

**REPUBLIC OF TURKEY  
YILDIZ TECHNICAL UNIVERSITY  
GRADUATE SCHOOL OF SOCIAL SCIENCES  
DEPARTMENT OF ECONOMICS  
MASTER OF ARTS PROGRAMME IN ECONOMICS**

**MASTER'S THESIS**

**STATE AUTONOMY AND INDUSTRIALIZATION IN  
TURKEY BETWEEN 1960 AND 2000**

**SERGEN TANAYDIN  
16729008**

**THESIS SUPERVISOR  
Prof. Dr. NEVİN COŞAR**

**İSTANBUL  
2019**

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Date of Submission to the Institute: 20.05.2019

Date of Defense: 13.06.2019

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İSTANBUL  
JUNE 2019

## **ABSTRACT**

### **STATE AUTONOMY AND INDUSTRIALIZATION IN TURKEY BETWEEN 1960 AND 2000**

**Sergen Tanaydın**

**June, 2019**

The rapid development of the East Asian countries until 1980 and the fact that these countries also maintained this success in 1980s without facing a crisis received widespread attention in development economics literature. Organizations like IMF and WB and economists praising liberal policies have attributed this success to liberal policies and to the export-oriented growth while development economists emphasized the role of governments in development processes. Governments in these countries have established policies in a way to serve industrialization through state autonomy and have not allowed any class to undermine these policies and process for their own benefit. Although the Latin America countries began their industrialization thrust before East Asia countries, they could not maintain their industrialization without facing financing bottleneck or crisis and they could not deepen their industrialization like East Asian countries. Turkey proceed to the planned development period in 1960. Until 1980, import substitution industrialization policy and wide interventionist policies were followed in the same way as Latin America and Asian countries. In 1980, this strategy was abandoned and export oriented development model and liberal policies were adopted. While the positive developments took place in industrialization indicators during the 1960-1980 period, it was observed that the progress towards industrialization reversed in the 1980-2000 period. In this study, Turkish industrialization of the 1960-2000 period have examined in state autonomy perspective comparatively with the industrialization moves of East and Southeast Asia and Latin America countries. It have been concluded that the lack of state autonomy prevented further industrialization in the 1960-1980 period and constituted the cornerstone of the negative developments in industrialization in the 1980-2000 period. The findings of the study reveal the importance of governments that have autonomy to implement policies, which have been diagnosed as policies providing development.

**Key Words:** Industrialization, State Autonomy, Interest Groups, Planned Period Development, Globalization

## ÖZ

### **TÜRKİYE’DE 1960-2000 DÖNEMİ DEVLET OTONOMİSİ VE SANAYİLEŞME Sergen Tanaydın Haziran, 2019**

Doğu Asya ülkelerinin 1980’e kadar gerçekleştirdiği hızlı kalkınma öyküsü ve bu ülkelerin 1980’lerde de bu istikrarı bir krize yakalanmadan devam ettirmesi kalkınma iktisadi literatüründe kendisine çok geniş yer buldu. IMF ve WB gibi uluslar arası kuruluşlar ve liberal politikaları öven iktisatçılar bu başarıyı liberal politikalara ve ihracata yönelik sanayileşme politikasına atfederken, kalkınmacı iktisatçılar hükümetlerin sanayileşmede üstlendiği role dikkat çektiler. Bu ülkelerdeki hükümetler sahip olduğu devlet otonomisi sayesinde politikaları sanayileşmeyi sağlayacak şekilde oluşturmuşlar ve herhangi bir sınıfın kendi çıkarları uğruna bu politikaları ve süreci baltalamasına izin vermemişlerdir. Latin Amerika ülkeleri ise ithal ikameci sanayileşme politikasına Doğu Asya ülkelerinden daha önce başlamasına rağmen sanayileşmelerini hem darboğaz veya krizle karşılaşmadan sürdürememişler hem de Doğu Asya ülkelerinin başarısına ulaşamamışlardır. Türkiye ise 1960’ta planlı kalkınma döneme geçiş yapmıştır. 1980 yılına kadar ithal ikameci sanayileşme politikası ve tıpkı Latin Amerika ve Asya ülkelerinde olduğu gibi geniş müdahaleci politikalar izlenmiş, 1980 yılı ile birlikte bu stratejiden vazgeçilerek ihracata yönelik kalkınma modeli ve liberal politikalar benimsenmiştir. 1960-1980 döneminde sanayileşme göstergelerinde olumlu değişimler yaşanırken, 1980-2000 döneminde sanayileşmeye dair ilerlemenin terse döndüğü gözlemlenmiştir. Bu çalışmada hem 1960-2000 dönemi Türk sanayileşmesi devlet otonomisi bağlamında irdelenmiş hem de Doğu ve Güneydoğu Asya ve Latin Amerika ülkelerinin sanayileşme hamleleri ile karşılaştırılmıştır. Devlet otonomisi eksikliğinin 1960-1980 döneminde daha ileri sanayileşmeyi engellediği, 1980-2000 döneminde ise sanayileşmede yaşanan gerilemenin kökenini oluşturduğu sonucuna varılmıştır. Çalışmanın bulguları, kalkınmayı sağlayacak politikalar teşhis edildiğinde bu politikaları uygulayabilme kapasitesine sahip hükümetlerin önemini ortaya koymaktadır.

**Anahtar Kelimeler:** Sanayileşme, Devlet Otonomisi, Çıkar Grupları, Planlı Dönem Kalkınması, Küreselleşme

## ACKNOWLEDGEMENT

I would like to thank my advisor Prof. Dr. Nevin Coşar for her support, patience, and guidance. I would like to thank my friends Raşit Şahin and Mehmet Sevgin for their encouragements whenever I have lost my motivation. And, my family... Thank you for your sacrifice and effort for me.

