# Turkish outlook hinges on fight with IMF

Rich in mineral resources and guided by a development-oriented government and civil service, Turkey is one of a number of potentially rich developing sector nations whose economic outlook is clouded by pressure from the International Monetary Fund to forego longer-term industrial development in order to maximize income immediately available for debt service. In its quest for an alternative to the IMF formula of austerity and concentration on labor-intensive agriculture, Turkey, with encouragement and material support from both West Germany and the Soviet Union, has put together a promising package of regional industrial development deals. If this program takes off, it will offer good prospects for participation by western firms willing to accommodate to the Turkish government's insistence on maintaining control over the development of the nation's resources.

However, the program's success hinges first on the outcome of the intense faction fight currently raging inside Turkey over the demand by the IMF, together with the World Bank and Great Britain, that the Turks abandon their development plans and instead pursue a course "more appropriate" to Turkey's status as an underdeveloped country.

Since signing a letter of intent with the IMF last March, the Turks have grown increasingly restive as a result of escalating pressure by the IMF to implement further austerity measures that threaten to gut the very foundations of the Turkish economy. Prime Minister Bülent Ecevit is among those who have angrily denounced the strongarm tactics of the IMF and its allies. In a recent speech, Ecevit stated point blank: "We have no intention of having our head chopped off by certain so-called solutions that fall foul of contemporary realities and the economic and social realities of democratic Turkish society."

### The IMF's demands

Last month, a high-level IMF delegation — led by Charles Woodward, a Briton — arrived in Ankara to discuss extending a second credit tranche to Turkey of $50 million. Expressing their displeasure with Turkey's reluctant compliance with IMF austerity dictates since the March stand-by agreement was signed, the IMF officials demanded that additional austerity measures be adopted by the Turks as preconditions for receiving any further credit. Turkey, the IMF stipulated, must lower its growth rate, tighten up internal credit and money supply, devalue its currency *continuously*, impose a freeze on both the hiring and wages of government officials, raise gasoline prices, and close down those State Economic Enterprises deemed "unprofitable." Until Turkey agrees to these measures, the $50 million tranche will be withheld.

**Turkey's outstanding short-term debt**

| BANKS | Amount (Millions) |
|---|---|
| Convertible lira deposits | 1,629 |
| Banker credits | 424 |
| Non-commercial arrears | 373 |
| Overdrafts | 264 |
| Bank for International Settlements | 85 |
| Dresdner Bank | 208 |
| Commercial arrears | 270 |
| Acceptance credits | 780 |
| **Total Bank Debt** | **4,033** |
| **TRADE ARREARS** | |
| OECD countries | 1,600 |
| OPEC members | 350 |
| Other countries | 136 |
| **Total Trade Arrears** | **2,086** |
| Other Debts | 538 |
| **Total Short-Term Debt** | **6,657** |

*as of April 1978.

The IMF is particularly angered by the Turks' insistence on maintaining a high growth rate, and has called upon the Turkish government to slash its ambitious economic growth projections in the still unpublished Fourth Five-Year Plan. Both the IMF and the World Bank have demanded to review the plan before it is published, to ensure that it conforms to their requirements.

Closely coordinating its activities with the IMF, the World Bank issued a report last month on the Turkish economy which demands that the Turks abandon their industrialization drive. The report was described by one West German source as a "lead-in" for the recently formed Brandt Commission, headed by former West German Chancellor Willy Brandt and advised by Henry Kissinger. The Brandt Commission is actively working to subvert the Bonn-Bremen arrangements for economic reorganization and prevent the industrialization of the Third World. The Brandt Commission was especially active in trying to sabotage a Turkish government-sponsored conference on the new world economic order held early last month in Istanbul.

The World Bank report states:

> Under today's circumstances Turkey must change its industrialization strategy. It is impossible to achieve industrialization while having such a large trade deficit. Therefore, it is not realistic to expect development in heavy industry sectors such as chemicals, heavy machinery, manufacturing, and mining. Instead, Turkey must shift toward export-oriented light industry. . . .

