Turkey's Economy Collapses: IMF Demands Blood

TURKEY

Turkish Finance Minister Yilmaz Ergenekon arrived last week in Washington to receive dictates from the World Bank and the International Monetary Fund (IMF) on the austerity measures that the Turkish government must implement to resolve what the World Bank calls Turkey's "chronic and chaotic indebtedness." According to an official at Chase Manhattan Bank, the IMF has prepared a comprehensive austerity package for the Turks. The crux of the package is a *75 percent devaluation* of the Turkish lira and a complete halt to all imports.

In commenting on the 75 percent devaluation, another New York banker affirmed, "Of course 75 percent. It has to be smashing to be effective...And they must cut all imports. If they don't, we will force them to cooperate...We in the banking community are very worried about Turkey." Until the present, import cutbacks have largely been confined to consumer goods. Now, substantial cutbacks are being demanded in capital goods imports, seriously jeopardizing Turkey's ambitious industrialization program and expectations for a continued high level of overall national growth.

Ergenekon's arrival in the U.S. coincides with the most serious economic crisis Turkey has faced since 1970, when the IMF pushed through a 66 percent devaluation of the Turkish lira. Production ground to a halt during that period (see Table 1) and has remained depressed since then, never fully recovering. Less than one year later, the Turkish military took over to enforce the IMF's harsh measures.

The current situation is equally critical. According to the Turkish daily *Cumhuriyet*, "the collapse of the economy is inevitable." Last week, reserves plunged to an all-time low of $490 million. With $147 million of that

Table 1

Industrial Production In Turkey

(1,000 TONS)

	1965	1968	1970	1971	1972	1973	1974	1975	1976	CUMULATIVE CHANGE (%) 1976/75
PUBLIC AND PRIVATE SECTOR										
PIG IRON	500	910	1,034	879	1,135	896	1,200	1,197	1,383*	+ 27.2
STEEL INGOTS	581	1,109	1,312	1,118	1,442	1,163	1,458	1,450	1,330*	+ 0.2
ROLLED PRODUCTS	268	754	996	958	1,111	975	898	828	810*	+ 9.2
SEMI-FINISHED ROLLED PRODUCTS	---	---	---	1,232	1,539	437	592	555	1,105*	+120.0
CEMENT	3,240	4,728	6,372	7,553	8,425	8,948	8,931	10,850	11,674*	+ 13.7
COMMERCIAL FERTILIZERS	376	442	679	835	1,435	1,216	1,462	2,685	2,651*	+ 6.7
COKE	1,188	1,428	1,536	1,440	1,452	1,428	1,398	1,202	1,541**	+ 32.0
SUGAR	522	650	517	642	794	723	758	806	801*	+ 23.5
PETROLEUM PRODUCTS	4,206	6,154	7,039	8,590	10,230	12,532	12,686	12,346	12,064*	+ 6.9

SOURCE: TURKIYE IS BANKASI *JAN.-NOV.

**JAN.-OCT.

amount in gold, and $150 million mere letters of credit, the remaining $192 million in liquidity is not even enough for two weeks worth of imports. The trade deficit was more than $3 billion last year and is rising rapidly. In the first quarter of 1977, the deficit was close to $1 billion, a 96 percent jump over the same period last year. Imports are up 12 percent for the first quarter over the first quarter last year; export earnings are down 38 percent. Remittances from Turkish workers in Europe — once Turkey's largest source of foreign currency — dropped by more than 30 percent in 1976 over 1975. Exacerbating the situation are $2 billion in short term debt obligations resulting from "quick cash" convertible lira deposits extended to the Turks over the past two years and now falling due.

IMF Blackmail

For months the Turkish government has resisted carrying out the IMF's austerity recommendations. Earlier this year, a World Bank delegation visiting Turkey was summarily snubbed by Ergenekon, who had his representatives attending a meeting with the World Bank officials walk out of the talks in protest of the World Bank's strong-arm tactics. Another meeting slated for several weeks later never came off due to "internal problems in the Turkish government." Sources close to the Turkish government revealed that the "internal problems" were Ankara's refusal to cooperate with the Bank. In retaliation, the World Bank has cut off funding for all projects in Turkey, as have the New York banks, and is linking the resumption of credits to Turkish concessions on Cyprus, just as Carter has linked the resumption of military aid to Turkish concessions on Cyprus. One of the projects cut is the Afsin-Elbistan dam, a cornerstone of the Turkish government's development plans for eastern Turkey.