İstanbul; June, 2019

Sergen Tanaydın

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## ABBREVIATIONS

<b>DP</b>	: Democrat Party
<b>EDC</b>	: Economic Development Council
<b>EOI</b>	: Export Oriented Industrialization
<b>EPB</b>	: Economic Planning Board
<b>FYDP</b>	: Five Years Development Plan
<b>HPB</b>	: High Planning Board
<b>IMF</b>	: International Monetary Fund
<b>ISI</b>	: Import Substitution Industrialization
<b>JP</b>	: Justice Party
<b>OECD</b>	: Organisation for Economic Cooperation and Development
<b>PEE</b>	: Public Economic Enterprise
<b>RPP</b>	: Republican People's Party
<b>SIO</b>	: State Industry Office
<b>SPO</b>	: State Planning Organization
<b>U.S.</b>	: United States
<b>WB</b>	: World Bank
<b>WTO</b>	: World Trade Organization

## **1. INTRODUCTION**

The rapid growth of South Korea, Taiwan, Singapore and Hong Kong in the 1960s and 1970s received widespread attention in development economics literature and the development success of these countries has become known as the East Asian Miracle. Malaysia, Indonesia and Thailand followed these countries in 1970s and 1980s with their significant export and GNP growth rates even if not as much as that of “Miracle” countries. Apart from the export and GNP growth, the fact that mentioned countries maintained their economic growth, export booms and industrialization without facing an economic crisis in 1970s in which two oil shocks took place and in 1980s in which an economic slowdown appeared makes questioning of this success interesting in terms of lessons to be taken.

The organizations like International Monetary Fund (IMF), World Bank (WB) and World Trade Organization (WTO) that aggrandize liberal policies and the countries like United States (U.S.) in which cheap raw material and market facilities surfacing with removal of trade barriers will benefit at most own countries attributed this success to liberal policies and the outward oriented industrialization strategy because Asian countries' this growth experience in which export growth generated cornerstone of this success coincides with the period in which mentioned organizations were spokesman of trade liberalization and the outward oriented growth in 1970s. By exemplifying Asian countries' success in the 1970s and 1980s, these organizations proposed a series of liberalization in many areas, particularly in trade, in the post-1980 period to developing countries, which followed the protectionist foreign trade policy and the import substitution industrialization (ISI) strategy.

However, unlike the liberal economic environment led by international organizations, development economists drew attention to the role of government policies in this success of Asian countries. These economists showed that East Asian countries achieved their growth through export-oriented industrialization (EOI) policy in which a range of regulations constituted the cornerstone rather than

outward oriented growth in which liberalization and deregulation constituted the cornerstone. They pointed out that practices such as tariffs, export subsidies, preferential loans, protection of infant industries, tax exemption, and financial sector regulation were the most prominent practices in Asian countries during their development period and showed that this success cannot be attributed to liberal policies and unregulated expansion to world trade.

While attributing the success of Asian countries to these policies, an important issue that development economists draw attention was the role of the state in policy-making mechanism. These economists explained the capacity of the governments to implement policies that will ensure development as the most important factor behind the growth of East Asian countries. For example, South Korea firstly implemented strict protectionist policies for the progress of infant industries. It directed the industrial bourgeoisie, which grew up through high profits in which protectionist policies created, to invest in industrial sectors with high value added and high income elasticity. It protected new industrial sectors for some time to gain competitiveness but it was not allowed the continuity of the rent system created by protectionism and it ensured the industrial production to be made for export. It was rejected the demands of the industrial bourgeoisie, which achieved high profits under high protectionism, for the continuation of the protectionist policies and was eliminated the firms that faced financial difficulties and could not gain comparative advantage in the determined period.

The role of the state in the policy-making process was similar in Indonesia, Malaysia, and Thailand in that they decided to maintain their industrialization with the EOI strategy in the 1970s when it was understood that the ISI strategy got stuck and they could implement this decision. And then, these countries achieved important GNP and export growth without facing any crisis in the 1970s and 1980s.

While East Asia countries considerably pulled ahead in their industrialization moves, which roughly began in late-1950s and early-1960s, in 1980s and Southeast Asian countries had been able to sustain their GNP and export growth success, which began in 1970s, in 1980s without facing a financing or balance of payments crisis, the fact that the Latin America countries began their industrialization thrust in 1930s but could not achieve the success of East Asia countries was explained also by the role of the state in the policy-making process. In Latin America, governments were neither

able to provide financing of the industrialization by making agricultural reform due to its inability to eliminate the agricultural bourgeoisie or able to direct the industrial production to the export due to its inability to eliminate industrial bourgeoisie. This fact both restricted their industrialization and led their industrialization to face permanent crisis due to the financing bottleneck.

The fact that governments in East and Southeast Asia countries could form economic policies aimed at achieving economic growth but governments in Latin America failed to do this led the concept of state autonomy to have widespread coverage in development economics literature and the studies that examined the industrialization experiences of the countries, which initiated industrialization thrust in the post-World War II period, in the context of the state autonomy became widespread. We can explain the state autonomy as government's ability to form policies regardless of the demands that reflect the special interests of any class of society (Leftwich, 1994)<sup>1</sup>. Therefore, the governments that had state autonomy in Asia countries were able to implement policies, which would enable industrialization, by excluding the dominant classes that could hinder industrialization. This situation constituted the cornerstone of the fact that the industrialization move in East Asia countries since 1960s and in Southeast Asia since 1970s continued on the planned path. In Latin America, the governments, which had not state autonomy, were not able to exclude the dominant classes, which had demands undermining industrialization, from policy making mechanism. This situation led to the failure in implementation of policies enabling industrialization. Thus, the industrialization movement of the Latin America countries faced permanent crises and fell behind the industrialization movement of East Asian countries by 1980.

