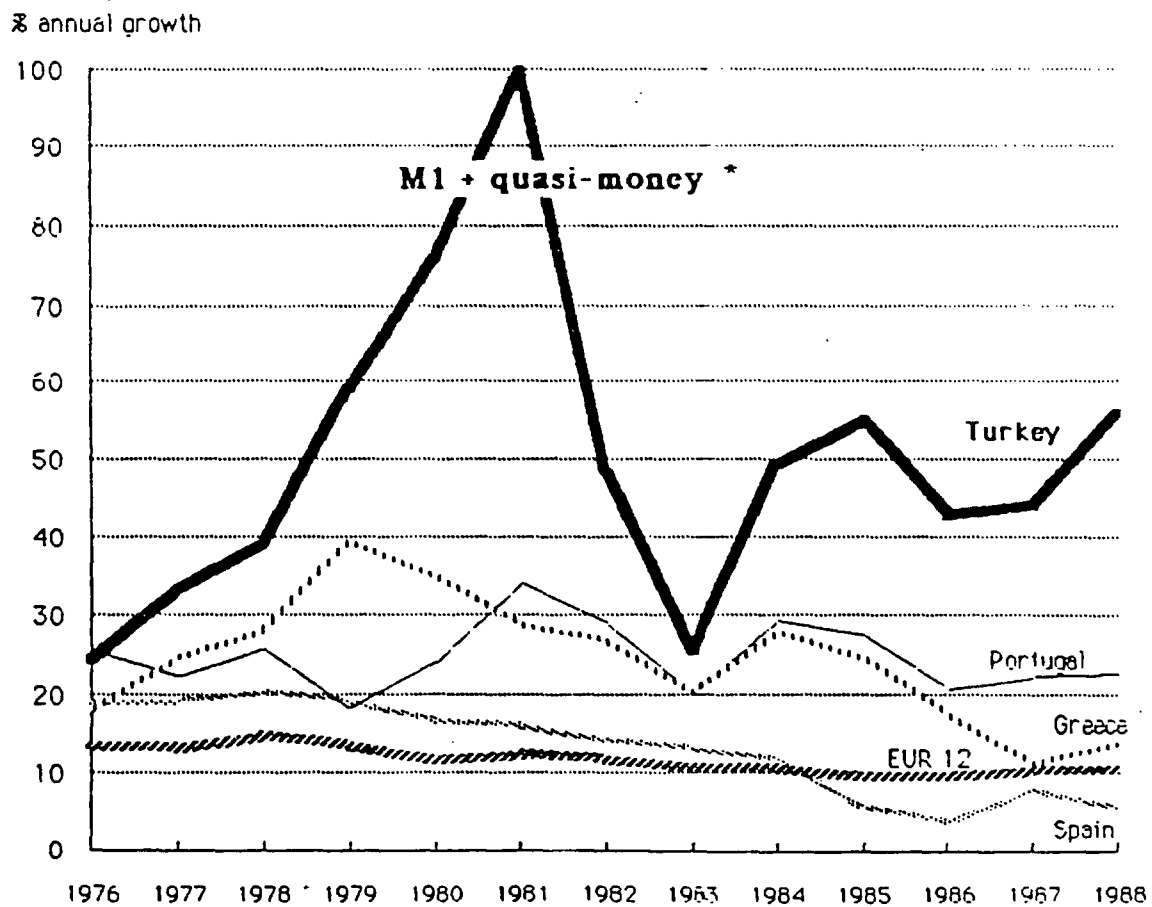