### A battle of wills

Ecevit and his allies inside the government, realizing that implementation of further austerity measures in Turkey will only exacerbate the widespread unrest and weaken the Ecevit regime, are taking a hard line against the IMF. According to an article titled "Bülent Ecevit talks Turkey to the IMF," printed in the Sept. 5 British daily *The Guardian:*

> The crux of the matter is that for political reasons Ankara is extremely unwilling to impose further austerity measures just now. The people are already groaning under the austerity measures of last winter and officials fear that a further tightening of belts could lead to sharp reaction. They are probably thinking of the example of Peru where martial law was declared in the major cities recently to quell public disorder in the wake of the latest austerity standby agreement with the IMF....
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> Mr. Ecevit's dilemma is: if he breaks with the IMF, he may be ostracized by the international financial community whose cooperation is vital for Turkey; if he gives in and takes the austerity measures with the Fund's recommendation, he may face serious trouble. Turkey

## *Economist* urges pastoral Turkey

The British weekly *The Economist* has been the most blatant in delineating the kind of role envisioned for Turkey by the World Bank and IMF. Turkey, said *The Economist*, must become not the industrial bridgehead between Europe and the Middle East, but the "granary, dairy and butcher for the region"! *The Economist* complains that Turkish Prime Minister Ecevit is going too fast in pushing economic development, and derides Turkey's efforts to industrialize and export industrial goods to Eastern Europe, the Soviet Union, North Africa, and the Middle East:

> The Turkish planners' dream of exporting cars and refrigerators is unrealistic. The north African consumer market is small; many of the Middle Eastern countries can afford Cadillacs and Mercedes; and Eastern Europe and Russia have their own industries. But if Turkey could become granary, dairy and butcher for the region, its exports would greatly benefit.

## Enraged Turks reply

In angry response, the Turkish press has denounced the demands of the IMF et al., as extensions of the same colonial policies imposed by Great Britain on her subjects for centuries.

An editorial in the Aug. 27 Turkish daily *Cumhuriyet* responded indignantly to *The Economist* call for deindustrialization, and scored the British magazine as a mouthpiece for the IMF and World Bank. The editorial also attacked Britain and other EEC members for imposing a virtual embargo on Turkish textile exports, Turkey's primary foreign exchange earner.

> *The Economist* has summed up how the West views Turkey's economic situation in a language not so in line with typical British subtlety . . . *The Economist* has verbalized without any qualms what lies behind the World Bank's proposal for "continuous devaluation," behind its advice to shift resources to agriculture and light industry from heavy industry, behind the IMF's classic prescriptions of "drop your growth rate," "cut your import volume," and "implement a realistic currency rate."
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> For more than a quarter of a century, Turkey has been given advice "not to undertake jobs bigger than you can do" and shift weight to light industry and agriculture. Turkey's economic policy is being pressed to reorient itself in this direction. The EEC's view of Turkey is not any different from this point of view.
>
> After Italy, EEC members

already suffers from political violence, with nearly 400 people killed in clashes so far this year.

Like a growing number of other Third World leaders, Mr. Ecevit believes that the IMF's conventional stabilization formulae are recessionist and not compatible with the realities of underdeveloped states. They lead to stagnation.

"Stagnation," said Mr. Ecevit recently, "results in grave social and political crises and eventually in upheavals due to the slow-down of development or rising unemployment. In turn, such crises or upheavals increase the tendencies to establish authoritarian regimes." It was not coincidence, added Ecevit, that authoritarian regimes were gaining ground in developing countries.

Turkey's current clash with the IMF, therefore, goes beyond the second tranche or austerity measures and is a matter of general principle. It centers upon the formulation of a different set of principles more in line with the realities in the Third World.

In addition to Ecevit, another top level government proponent of economic development is Defense Minister Hasan Esat Isik. In a recent interview with the Turkish daily *Cumhuriyet*, Isik stressed that the basis for national security is economic development and detente. "Our conception of national security," said Isik in a swipe at the IMF, "is not to obstruct our economic development, but to facilitate it."

**Turkish Finance Minister Ziya Müezzinoglu has also taken a tough stand against the IMF, leading to a run-in with Central Bank governor Tayyar Sadiklar, who has pledged to carry out the IMF proposals "to the letter." Last month the government tried unsuccessfully to have Sadiklar expelled from his post. Sadiklar, an appointee from the previous government, managed to obstruct these efforts.**

**In an op-ed on Aug. 25, prominent *Cumhuriyet* columnist Ilhan Selçuk attacked the IMF for forcing devaluations on Turkey, devaluations which, in the past year, amount to 85 percent against some major currencies. Selçuk singled out Keynesian economic theory for criticism, for promoting devaluations as helpful in solving economic crises. And he scored Britain's handling of its 1929-31 economic crisis, when the British adopted a course similar to that urged on Turkey today, noting that the sterling devaluation of 1931 helped catapult Hitler to power by depressing German exports. Selçuk also criticized the weakness of the Turkish government toward the British and the IMF.**