Turkey that aimed industrialization led development in 1923 achieved the highest industrial growth rate in the 1932-1939 and 1963-1977 periods. In the 1980-2000 period, it experienced the worst performance of the republican history in industrialization although it had the industrialization target. In this study, in state autonomy perspective, we will examine both the 1930s, 1960s, 1970s in which

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<sup>1</sup> While Lukauskas ve Minushkin (2000) describe state autonomy as that governments form their policies without persuading and satisfying the private actors, Kay (2002) defines as the ability of the political elite to eliminate the resistance of the dominant economic classes which resist against the governments' aimed policies, Skocpol (1985) defines as control of governments over the country and not having the aims to reflect the interests or demands of people, social groups, classes or society.

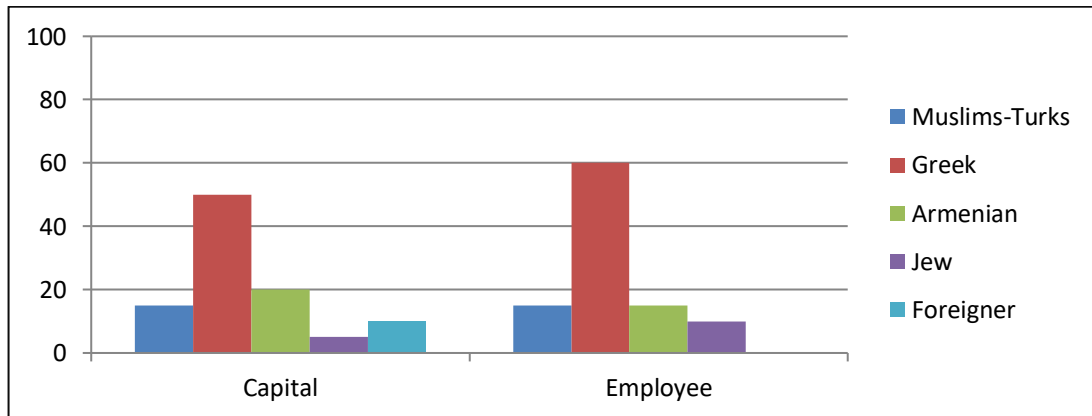
favourable developments took place in industrialization and the 1980-2000 period in which unfavorable developments in industrialization took place. Thus, we have aim to contribute the development economics literature in which comparative studies about East and Southeast Asia and Latin American countries exist by including Turkey in historical process.

In the second part of the study, we will examine industrialization in Turkey in the 1923-1960 period. In the third, fourth, and the fifth parts, we will examine Turkish industrialization in the 1960-1980 period, industrialization in Asia and Latin America countries, and the Turkish industrialization in the 1980-2000 period respectively in state autonomy perspective. In the last section, we will give the conclusion.



## 2. FROM ESTABLISHMENT OF THE REPUBLIC TO PLANNED DEVELOPMENT PERIOD: STATE AUTONOMY AND INDUSTRIALIZATION IN TURKEY (1923-1960)

Year of 1923 symbolizes emergence of a state, which had spent its last four years with de facto resistance against colonialism of foreign states, in stage of history with a new name and new regime. Republic of Turkey inherited from Ottoman Empire a labor force who lost its majority in ongoing wars, an agricultural based economic structure that fell behind industrialization thrust of West, and an inexperienced entrepreneur class that was expected to undertake industrial production with establishment of the republic. In 1923, with constant prices, share of agriculture in GNP was 43,1 %, that of industry was 10,6 % and service sector was 46,3 % (TurkStat, 2012, 733). Table of Ethnic Distribution of Capital and Labor in Large Manufacturing Industry of the Ottoman in 1915 may help determining ownership characteristic of industrial sector or, considering the possibility that business owner foreign minorities may had left the country because of ongoing wars and their results, source of capital accumulation in that year.



**Figure 1: Ethnic Distribution of Capital and Labor in Ottoman Large Manufacturing Industry in 1915**

Source: Gülten, Kazgan, *Tanzimat'tan 21. Yüzyıla Türkiye Ekonomisi* (İstanbul Bilgi Üniversitesi Yayınları, 2013), 42

In 1915, while share of Muslim-Turks in capital of total 283 big manufacturing industry enterprises was 15 %, Muslim-Turks were again generating only 15 % of total workers in these enterprises. Considering that any industrial leap to change this table and weigh did not take place until 1923 due to First World War and Independence War that continuously happened between 1915 and 1923, we can infer that Turkish capitalists had not an important place in industry in foundation phase of the republic and that they had not an accumulation to undertake industrialization<sup>2</sup>. The fact that share of industry in total production was quite low and Turkish capitalists did not occupy significant share in that sector were an important problem for executive political class for two reasons. First of all, they considered the foreign size, even the minority of Turkish capitalists, in the economic activity as a threat to economic independence and, according to them, economic independence was the most important element of the political independence. Secondly, this political class was planning to respond “underdevelopment problem” of the country with a development move in which Turkish capitalists would undertake. However, as can be seen, it did not exist such a capitalist class that would achieve this development. Under this circumstance, the first seeking of the executive elite in economic sphere during republican period was to create domestic capitalist class. Thus, it was both achieved economic independence and development.