With elections scheduled for June 5, numerous banking sources have admitted that it would be "political suicide" for Prime Minister Suleyman Demirel to go along with the World Bank. To buy off the Turks, the World Bank reportedly told Ergenekon that until the elections it will deal with Turkey on "a day-to-day basis" on the condition that Turkey abandon its pro-growth industrial policies and implement austerity once the elections are over.

According to one New York banking source,

Table 2

Achievements Of The Turkish Development Plans

(IN PERCENTS)

	FIRST PLAN 1963-67		SECOND PLAN 1968-72		THIRD PLAN 1973-77	
	TARGET	ACTUAL	TARGET	ACTUAL	TARGET	ACTUAL
FIXED INVESTMENT						
AGRICULTURE	17.7	14.9	15.2	12.2	11.7	---
INDUSTRY	30.9	31.1	34.1	37.1	45.4	---
TRANSPORT	13.7	15.7	16.1	16.7	14.5	---
HOUSING	20.3	22.3	17.9	20.3	15.7	---
SOCIAL SECTOR	9.4	8.1	8.5	6.2	6.4	---
OTHER SERVICES	8.0	7.9	8.2	7.5	6.3	---
TOTAL	100.0	100.0	100.0	100.0	100.0	---
SECTORAL GROWTH RATE						
AGRICULTURE	4.2	3.7	4.1	3.6	3.7	---
INDUSTRY	12.3	10.6	12.0	9.9	11.2	---
CONSTRUCTION	10.7	8.0	7.2	5.0	11.9	---
TRANSPORTATION	10.5	7.8	7.2	8.8	8.2	---
HOUSING	---	3.5	5.9	6.8	5.0	---
SERVICES	6.2	7.5	6.3	7.7	7.1	---
GDP FACTOR COST	6.9	6.5	6.8	6.6	7.5	---

SOURCE: FIVE YEAR PLAN REPORTS

Table 3

Turkey: Production Growth And Expenditure Of GNP

(PERCENTAGE CHANGE FROM PREVIOUS YEAR)

	1966	1969	1970	1971	1972	1973	1974	1975	1976
OUTPUT									
INDUSTRY	10.6	9.4	2.2	10.2	11.5	12.8	9.1	8.5	
AGRICULTURE	11.4	-0.1	1.4	13.1	-0.2	-10.3	10.3	8.9	
CONSTRUCTION	12.8	8.8	5.3	-4.5	7.2	9.9	7.7	8.7	
EXPENDITURE OF GNP									
PUBLIC GROSS FIXED INVESTMENT	19.7	9.1	3.4	-8.6	9.2	10.0	17.2	25.9	33.7
PRIVATE GROSS FIXED INVESTMENT	22.2	13.7	8.7	0.9	11.8	11.7	14.2	9.7	27.4

SOURCE: OECD

Ergenekon, as well as a delegation of Turkey's top businessmen and industrialists visiting the U.S. at the same time, were enraged by the linkage of aid to Cyprus and the demands that Turkey destroy its industry to pay off the New York banks. However, it remains to be seen whether or not the Turks succumb to the World Bank blackmail. Despite Demirel's willingness since he was initially installed in power more than 10 years ago to carry out World Bank-IMF policy, it is ultimately a political question whether the Turkish government — either under Demirel or opposition leader Bulent Ecevit — can rally the bureaucracy and population to accept a drastic curtailment in industrial growth, a founding principle of the modern Turkish Republic.

The Five Year Plans

The core of Turkey's development strategy is rapid state sector industrialization. Since the 1950s, despite recurrent attempts by Atlanticist forces either to divert Turkey's pro-development orientation away from industrialization toward traditional, unmechanized agriculture or to dilute it by emphasizing the need for labor intensive rather than capital intensive industry, Turkey has insisted on developing a diversified heavy state sector industrial capacity as the solution for its poverty and backwardness.