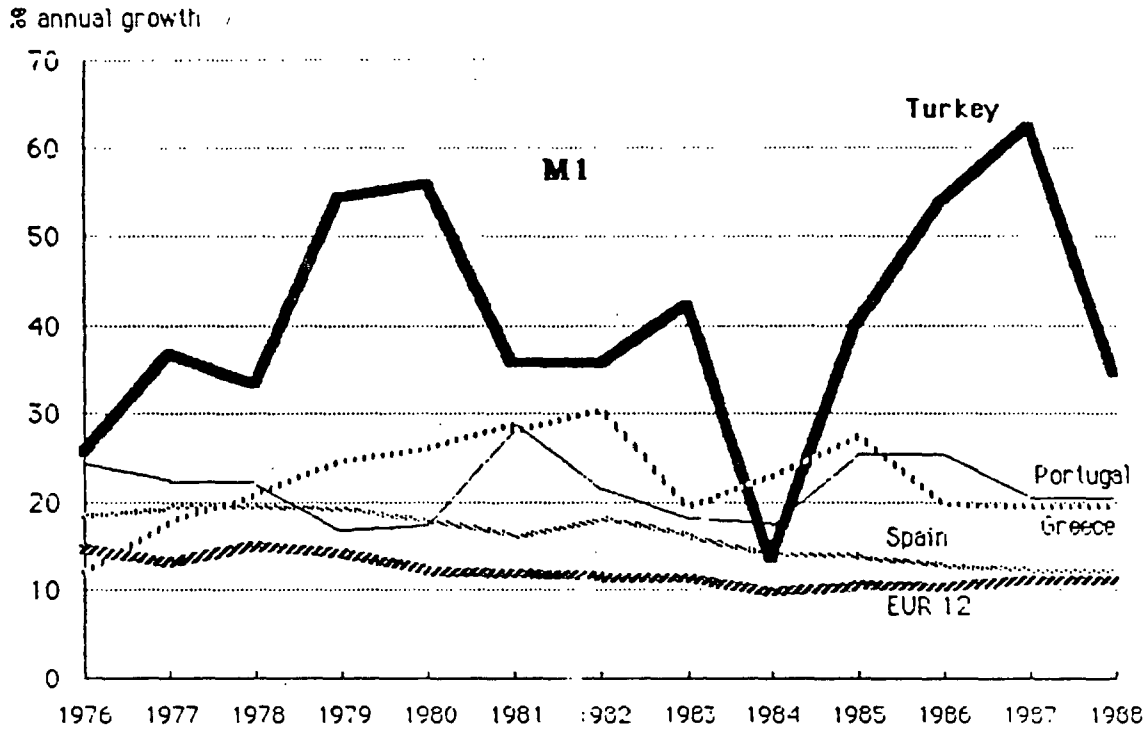