In this pre-republican period in which the thought of creating domestic capitalist class, which would undertake economic development, influenced executive elite, Turkish merchants of that period established National Turkish Trade Union to supplant non-muslim merchants in economic life and to undertake commercial business that was made with foreign countries (Boratav, 2006). These merchants who were looking for the support of the executive class to realize what they thought decided to collect the Ticaret-i Hariciye Congress, which will enable them to convey their ideas to the executive class. However, this congress gave way to more comprehensive Izmir Economic Congress in which executive class hold between 17th February and 4th March 1923. Yerasimos (1992, 74-80) explains the establishment of the National Turkish Trade Union as the demonstration of merchants against new political elite and the aim of merchants to direct the new

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<sup>2</sup> In 1922, 28 % of the 4267 firms in Istanbul pertained to the Muslim-Turks (Kazgan, *ibid*, 44). We have no information about which field these firms operated.



political class about policies to be followed, while he presents convening of Izmir Economic Congress before the establishment of the republic as aim of new executive elite to recognize and to gain this capitalist class in Istanbul. A significant role of the economic supports of the merchants in the achievement of the War of Independence (Avcıoğlu, 2013, 351) may be an explanatory of this interaction of the executive elite with merchants in post-war period. The executive class planned to convene a congress that will consist of eight-member delegates, including farmers, merchants, industrialists, workers, representatives of the banks and the companies from each accident, but this representation remained on paper and the merchants constituted the majority in the congress (Boratav, *ibid*, 38-41). For example, among those invited to represent the working class, there was Umum Amele Birliği but this union was established by the National Turkish Trade Union to prevent the socialist movement to create a working class consciousness on workers (Yerasimos, *ibid*, 79). In addition to the merchants, both direct by participating in the war and indirect support of landlords by asking peasants who were under influence of the landlords to take sides with executive military class causes us to encounter the landowner bourgeoisie as another of the prominent classes of the post-war environment. The privileged position of both classes can be concretized from the fact that these two classes constituted majority of the council established with the republic. However, this picture of post-war period in terms of class framework is not enough to decide whether the factor behind private capital led development model thinking of executive class was this weight of the capitalist class in the Izmir Economic Congress and the dominance of the capitalist class in the parliament compared to other economic classes or not. However, it is obvious that this method of executive elite regarding development led to be planted the seeds of factors that will determine fate of development moves, which would appear in oncoming decades.

The first step of political elite who attempted to realize economic development through private sector was some practices that enabled private sector to attain capital because there was no private entrepreneur class to achieve economic development on his own in an environment in which price mechanism took place and executive class was aware of this fact. For this reason, the most prominent feature of the founding period of the republic was the resource distributive role of state for private sector. For example, the control of sugar production was in the hands of state-aided private

capitalists after establishment of Uşak and Alpullu sugar factories with broad state support in 1926. These factories were established with the participation and broad credit facilities of Industry and Mining Bank (Sanayi ve Maadin Bankası), Ziraat Bank and İş Bank. In addition to the wide credit support, some of the concessions granted to the founders of the sugar factory during this period were as follows: The operating time of the sugar factories was 25 years. Sugar will be exempted from the İstihlak Tax that was sort of consumption tax for eight years. The factory land that is between 10 and 15 acreage will be granted by state. Freights made for needs of factories were exempted from 1/3 of the transportation tax. A class that became industrial bourgeoisie with such a wide range of privileges in which state procured, then, also captured privilege of sugar commerce and made extraordinary profits sometimes by reducing the production of sugar and sometimes by taking advantage of high protectionism (Boratav, ibid, 119-122). These rent activities that produced extraordinary profits would be capital accumulation means of republican period entrepreneur class. For example, while ports of İstanbul, Mersin, Trabzon, and İzmir were under state monopoly, they were transferred to new established corporations. One of the partners of the newly established company that got operation of İzmir Port was close friend of Prime Minister İsmet İnönü (ibid, 48). Additionally, loans in which Industry and Mining Bank gave for promoting industrialization were taken by owners of companies that were established with fictive capital and, by this way, new bourgeoisie class was rising (Yerasimos, ibid, 116). In the following periods, this domestic and foreign capitalist class strengthened their advantageous position during the founding years of republic to the detriment of other social classes in society by favour of state and they became effective in influencing the political elite and in directing economic policies in line with their own interests (Boratav, 2003, 41).

During the period of 1923-1929, did the bourgeoisie class, which strengthened its position compared to founding years in the society with the various rents during 1923-1929 period achieve positive contribution to economic development? In this period, average annual growth rate of industry was 8,55 % and of manufacturing industry was 8,47 % (TurkStat, ibid, 716-717). However, the growth achieved in industrialization in this period was not the product of an industrialization move, but the increase in the capacity utilization rates of the industry which was inherited from the Ottoman Empire and was protected as was without any investment (Boratav, ibid,

62). While the share of industry in GNP was 10,6 % in 1923, this rate did not change in 1928, but decreased to 9,1 % in 1929 (TurkStat, *ibid*, 733). While, the share of food, leather and weaving sectors in manufacturing industry production was 88 % in 1913, this ratio was 87 % in 1927 (Boratav, *ibid*, 52). Therefore, the bourgeoisie, in which the political elite imposes a mission of economic development and strengthened it with various rents seems to have failed to make progress that would trigger structural change in Ottoman inherited industry. At the end of this period, in 1929, in which any indication about industrialization did not appear, two facts in which one of them was attaining autonomy of Turkey to determine foreign trade policy and the other one was falling under influence of worldwide economic crisis were the factors that triggered change in economic policy. Lausanne Treaty curbed autonomy of Turkey to determine foreign trade policy until 1929 and proscribed Turkey for five years to impose import and export prohibitions, to designate customs tariff, and to determine consumption and sale tax rate for imported goods different from domestically produced goods (*ibid*, 40-44). Protectionist conjuncture in the world originating from Great Depression and the fact that autonomy to determine foreign trade policy would induce relief in treasury induced Turkey to adopt closed economic conditions in post-1929 period. The fact that the President Atatürk who visited the country in period in which decrease in price of agricultural products due to economic crisis deeply affected agriculture sector, which was the source of means of living of 80 % of the population, was severely affected by the poverty in the country led to be searching for new development methods in the protective environment of the post-1929 period. In 1932, as product of development searching, we face statism in which we can summarize as having a part of state in economic activities. The first reflections of statism in economic life were First Five Years Industrialization Plan in 1933 and five-years planned period between 1934 and 1938. However, before referring changes in economic structure in which planned period posed, we were in need of evaluating efforts to create private capital between 1923-1932 period, relationship of private capital with the state, and interaction between political elite and bourgeoisie in stage of passing statism in the context of state autonomy. Thus, we get an opportunity to compare similarities and differences between Turkey experience and other countries while providing infrastructure of some relations in which we evaluate in progressing titles of the thesis.