Turkey's three five year plans (1963-67, 1968-72, 1973-77) exemplify this orientation. Ironically, the notion of a "planned economy" and the five year plans themselves were formulated by the IMF to solve Turkey's large balance of payments deficit in the 1960s by pushing import substitution and export promotion, and by expanding the private sector light industries and dismantling the "inefficient" heavy industrial state sector.

During the First and Second Five Year Plans, 31.1 percent and 37.1 percent, respectively, of all investments were made in industry, surpassing the amounts targetted in the plans. (See Table 2) The current Third Five Year Plan calls for 45.4 percent of all fixed investment to be channeled into industry. While the first two plans emphasized the private sector at the expense of the public sector, the Third Plan, as well as the Fourth Five Year Plan (1978-82) which will be announced later this year, focuses explicitly on the need for the rapid expansion of state sector industries. Contrary to the IMF's insistence that emphasis be placed on light, state sector manufactures and traditional, labor intensive agriculture, the Third Plan calls for the establishment of intermediate and investment goods industries and the application of advanced technology. The plan's major investment projects — all in the state sector — number approximately 200 and involve the expansion of the steel complexes in Iskenderun and Eregli; a second petrochemicals complex; a new oil refinery and chemical complex in Tarsus; the expansion of nitrogen fertilizers and aluminium production; and an expansion of the automobile industry, which is now limited to assembly, to include the production of gears and transmissions.

In addition, three important new projects have been launched. In Sept. 1976, work on the giant Karakaya dam in southeast Anatolia was begun. The dam is being built by an Italian-Turkish consortium. Shortly after, work began on a Rumanian-financed oil refinery in central Anatolia. Significantly, the Rumanians will supply the foreign currency component of the refinery's total cost (approximately $600 million), repayable in ten years at a low 5 percent annual interest. The third major project is the construction of Turkey's fourth iron and steel mill, which promises to be the largest single investment in Turkey's history. The mill, to be built in Sivas, is to be built by the Japanese.

These projects illustrate the scope of Turkey's industrialization drive. Much to the IMF's chagrin, the Third Plan calls for an ambitious 11.2 percent annual growth rate of industrial output (Table 2). In 1973, the Turks managed to surpass that goal and achieved a 12.8 percent industrial expansion rate. Since then, however, the jump in oil prices, combined with the 1970-71 collapse of Turkey's production and the overall depression in worldwide economic activity, has taken its toll, and the annual industrial growth rate has dropped to an average 8.5 percent. (See Table 3)

While overall production rates are flat since the 1970 collapse, the output of individual sub-sectors increased dramatically in several instances last year. Based on production statistics available through October-November of 1976, pig iron was up 27 percent, semi-finished rolling mill products up 120 percent, cement up 14 percent, steel mill products up 52 percent (this will rise even more this year due to the opening of the huge Soviet-built steel mill in Iskenderun), and aluminum conductor wire up 163 percent. Electricity production and mineral production also increased, with hydroelectric power up 43 percent, iron ore up 25 percent, coke up 32 percent, lignite up 19 percent, and kerosene up 22 percent. (See Table 1 for some of these categories of production.)

Another Military Intervention?

Last year, in an attempt to bring down the trade deficit, consumer good imports were cut 26 percent. The cutback contrasted sharply with 1975, when consumption-type imports were twice as much as had been projected and were fingered as the reason for the shortfall that resulted in fixed capital formation. Predictably, last year's cutbacks did little to remedy the situation, since less than 5 percent of all imports are consumption items and more than 95 percent are either raw materials or investment goods, which the Turks refuse to cut. In commenting on the 12 percent rise in imports this past quarter, a New York banker fumed, "The Turks are proud. They keep importing and won't give up their damn development programs." On top of the trade deficit Turkey's foreign debt is more than $4 billion excluding the $2 billion short-term convertible lira accounts now falling due. (85 percent of this $4 billion debt was incurred to finance the budget deficit!) While the amount is not particularly high compared to other countries and more than two-thirds of it is comprised of flexible government-to-government loans, the debt service ratio is rising and the grace period of many of the longer term debts is running out. In 1976, the debt service ratio was 10.6 percent; in 1977, 14 percent.