(a) Deflated by the wholesale price index

Source : Tüsiad, Annual Reports.  
Central Bank of Turkey, Quarterly Bulletin.

Graph 3.2.3.

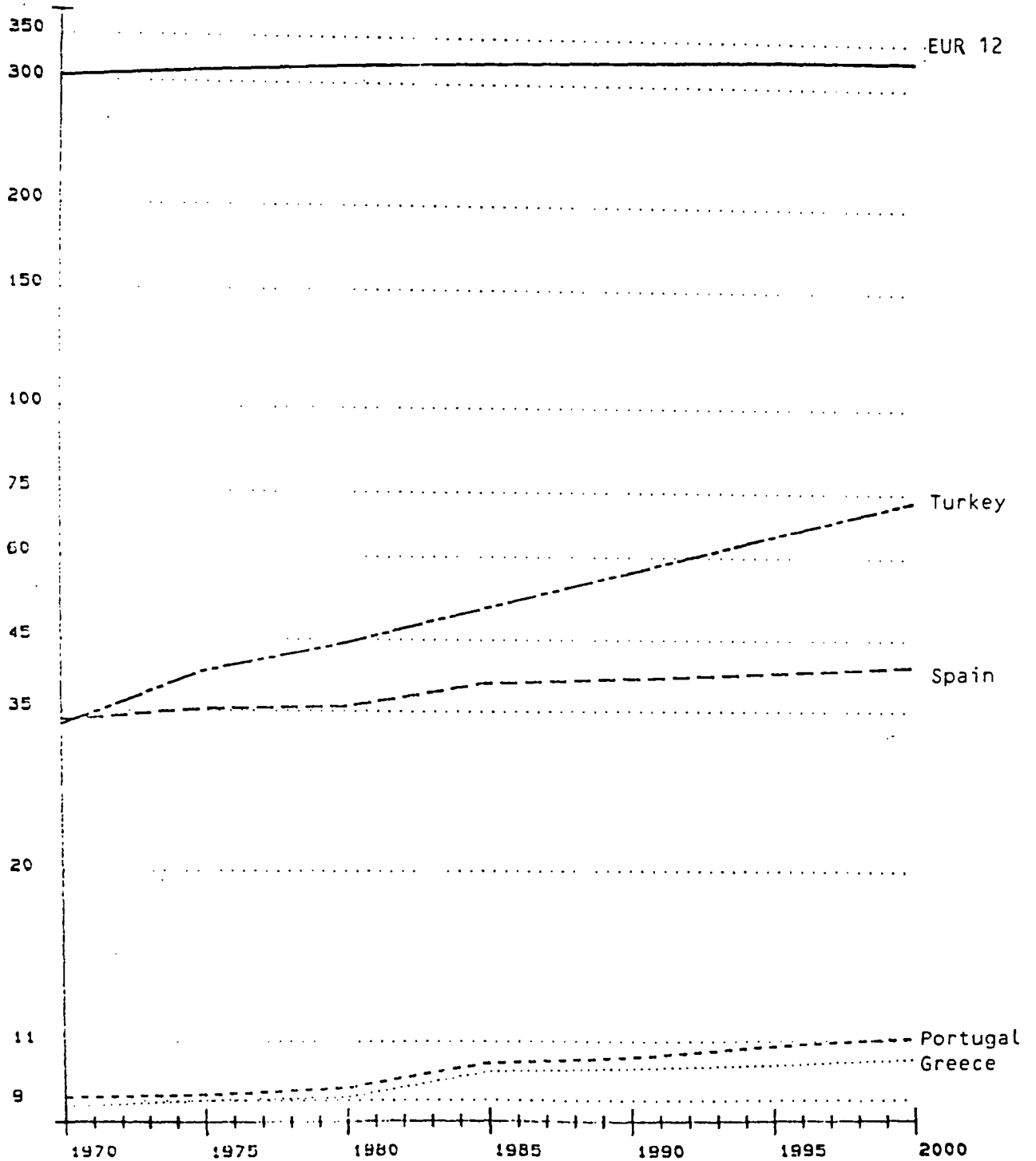
CHANGES IN M1 AND M3



\* M1 plus time and savings deposits

Source : OECD, Main Economic Indicators.