Metin Heper (1990a and 1990b) asserts that effort of newly established state for spreading sovereignty to the nation rather than a particular class constituted basis of state autonomy in 1923-1945 period. That national sovereignty gives freedom all individuals without discrimination to express opinion and to participate in governance has had two effects. These are the determination of public policies by taking into account the public opinion and occurrence of political class from each member of economic and social classes... Heper, for instance, evaluates trial of multi-party system with Progressive Republican Party and Free Party as effort to reverberate ideas of all classes of society in political life while explaining the reason for the closure of these two parties as becoming representatives of certain groups of both parties at different times. Hence, according to Heper, endeavor of political class to ensure national sovereignty throughout its management was a factor that provided the continuation of state autonomy. Heper presents effort of including all individuals who had not any right for voting power in Ottoman to the administration with top to down method as origin of state autonomy in 22 years one-party period. In this system, where the representation spreads to the base, it would be prevented the emergence of a dominant class due to the fact that everyone was equal under the law, that one of the classes could not be superior to one another, and that an environment where all classes could seek their rights. The reason why such a system was the source of autonomy for 22 years should be the idea that the executive class would not allow the factors and actions that will undermine this system. Indeed, it can be understood from Atatürk's speech, which was given before establishment of republic, that a system in which any social class become dominant class by economically progressing to the detriment of any other social class was not envisaged by executive elite:

“...our country is an agrarian country. In this circumstance, this fact brings to mind landowners and farm owners. How many people have big land in our country? What is the acreage of this land? It is seen that in our country ... nobody has big land if it is scrutinized. Therefore, these landowners also will be protected. Next one is craftsman and small merchants who trade in towns. Naturally, we are obliged to ensure and maintain their interests, status and future. ... There is no big capital owner against those traders. How many millionaires do we have? Never! Contrarily, we will make an effort to grow millionaires and even billionaires in our country. Next one is worker. ...Number of our current worker does not exceed 20,000. However, we need a lot of factories to enhance our country. For this, we need workers. Therefore, it is necessary to protect the worker who does not differ from the farmer working in

the field... Therefore, since the interests of people who have different professions are contiguous and equal, there is no possibility to classify those people and all of them is made up of public” (Avcioğlu, *ibid*, 252).

However, despite envisagement of an economic system that was classless and consisted of individuals who were collected around economic development target, the fact private capital led development was aimed and entrepreneur class was promoted by state with various rents and resources to achieve this aim caused environment in which capitalist group could interfere policy-making mechanism in late 1920s and early 1930s. Source of this power of capitalist class should be pursued in the ongoing relationship between the entrepreneurs and İş Bank since 1924 with the establishment of the bank. In the beginning of the 1930s, 44 branches of industry were under the leadership of İş Bank, while the bank started to gain an important position in railway, sugar, coal, textile, lumber and glass sectors (Yerasimos, *ibid*, 130). These facts were reflecting power of the bank in industry. In addition to its dominance in economic activity, it emerged as politically strong institution with 13 deputies in its board of directors and with high-level bureaucrats and deputies in the board of directors of companies in which İş Bank had share (Karadağ, 2010, 11). İş Bank in founding periods was intermediary of rent seeking activity of bourgeoisie by becoming headquarters of bourgeoisie and the bureaucracy and was intermediary of patronage relationship between state and bourgeoisie or entrepreneur who intended becoming bourgeoisie (Yerasimos, *ibid*, 95). Capitalist class benefiting from this relationship, which emerged in the triangle of Rent seekers-İş Bank and Politicians, participated in rent mechanism created by the state with the aim of creating domestic entrepreneurs who will undertake development, and they attained opportunity to interfere policy-making sphere of political class in late-1920s and early 1930s while becoming dominant by achieving extraordinary rents from this relationship.

How this interference of capitalists to political life should be evaluated with regard to relationship between state autonomy and industrialization. Did advantageous status of capitalist class in early republican period and later becoming a dominant social class through İş Bank emerge as a factor that demolished state autonomy and that undermined industrialization move of 1923-1932 period as in what industrial and land bourgeoisie made in Latin American countries during their industrialization periods.