The situation is eerily reminiscent of the 1970-71 crisis. The high growth rate of the 1960s culminated in an acute foreign exchange shortage by mid-1968. Efforts were made to restrict investment to "real sources" (i.e., no consumption goods) and to raise the volume and variety of exports. Needless to say, currency transfers rapidly fell into arrears and inflation soared. In 1969, Demirel, on orders from the IMF, attempted to devalue the lira and impose a large tax hike, but there was such widespread opposition that his Justice Party split. The currency crunch worsened. Imports ground to a halt, as did production; the industrial growth rate for 1970 was 2.2 percent! In August 1970, a 66 percent devaluation of the lira was decreed. In March 1971, the military took power when it became clear that Demirel did not have the muscle to impose the harsh measures against the Turkish population necessary for carrying the IMF's fiscal policies. The immediate effects of the 1970 devaluation, combined with the political instability resulting from three government changeovers, were devastating. Production fell, and a huge budget deficit amounting to 13 percent of total expenditures for the year occurred in 1971. In 1972, substantial cutbacks were made in investment expenditures, while the country was literally exported clean. Exports that year were 21 percent higher than the Second Five Year Plan guidelines, and slightly higher than what had been planned for 1973.

What's At Stake

Turkey's state sector enterprises are the centerpiece of the country's industrialization drive. The state sector enterprises number more than 100, contribute approximately 10 percent of the value added to the economy, employ 6 percent of the industrial work force, and account for one half of Turkey's factory production and the bulk of Turkey's heavy industrial output. The state sector virtually monopolizes steel, oil refining, electricity, fertilizers, paper, railways, air transport, shipping, and communications, and holds a major share in textiles, cement, coal, sugar, chemicals, and machinery.

Since the early 1950s, the IMF has exerted continuous pressure on the Turkish government to sell the state sector enterprises to the private sector, the first step toward their being dismantled. According to the World Bank, the state enterprises are "un-economic" and "burdened by social goals." However, the World Bank has admitted the near impossibility of their liquidation goals. In the words of a World Bank publication, "even a government such as the present (1969) Justice Party administration, which professes belief in the market mechanism and in the necessity of a vigorous private sector, is often unable to translate its policy intentions into action. This is due in part to the resistance of the civil servants on whom policy implementation, as distinct from enunciation, depends."

Turkey's long-term development plans envisage that by 1995 industry will account for 40 percent of the GNP and 52 percent of the work force. Currently, industry accounts for approximately 18 percent of the GNP and only a small proportion of the labor force — roughly 15 percent.

Iron and steel is the core industry. Three steel mills are in operation: the old Karabuk mill, the more recently constructed Eregli mill, and the just-opened Soviet-built works in Iskenderun. A fourth plant in Sivas will probably be constructed by the Japanese. That the Turks are committed to developing their steel capacity is attested to by the current Third Five Year Plan, which calls for a tripling of investment in steel and production over the previous plan. While the U.S. has expressed skepticism about building up Turkey's steel industry, the Soviets are offering considerable encouragement and are involved in the expansion of the new Iskenderun mill to 6 million tons. In addition, two more mills are under study. States Turkish Minister of Energy and Natural Resources Selahattin Kilic, "Turkey should have 20 million tons of steel production in five years. If it is considered that Italy has 60 million, West Germany 60 million, Japan 110, the USA 120, and the USSR 135; forget about the USSR and USA, but Turkey can compare easily to Italy and Germany in respect to size and population and is going to have to greatly increase its steel production soon."