**The problem: Despite the widespread outrage that the IMF's demands have engendered, the Turkish government has yet to put forth a strong policy alternative. This failure could play right into the IMF's hands, increasing the Fund's leverage against the Ecevit regime, already badly weakened by the spiraling violence between left- and right-wing political factions triggered by the neo-Nazi commandoes of Col. Alparslan Türkes.**

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Britain and France have implemented a virtual embargo against Turkish textile products. They have, in particular, halted imports of cotton thread from Turkey. This is not the first embargo imposed on textiles. This situation also was faced at the beginning of last year. In addition, at the initiative of the EEC, the tax return ratio given to Turkish exporters of cotton has been reduced, therefore increasing the export price.

Ironically, textiles are one of the branches of light industry that the West has been encouraging underdeveloped countries such as Turkey to adopt.

On Aug. 23, a *Cumhuriyet* editorial attacked the World Bank for trying to reorient Turkey away from heavy industry, comparing the Bank's efforts to those of the British in the 1800s:

What kind of industrialization strategy should Turkey follow in the next five years? While the Fourth Five-Year Plan is being prepared, this question has become the front issue. One's attention is attracted to the fact that not only the responsible nations institutions but also the foreign financial centers are interested in the issue. Those Western centers that hold the sources of credit in their hands seem to have become involved in an effort to give direction to Ankara's industrialization policy for 1979-1983. . . .

In a report, prepared by the World Bank, the road of development that Turkey has to follow is being laid out. . . .

Needless to say, this is not the first report by the World Bank on this issue. In 1974, the following suggestions were made in another World Bank report:

1) Turkey's agricultural sector should be emphasized.

2) Turkey should reduce the share of industrial investments in total investments.

3) Turkey should give priority to expanding production of consumer-oriented goods and services.

As can be seen, the same viewpoint is predominant in both reports. The road that is being suggested to Turkey is that she abandon those sectors of industry that are the heart of development. In other words, Turkey is being asked to adopt the kind of industries that do not produce technology, and be satisfied with being a backward extension of the West.

In reality, it could be said that this approach . . . has a past of 150 years. In the 1800s, when Britain had captured the lead in industrialization, British economists developed the following "Holy Thesis": Britain should specialize in machinery, America in corn, and Portugal in wine. Today, this "Holy Thesis" has been given more subtle dimensions, but its core has not been changed.

The present economic crisis which Turkey is going through is a product of vicious cycles created by the West's classic prescriptions. If Turkey does not want to fall into this trap again in the future, she should break out of this vicious cycle during the period of the next Five-Year Plan.

### The state of the economy

Turkey's adherence to the IMF austerity recommendations since agreeing to the standby accord in March has already taken its toll on the economy. Despite glowing reports by the IMF-allied Turkish Central Bank of "an encouraging improvement" in the Turkish economy, the actual situation is tending toward disaster.

For example, according to official figures, exports in the second quarter of this year were 17.3 percent higher than in the same period last year. Imports were 21 percent lower. Thus, the trade deficit was lowered 41 percent. Both the export rise and import cutback were in strict accordance with the IMF's proposals.