The first point that needs to be revealed to determine boundaries of state autonomy is influence of interest groups on executive elite in determination of private sector-led development as development method in 1923. We said above that it is unclear whether the executive elite's decision to execute development through private capital was related to the weight of the capitalist class in the İzmir Economic Congress and the weight of the bourgeoisie in the parliament or not because the inspiration of the revolutions that were implemented during and the aftermath of the foundation of the Republic was the West, which was the developed geography of that period, and the West realized its development through private capital in Europe at that time. Therefore, the factor that influenced executive elite on development method may be development level of West rather than merchants and landlords of that period as prominent groups. If explanatory is European instance rather than influence of the bourgeoisie, Yerasimos' claim in which commercial bourgeoisie provided holding of İzmir Economic Congress can be attributed to the fact that holding of the congress would serve political elite's purposes rather than attributed to dominance of the bourgeoisie class. Because, Keyder (2014, 97-103) writes that in the Ottoman period, the Union and Progress Party tried to create a rival Turkish bourgeoisie against the non-muslim trade and finance bourgeoisie but it was not succeeded. He stated that "no opponents left against the bureaucracy when the republic was founded." The second important point is that leaders of political executive elites of post war period consisted of military class that was the heads of independence war. Above, we have remarked that domestic capitalist class had not an economically importance place in founding period of the republic, but even if that happened, capacity of this capitalist class to act against this strong political executive class would be highly insignificant.

The second point that needs to be revealed to determine boundaries of state autonomy is whether some interventions of the capital class in the late 1920s and early 1930s to the policy-making mechanism were sufficient to enable us to judge that there was no state autonomy. The most well known of this intervention is resigning of Mustafa Şeref who was the Minister of Economy in 1932 after the laws that contained tariffs (Buğra, 2015, 151) and quantitative restrictions (Boratav, 2006, 152) to raw materials and intermediate goods and contained establishment of State Industry Office (SIO). This incident is shown evidence of power of capitalist class in 1932 to destroy policy making capacity of state. Restrictions on raw materials and

intermediate goods would restrict capitalists to make little change on cheap imported goods and to sell these goods at a pretty high level of world price. Besides, tariffs to imported goods would destroy profits of capitalists who got opportunity to import these goods because increase in price of raw materials and intermediate goods would lead to decrease in added value by posing diminish in effective protection rate. The law that enacted establishment of State Industry Office was highly protested by capitalist class on the grounds that this law proposed pretty intervening policies. According to the SIO law, the SIO would have a voice in management of establishments that were established by way of capital of state and Industry and Mining Bank and management of state factories that were transferred to private capital. Regardless of founding share, in enterprises in which state had share, the top management would be appointed by the SIO and decisions such as the renewal and enhancement of the industrial facility were leaved approval of the SIO. Besides, the law had quite restrictive nature in terms of restricting the participation of private capital to industrial activity because the law required state permission to establish a factory in industrial areas that did not reach a free market maturity, ie, did not reach a competitive level, and that were in need of protection (Boratav, ibid, 256-259). However, there was already no a field that had gained competitiveness in that period. These proposals that posed great objections of private capital caused to resignation of the minister of economy within six months and Celal Bayar who was the representative of İş Bank and private capital replaced Mustafa Şeref. Later on, the SIO was abolished in 1933 and Etibank was established for the same purpose.

How should we evaluate this process that began with restrictive laws and then ended with resignation of Mustafa Şeref in the context of state autonomy? In the period in which executive political elite adopted statism policy and went into this orbit in 1932, can the fact that private capitalists provided the removal of practices, which included heavy interferences and which even restricted share of private sector in economy, be thought as interference of private capital class to decision making zone of executive elite, i.e. destruction of state autonomy? In order to accept this incident as evidence to interference of capitalist class to policy making mechanism, i.e. deficiency of state autonomy, policy decision of Mustafa Şeref needed to be product of integrity of political elite. However, the first characteristic of political life of 1932 was dividedness in parliament despite single party period. Bureaucrats that were

supportive of statism had the upper hand in the parliament while capitalist class was losing their weight coming from first years of the republic (Başar, 1945, 161, as cited in Boratav, 2006, 151-152). Therefore, some policies already did not reflect agreement although these policies were brought into force by deputies of same political party and there were only deputies of same party in the parliament. The second characteristic of the political life in 1932 was that the executive elite had not in view an environment in which some interventions to ownership and even restrictions for private capitalists to take part in economic activity were in force although statist ideas spread to executive political elites in that period. Therefore, the interference of the capitalist class to the policy-making mechanism in the Mustafa Şeref event was possible because the practices of Mustafa Şeref were in contradiction with the thought of “state makes what private sector can not make” of that period. It was asked resignation of Mustafa Şeref after Atatürk, who already had emphasized that projected economic model of them was not socialism or communism, recognized objections of private sector and then the SIO was demolished. However, the laws in which Mustafa Şeref put into effect to shape foreign trade policy were strictly implemented in the period of Celal Bayar, who immediate took office after Mustafa Şeref, because these laws were the necessities of the state-led industrialization model and the instruments of the economic policy that dominated the period. In fact, Celal Bayar who had close relations with private sector could not act against the prevailing economic policy of the period and could not be the architect of the practices that would be appreciated by private sector (Buğra, *ibid*, 148-153). Contrary, restrictive foreign trade policies had been followed, private capitalists were strictly controlled, and Celal Bayar became eager follower of statism since İsmet İnönü controlled economic policy with 1934. As it is seen, the period of 1933-1939 following Mustafa Şeref's resignation was the period in which both the statist policies were carried out and implementations, which were contrary to economic model in which private sector would be main player of economic activities, did not take place because private-sector led development model of pre-1932 model was still valid. These events happening around Mustafa Şeref case show us that capitalist class's status, which was attained through the practices of the government, and their role in taking some decisions about economy during 1920s and early 1930s due to their close relations with politicians took place, different from East Asian and Latin American countries, within allowance and economic policy



preference of executive political elite. And, this fact constitutes basis of our thesis in which the government in that period had state autonomy.