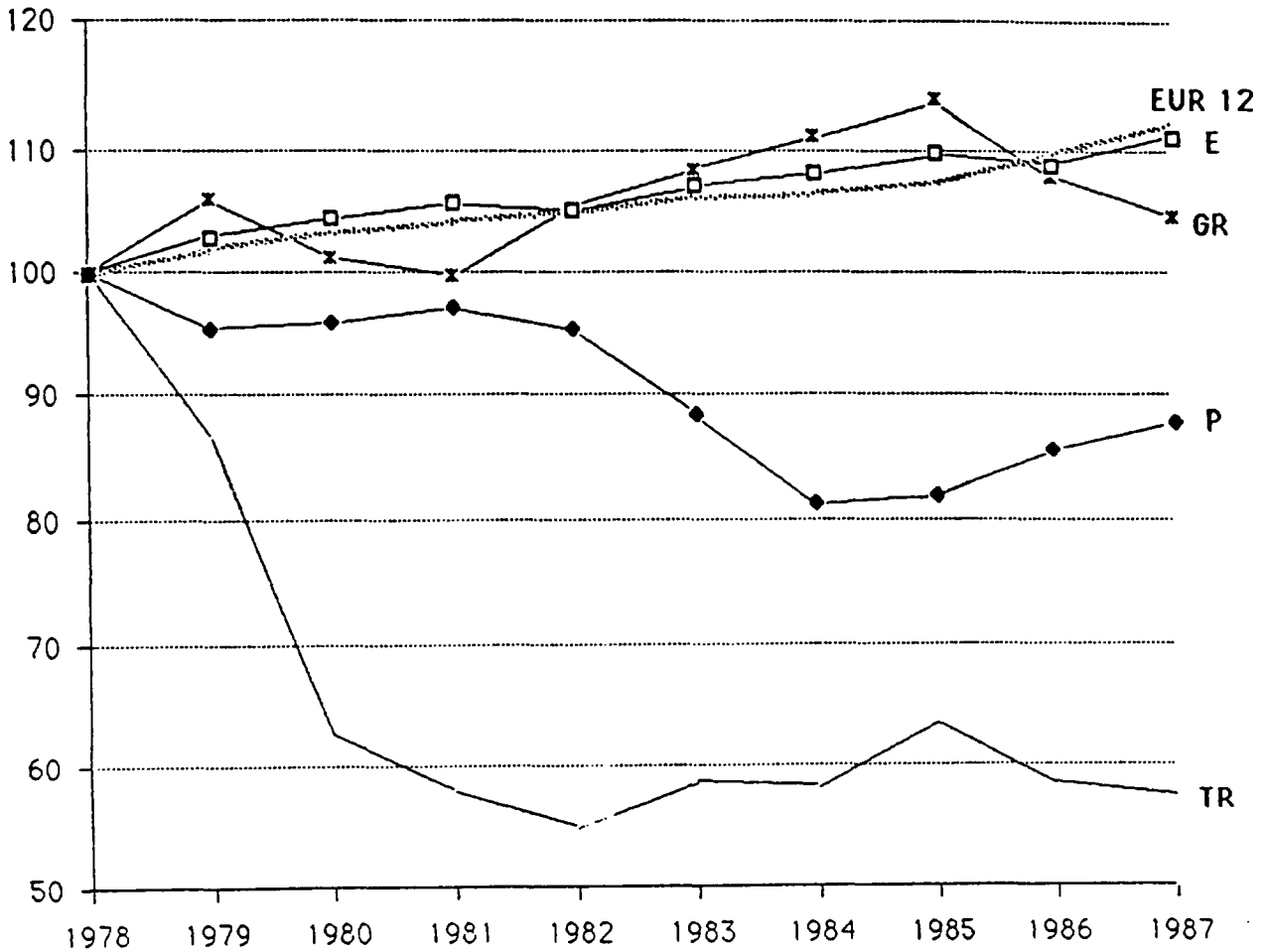
Graph 4.1.1.  
 POPULATION GROWTH  
 (millions)



Sources: Eurostat, Demographic and Labour Force Analysis, 1988 (série 3 D).  
 SIS, Statistical Yearbook of Turkey, 1987.

Graph 4.5.1.

CHANGES IN REAL WAGES \*  
(1978 = 100)



\* Nominal wages deflated by the consumer price index.

Sources : EC, European Economy No 38, November 1988.

OECD, Economic Studies, Turkey, 1983 and 1988.