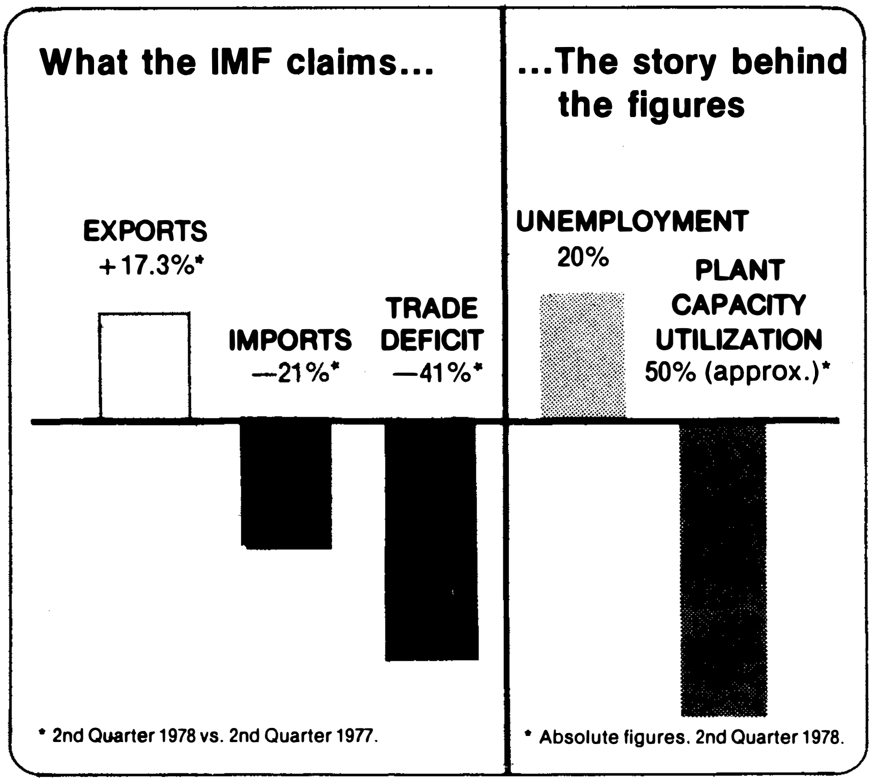
The *effect* of these measures, however, is not being reported. Industrial output has plunged as a result of the slash in imports. Plants are producing at about 45-60 percent capacity. The giant Soviet-built Iskenderun iron and steel mill is working at only 10 percent capacity. The collapse of production has raised unemployment well above the 20 percent mark. Despite the rise in exports, foreign exchange earnings remain inadequate to purchase raw materials and other goods necessary for production.

Turkey's debt situation is equally as bleak, enhancing Turkey's susceptibility to outside pressure. Turkey's outstanding short-term debt is $6.7 billion, approximately $2.5 billion of which are matured 180-day acceptance credits and short-term, high-interest convertible lira deposits. Acting as representatives of 220 smaller foreign banks owed money by the Turks, a consortium of eight foreign commercial banks — Citibank, Chase Manhattan, Morgan Guaranty Trust, Barclays, Dresdner, Deutsche, and the Swiss Banking Corporation — is negotiating the rescheduling of Turkey's debt on the condition that Turkey comply with the IMF.

### Regional orientation

To break its isolation, reduce its vulnerability to IMF pressure, and lay the groundwork for a workable alternative, Turkey, backed by West Germany, has moved to firm up relations with its neighbors in the context of regional economic development and in the spirit of the Bonn-Bremen economic accords. In a recent discussion with *EIR*, one high-level Turkish military spokesman, stressing his awareness of the role of British intelligence in undermining the Turkish economy and stirring up Kurdish insurgents, asserted that Turkey's only course is to act as the bridge between East and West and work in conjunction with the Arab World, the Soviet Union and East Bloc, and West Germany.

To allay fears in the West over Turkey's efforts to diversify her foreign relations, and in particular, to undercut any attempt by confrontationists, such as




## Brandt Commission sabotages Istanbul development meet

On Aug. 7 in Istanbul, a Turkish government-sponsored conference entitled the "New International Economic Order" was convened, attended by leading Third World representatives. The meeting was clearly designed in coordination with those European and Arab governments working for the implementation of the Bonn-Bremen economic accords and a new gold-backed monetary fund to replace the IMF by October of this year.

According to a West German account of the conference, the Brandt Commission moved to

National Security Council chief Zbigniew Brzezinski, to ignite a crisis over the issue, the Ecevit government has taken great pains to make it clear the Turkey, in the interest of world stability, has no intention of pulling out of NATO. In an interview with *Middle East* magazine last month, Ecevit stated:

> I believe that the recent development in Turkish-Soviet relations and, in general, recent developments in Turkey's efforts in establishing closer and better relationships with many of the regional countries can make a real contribution to detente and the world . . . Both (Moscow and Ankara) accept that they are members of different alliances and they are respectful to each other's ties.

## Turkish-Soviet cooperation

In June, Ecevit visited the Soviet Union, where he signed a political cooperation document that pledged to strengthen "good neighborly relations and friendly cooperation" between Ankara and Moscow. Extensive economic accords were also concluded, committing the Soviet Union to provide, among other vital goods, three million tons of crude oil — one-fifth of Turkey's oil needs — to Turkey over the next three years, in exchange for wheat. A senior Turkish diplomat, commenting on Ecevit's reception in Moscow and the quality of the economic arrangements worked out, said recently: "We were all taken aback. Kosygin said, 'I know you have problems. We will help you solve them'." For the Turks, this obliging attitude was in marked contrast to the attitude of the World Bank and IMF. Stated one Turkish diplomat bluntly, "The Soviets know how to develop. Others don't."