The initial reason why we stated that the impact of the capital class on economic decision-making in mentioned period was within the permission of the executive elite was the fact that although some practices strengthening private capital were permitted in accordance with prevailing policy of the period and some rent seeking activities of private capital were tolerated, executive elite continued to take decisions to the detriment of mentioned leading and dominant interest groups. For example, the production and trade of tobacco in Ottoman was under the control of foreigners (Reji Administration) as part of Düyun-u Umumiye. That tobacco monopoly was under control of foreigners had been criticized and complained by the farmers and merchants to administrative class in the period between acquisition of the war and establishment of the republic due to exploitation of national sources by foreigners. Domestic capitalists demanded the government to cease foreign ownership in tobacco monopoly and to liberalize this sector. However, the state ignored the demands of the merchant class in this case. A law introduced in 1925 entitled the state to buy and operate domestic consumption-oriented tobacco and to produce and sell tobacco and cigarettes. Later, this authority was extended until 1930. In 1930, in order to protect the farmers, who were badly affected by the decrease in tobacco prices, which had fallen due to the 1929 Economic Depression, the state took sides with farmer against the merchant and acted as a buyer against the exporting merchants in the liberalized tobacco market and protected the farmers against possible price reductions (Boratav, 2006, 118-119).

As another incident showing capacity of the government to be able to take decision regardless of any socio-economic class, statist period implementations of the government are crucial. In the early 1930s, when the idea of a wing of bureaucracy about the necessity of the state-led development influenced the executive elite, the bureaucracy became dominant and this disturbed the industrial and commercial bourgeoisie. Reason of this apprehension was intent of bureaucratic staff to limit the activities of the bourgeoisie, who benefited from large concessions and protectionism that led to unfair profits and excessive profits (ibid, 152). For example, one of the extensive behaviors of capitalists in 1923-1929 period was to import industrial raw material and intermediate goods with duty free and to sell these goods at ten times

higher of world price by making little change on these goods. These behaviors of capitalists that acquired enormous and unexpected profits by way of these behaviors were blocked by imposing quantitative restrictions on intermediate goods due to various laws that introduced in July of 1932. Although this attitude of the executive elite posed great displeasure on the industrial and commercial bourgeoisie, they could not prevent the implementation of this policy. In the conditions in which the private capital could take part in economic activities, introduction of the state into the market caused the transfer of the rent brought by the high protectionism to the state. Some behaviors of state in statism period like acquisition of property and starting to operate without partnership by abandoning some behaviors of pre-1929 period like transfer of public enterprises to private capital and including private capital in public enterprises' shares closed the path to capital acquisition of private capital through high bank loans and state incentives (ibid, 140 and 162-166).

The second reason why we stated that the impact of the capital class on economic decision-making in mentioned period was within the permission of the executive elite and was not proof of lack of state autonomy is that the most important feature of passing to 1929-1932 and 1932-1939 periods from 1923-1929 period was that change in topics in which state gave priority posed to rapid changes in economic policy and in classes that attain significant advantage from prevalent economic policy. Since the agricultural sector was the most important source of attaining export revenues and of financing industrialization before the 1929 Economic Crisis, large landowners and large farmers who were the producers of exportable agricultural products were the apples of country's eye. The agricultural bourgeoisie (landlords), which was prominent and strong class of 1923-1929 period, was highly damaged from the crisis period due to huge decrease in agricultural prices because of becoming countries introverted and the closure of the export (foreign trade) opportunities. However, the agricultural bourgeoisie could not succeed to impose a mechanism that would work in their favor after the Great Depression. In fact, the bureaucracy had realized that there was no longer attraction of cooperating with the agricultural sector in the new environment and the bureaucracy began to search for new partners for the new economic policy (Birtek, Keyder, 1975, 451-452). While it was not formed an agricultural policy considering the economic conditions of

peasants<sup>3</sup> and farmers before 1929, the political elite directed its interest to the agricultural sector and sought ways to improve the economic conditions of the peasants by way of land reform, village institutes, People's Houses, and agricultural supports in 1930s when the agriculture sector who severely affected by 1929 crisis began to organize around the Free Party (Karaömerlioğlu, 2000, 117-118). In this period, a 75 % reduction was made in the fees for railway freight (navlun). Taxes on animals that were used in agricultural planting were reduced, state farms were established, seeds were freely distributed, protection rates were increased in wheat imports, storage centers were established through the state and agriculture cooperatives were promoted (Yurt, Çakmak, 2010, 449). 80 % of wheat was produced by middle farmers in Central Anatolia and it became one of the most decreasing agricultural products after the economic crisis. For this reason, the government went to support price implementation in wheat as the main nutritional product. Some of the public lands were distributed and wheat producers were supported (Birtek, Keyder, *ibid*, 453-456). As seen, the farmers and peasants who got a relatively less share of economic growth of pre-1929 period and who were in disadvantaged position due to badly effects of economic crisis were supported by supporting policies in the 1930s while the big landowners were the disadvantageous group of this period.

As another advantageous class of pre-1932 period, the industrial bourgeoisie that was contributed with mentioned rents by the political class was not able to find a suitable environment to generate big rents with the year of 1932 because of the fact that government concentrated on economic development and formed its policies in this direction. Industrial bourgeoisie began to feel discontented from policies of the new environment.