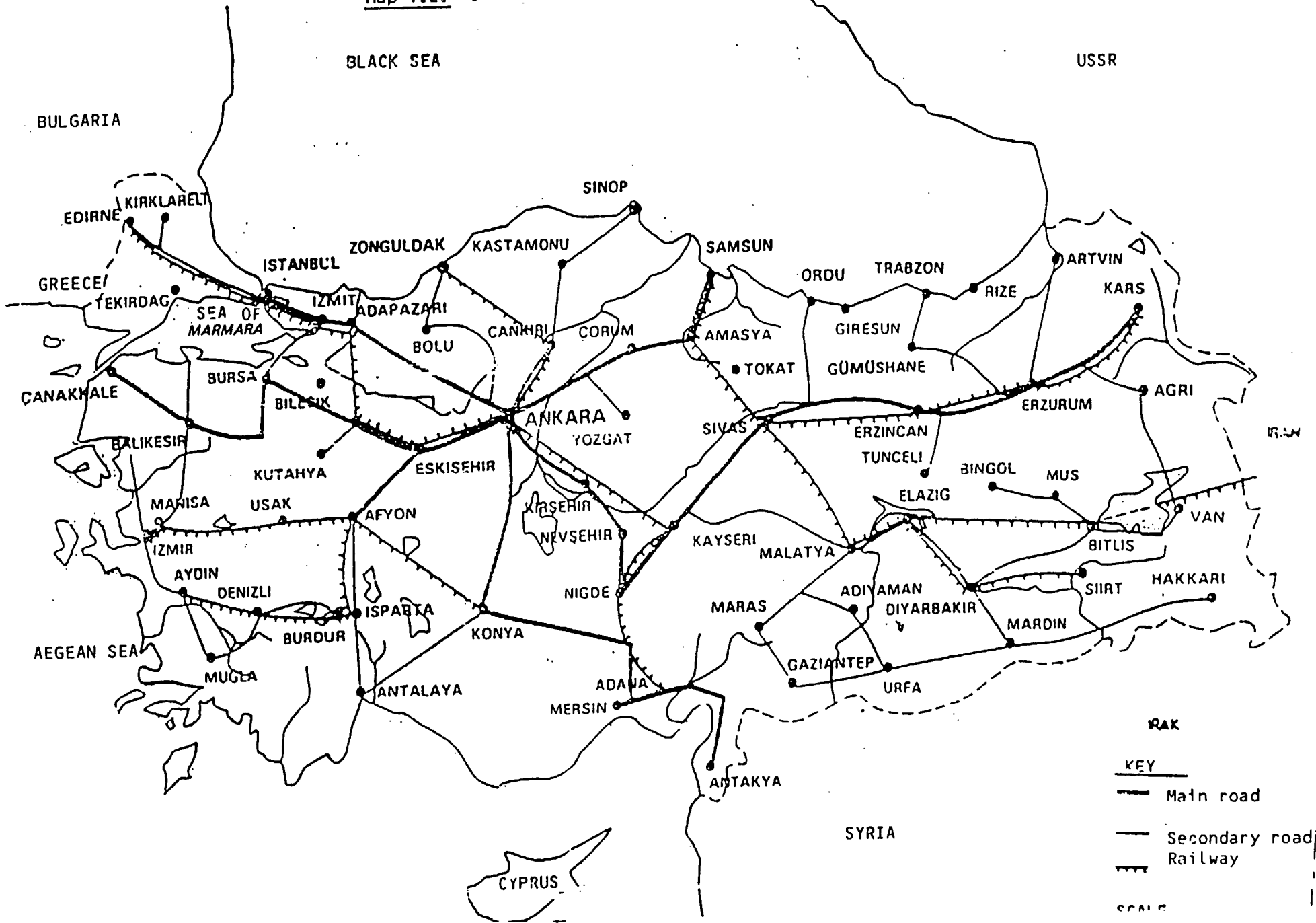


Map 1.1. : GEOGRAPHICAL LOCATION OF TURKEY



Map 1.2. :