Large investments are also being made in Turkey's petrochemicals, chemicals, and fertilizer industries. The state-run Turkish Petrochemicals Industry Corp. (Petkim) is pursuing an ambitious long-term investment program to make Turkey self-sufficient in petrochemicals production. Turkey's main petrochemicals complex in Izmit, a second one in Ixmir, and a third yet to be built form the core of the industry, along with two new nitrogen fertilizer plants, a major alkali complex, and a new boron products plant. The World Bank has strongly discouraged investment in petrochemicals and fertilizer production on the grounds that they are too highly capital intensive.

Other vital industries are cement and textiles, both of which have sizable private sector input and a high growth rate.

Mining is another key state-controlled enterprise. Turkey is one of the world's leading producers of chromite, boron compounds, lignite, copper, and aluminium. Bottlenecks in the production of coking coal

Top Banker: 'Turkey Must Cut All Imports, Devalue 75%'

A high-level official of a leading New York bank granted the Executive Intelligence Review *the following interview earlier this week:*

Q: The situation in Turkey looks critical. Reserves are reported to have fallen to $516 million.
A: No, they have fallen even lower today. I have a report on my desk that says they are now just below $500 million. The situation is truly devastating! What do you make of it?

Q: I think it looks like a repeat of 1970, when the trade deficit grew, production collapsed, and in August there was a 66 percent devaluation, to be followed in March by a military takeover. Are the New York banks and the IMF thinking in terms of another devaluation? I've heard that you have been calling for a devaluation of 50 percent or so.
A: Fifty percent — you mean 75 percent! Maybe even more, but 75 percent at least. It has to be smashing to be effective. That's how critical the situation is. We in the banking community are really worried about Turkey.

Q: The IMF wants Turkey to cut imports. But imports for the first quarter are up 12 percent over last year. Why? Is it because of the elections?
A: Partly elections, partly because the Turks are proud and won't give up their damn development programs. It's not just consumer items we want them to cut. They have to cut all imports — heavy inudstrial goods, capital equipment — the works! But they refuse to do it. They are really stubborn people.

Q: The Turkish Finance Minister was just here in New York along with Turkey's top industrialists. What happened?
A: We met with them. By "we" I mean the IMF, the World Bank, and the banks here in New York. We told them that we would view the situation favorably if the Turks would only make some concessions on Cyprus. We linked aid to Cyprus; Carter is doing that with the Defense Cooperation Agreement. The Turks were offended. They didn't say anything; I mean they did not say no, they did not reject our offers, but they were angry. They just sat there and wouldn't reply to what we were offering. I think that the U.S. is being very smart to link Cyprus to these matters.

Q: What will the Turks do?
A: I don't have a crystal ball. But they won't break with us, I'm pretty sure. The situation will be resolved soon, I hope, after elections. The Turks may be forced to cooperate. They will be faced with a fait accompli.

Q: What do you mean?
A: It's hard to say until after the elections. I don't want to speculate until the elections. But as I said, we will probably have to force the Turks to accept our recommendations.

Q: Are the Turks asking for a loan from the IMF?
A: As far as I know, no. The situation is not at that point yet. Even if they do ask, they won't get more than $250 million. People are very scared to invest in Turkey these days; they are just not willing to do it. Those short-term convertible lira deposits are coming due in the next several months, which adds a further strain. The debt itself is not a big problem; it's those deposits — $2 billion. Most banks are willing to roll the things over, but I know a number of banks are pulling out altogether.

Q: What was the attitude of the Turkish businessmen and industrialists who were there?
A: Those businessmen and industrialists are politically quite important. All the big ones were here. They were as angry as the Finance Minister. Funding for 10 projects was cut by the World Bank. Essentially, all credit to the country has been stopped. The industrialists know that their firms are on the line, because if everything is cut, all imports and so forth, their industries will collapse like that. Anyway, it's only four weeks until the elections. I think the Turks will be able to hang on until then, and then we'll see what will happen.

are serious, and at least one million tons of coking coal per year have to be imported. Turkey places considerable emphasis on developing its mining industry. But, notes Kilic, "we do not accept foreign companies in the exploration stage for our minerals. For extracting and making plants to produce minerals and mineral products, we welcome them"

Another bottleneck is electricity. Turkey is now generating 18.3 billion kilowatt hours annually; in addition, 300 million kilowatt hours are being imported from Bulgaria. In an effort to expand consumption to 95 billion kilowatt hours, eight thermoelectric and ten hydroelectric power plants are under construction. In 1977, construction of 33 units that are both hydroelectric and thermal will be begun.