In addition to the Soviet Union, Turkey is also firming up economic ties with Iraq, Iran, and Libya. As with the Soviet Union, the focus of much of Turkey's regional relations is on oil. Because of Turkey's foreign exchange problems — Turkey's foreign currency holdings amount to a meager $750 million — the difficulty the Turks have had in paying for their oil imports has led to a severe oil shortage, aggravating the serious fall in production that has occurred. The country-by-country breakdown:

**Iraq.** After months of discord over Iraq's cutoff of oil to Turkey as a result of Turkey's failure to pay $330 million in back oil debt, an agreement has been reached between the two countries following a visit late last month by Iraqi Energy Minister Hussein El Hamadani to Turkey. According to the agreement, Turkey will increase the flow of water into Iraq from the Tigris and Euphrates Rivers in exchange for Iraqi oil. In addition, the $330 million oil debt was postponed for four years and is payable by Turkish exports of wheat and refrigerators. Both countries agreed to further their economic cooperation.

**Iran.** Efforts are likewise underway to improve

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undermine the event and prevent it from taking firm action against the IMF and toward the new European Monetary Fund. To keep the event a "Third World affair," the Brandt Commission reportedly maneuvered to prevent invitations to the conference from being extended to any U.S., Japanese, and West German officials. The two Brandt Commission representatives at the meeting, Jan Pronk and Goran Ohlin, championed a "new Marshall Plan" for the Third World and promised to deal with the hotly discussed issue of debt moratorium at the Brandt Commission meeting in Tarrytown, N.Y., later in August.

While it is known that the Tarrytown meeting, which was guided by Henry Kissinger, a determined foe of debt moratorium, did discuss the debt moratorium issue, no positive solution to the issue was announced after the meeting.

The Chief of the Arab Development Bank, Ayarai, attacked the Brandt Commission for its sabotage efforts. Ghana's Kenneth Dadzie made a strong call for the need for developing countries to speed up their motion toward industrialization.

Turkish Prime Minister Ecevit made an impassioned call for the recycling of petrodollars into Third World industrial development projects, and the need to bypass "traditional banking channels, which are often unproductive."

Excerpts from Ecevit's speech:

"Countries and institutions allocating credits usually force the economies of underdeveloped countries to stagnation in the name of stability.

"Stagnation would only lead to widening the gap between developed and developing countries, as well as social and political upheavals.

"Such upheavals could increase the tendencies to establish autocratic regimes."

Ecevit went on to condemn those multinational companies that

"are not at ease with democracy even in their mother countries. They tend to move away from labor intensive industries in their mother countries, where labor rights are protected by democratic regimes, and install them in countries where authoritarian regimes keep wages at low levels."

relations with Iran. In August, Iran's Senate President — recently named Prime Minister — Jaafar Sharif-Emami visited Ankara to discuss the sale of oil to Turkey. Also reported is a breakthrough by Iran and Turkey, mediated by Bulgaria, to resolve a dispute over Turkey's road tariff. The bettering of relations with Iran undercuts attempts by anti-Shah forces in both countries to stir up antipathy in Turkey against Iran.

**Libya.** In mid-August, with the Libyan Arab Foreign Bank acting as guarantor, a $100 million loan from an international banking syndicate was procured for Turkey, the first such loan this year. At the beginning of August, an Arab-Turkish Bank opened in Istanbul as a joint stock company within the framework of the cooperation protocol signed between Turkey and Libya in 1975. The medium- and long-term loans to be obtained through the bank will be earmarked to finance economic development projects in Turkey. Earlier this summer, Libyan leader Muammar Qaddafi lauded Turkish-Libyan friendship as an important stabilizing influence in the Mediterranean, and denounced those forces intent on creating a division between the Arabs and the Turks.

Turkey is also actively seeking to expand her already extensive economic ties with Bulgaria, and to become integrated into the Nonaligned Movement. Last month, in an interview with the Turkish weekly *Yanki*, Turkish Foreign Minister Gündüz Okçün called for expanding relations with the Nonaligned in every sphere. "One of the necessary principles of foreign policy," said Okçün, "is to expand relations with developing countries through increasing the volume of trade and estabishing economic and technological cooperation."

—*Nancy Parsons*