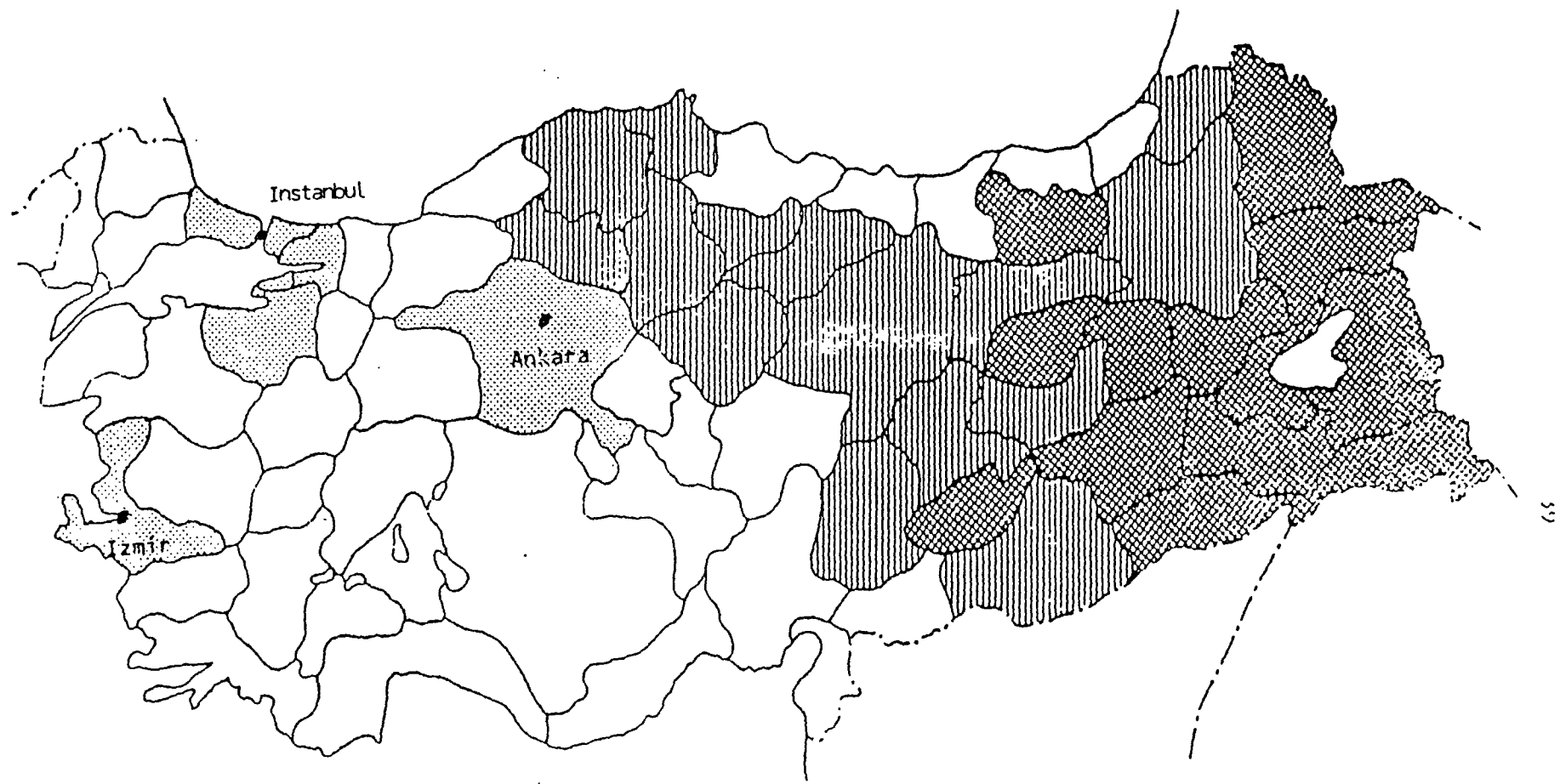
MAIN TOWNS AND COMMUNICATION LINKS IN TURKEY







125

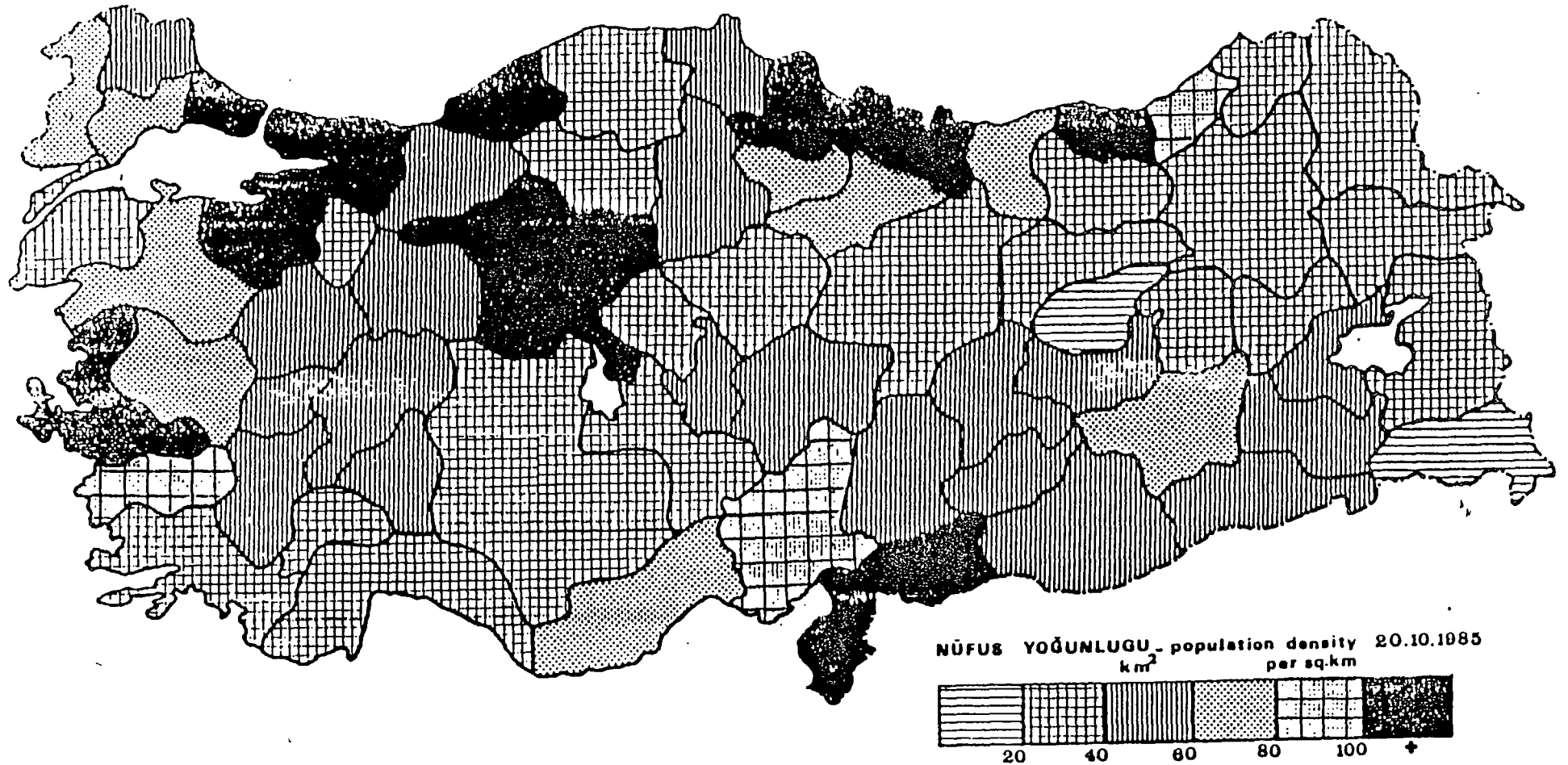
Map 2.4.1.

REGIONAL POLICY REGIONS IN TURKEY, 1984



-  First-priority development areas
-  Second-priority development areas
-  Development areas
-  Non-assisted areas

Map 4.1.1. : POPULATION DENSITY IN TURKEY



Source : SİS, Statistical Yearbook of Turkey, 1987.