The Turks are also interested in moving rapidly into nuclear energy. According to Kilic: "We started actively working for it in 1968, but we were blocked until 1975. Now we have practically finished all the preparations: the site is selected, the license is issued, an advisory firm has been hired, and, by the end of this year, we will put up for bid two of the elements, so that actual construction of our first nuclear pwoer plant will begin at the end of this year." This, asserts Kilic, is but the beginning of Turkey's nuclear efforts; by the end of the century, an additional ten nuclear power plants will be in operation. Kilic has also noted that uranium exploration in mineral-rich Turkey has been going well. "It looks as though we are going to have good results and be able to supply all our future nuclear power plants' requirements."

Which 5-Year Plan?

The Fight For Egypt's Economy

EGYPT

Egytian President Anwar Sadat has in front of him an ambitious 1976-80 Five Year Plan for using $12.9 billion in investments from the oil producing nations and Western capitalists to rejuvenate Egypt's stagnant industrial base and renew its capacity for development. The plan includes a projected $20 billion investment in heavy industries such as petrochemicals, steel, aluminium, and in fertilizers and textiles.

The Rockefeller banks and the International Monetary Fund, however, have exerted constant pressure on Sadat since he came to power to squeeze the economy dry in order to maintain Egypt's debt payments. This high-powered campaign to collect Egypt's $17-20 billion debt has included personal visits from David Rockefeller, Sadat's official economic adviser.

On the other hand, Egypt has a strong Nasserite faction in the military and in the state bureaucracy that is committed to the kind of industrial progress and development initiated under Nasser's rule. This pro-growth faction is not limited to Egypt. A number of industrial companies are anxious to invest in Egypt and have stressed the importance of increasing the consumer market within Egypt.

Although Sadat's capitulation to the New York banks ground Egypt's development programs to a halt, and disabled the state sector industries, Sadat has not devalued the Egyptian currency 50 percent as demanded; he has not reduced or canceled food subsidies; he has not instituted a rigid system of price controls — all part of the IMF version of the Five Year Plan.

For Egypt's New York creditors, the 1976-80 Five Year Plan is viewed simply as an instrument to extract Arab oil dollars and the investments of Western industrialists. To the Chase bankers, "development" is seen only in terms of "Hong Kong"-local industries utilizing cheap labor, set up strictly for exports whose earnings would funnel directly into debt payments. To this end, Chase and other banks organized the U.S.-Egyptian Business Council, which along with the U.S. Agency for International Development set up an Investment Stimulation program to convince Western industrialists to invest in Egypt. The Business Council's December 1976 Report on Foreign Investment in Egypt informed potential investors that the Egyptian investment law (Law 43, "The Open Door") requires that all items produced must be exported, and stipulated that Egypt can't afford "import substitution" — domestic consumption of the goods produced.

The Egypt That Nasser Built

In 1967, Egypt was a more industrialized nation than it is today. Nasser's 1960-65 Five Year Plan, the model for the plan Sadat is now publicizing, called for a total expenditure of 1,697 million Egyptian pounds, with approximately one-third allocated to industrial and electrical development. As the accompanying table shows, the Five Year Plan was astoundingly successful, with production doubling and in some cases even tripling in a short time, reaching a peak around 1970. During this period, with Soviet aid, Egypt developed the most advanced infrastructure in the Arab community, the 1970 completion of the Aswan Dam for example), with a concomitant rapid development of its working class. The peasantry also began using fertilizers and machinery to increase agricultural production.

The 1967 Six Day War brought to a halt the plans of the Nasser government to continue a rapid growth economy, and by the time Sadat became President in late 1970, the idea of a Five Year comprehensive development plan was all but buried in the sand. Although much of the war costs were assumed by the Saudis and the Algerians, the war wiped out the most productive Egyptian oil fields, two old but still functioning refineries, and a vast tourist