Another social class that lost its relatively favorable position with the industrialization move was the trade bourgeoisie. The first reason for this is that the control of agriculture, which was the source of surplus that will be transferred to industrialization passed under control of state in planned period. State was directly

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<sup>3</sup> It can be thought that the abolition of the Aşar Tax, which was accounting for about one third of the state revenues, was made to save farmers and peasants and to improve their economic prosperity. However, due to the nature of land ownership and the dominance of large landowners in land, this movement had served the landowners. Even, Birtek and Keyder (*ibid*, 451) state that the abolition of this tax took place after agreement between the political elite and the big landowners.

entering the agricultural products market by ways of public institutions, was keeping industrial branches in which agricultural products were used as raw material under control of itself, and was holding power to transfer profit margin that was the difference between export price and purchase price to industrialization by having decisive role in determining purchase price of agricultural prices (Boratav, *ibid*, 69). The second reason should be sought in the facts that the government increased its control over foreign trade and conducted foreign trade through clearing agreements. These situations led to a large decline in the profits of trade capitalists (Keyder, *ibid*, 130-132). State control in foreign trade in order to achieve its industrialization policy hindered commercial bourgeoisie's behavior to buy at a low price from the producer and to export at higher prices especially in the second half of the 1930s and led commercial bourgeoisie to be another class in which state-led development policy cut rent income.

If these examples in which we mentioned above are evaluated in the state autonomy perspective, we face a picture in Turkey different from East Asia and Latin American examples. We can not evaluate becoming dominant of capitalists in the society against other social classes by attaining several rents from state as devastation of state autonomy because these rent creating and bourgeoisie enriching actions of the state were part of the private capital led development aim. Secondly, rent creating behavior of state coupled with enrichment of capitalists did not reach capitalists a position to be able to undermine any economic policy that was generated to ensure the general welfare of the state in the period 1923-1932. Our third argument is that state, with Haggard's (1986, 349) own words, "was holding the power to influence social and economic transformation"<sup>4</sup> in this period as we have exemplified above with the contrasting reaction of the government to the rent-seekers during the same period. We present the fact that the period of statism was the product of bureaucracy, which defended being undertaking of the industrialization by the state, and that economic policy was under control of İsmet İnönü who was the strict advocate of

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<sup>4</sup> The same emphasis is made by Hamilton specifying that Marx and Engels draw the boundaries of state autonomy with the power of state to generate and influence the future social structure (Hamilton, 1981, 306). The capacity to determine social structure arises from the fact that no class holds the state power. Therefore, we want to emphasize that the bourgeoisie in Turkey did not hold the state power in this period by drawing attention to the existence of the state's ability to determine social structure at this period.

statism rather than Celal Bayar, and that the state could control the state-led industrialization model as it wishes and could freely use the policy instruments to serve industrialization<sup>5</sup> as fourth argument of the fact that the class picture of 1932 could not affect/destroy the decision making zone, that is state autonomy, and the capacity of state to implement decisions.

In 1930-1939 period that can be characterised as protectionist and planned industrialization period in which executive elite could make a change in method of development thanks to state autonomy after appearing of failure of pre-1932 period development model and which new development model could be implemented at will thanks to ability of state to hinder capitalists' rent seeking activities that would undermine new development seeking, average annual growth rate of industry was 11,55 % and of manufacturing industry was 12 % at constant prices. These rates were proportionately 8,81 % and 8,9 % in 1934-1939 planned period (TurkStat, *ibid*, 716-717). Share of industry in GNP raised to 15,5 % in 1939 while it was 10 % in 1930 (*ibid*, 733). During this period, Turkey had become to meet domestic demand in food and light manufacturing with domestic industrial production. Besides, production of some intermediate and capital goods like metallurgy, iron and steel, paper, and chemistry was achieved by way of factories that were established after the industrialization plan. The annual growth rate of fixed capital investments such as machinery and equipment that constitute the engine of manufacturing industry production and enable the progress of industrialization was around 10 % (Boratav, 2003, 71). Therefore, the state seems to had successfully completed the planned targets. Three Years Mining Program in 1937 and wider Four Years Plan that contained Mining Program in 1938 followed First Five Year Industrialization Plan (Soyak, 2003) but this plan was suspended due to outbreak of Second World War.

The Second World War broke out in September 1939. Turkey did not participate in *de facto* but it officially had position against the war. This undoubtedly had an unfavorable impact on industrialization effort of that period. That military expenditures constituted 60 % of total public expenditures in that period induced the resources, which would be transferred to industrialization, to be given out and the industrialization to be neglected especially after 1942 (Güner, 1978, 51). Likewise,

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<sup>5</sup> In this period, fiscal sector was under strict supervision of the state (Boratav, 2003, 69-70).

the worldwide protectionist policies due to the war generated facts that Turkey in which industrial production depended on intermediate and capital goods import could not import capital goods in the war period (ibid, 52) and that industry growth fell behind industry growth of previous planned period. During the 1940-1946 period, the industry shrank by an average of 6,63 %, but as the shrinkage was in line with the decline in GNP, there was no change in the share of the industrial sector in the GNP. This rate was 15,5 % in 1939 and 15,6 % in 1945. The annual average industrial growth in 1946-1950 period was 8,6 %, but since the growth rate was below of the average annual GNP growth rate, the share of industry in GNP decreased from 15,6 % in 1945 to 13,1 % in 1950 (TurkStat, ibid, 733). This stagnation in industrialization was an indication that the pre-war industrialization move in the post-war period was either abandoned or premature failure of an industrialization model. However, we know that it had been planned to impose İvedili Industry Plan for the post-war period and that it had been began preparations for this purpose (Avcioğlu, ibid, 402). If industrialization preparations had been made for post-war period, what were the factors in the failure of the plan for the continuation of the pre-war industrialization based development move after the war when the fact that industry growth decreased below 16,23 % agricultural growth rate and below 8,83 % GNP growth rate in 1946-1950 period is considered. For this purpose, we will first present some events of post-1939 period in order to draw the boundaries of state autonomy. One of these events is important for showing power of the land bourgeoisie while another one is crucial for showing the division in political elite and bureaucracy because, by destroying the policy-making area of the ruling elite, both were the reason why the decision-making mechanism did not work.

First one of these incidents is Land Reform efforts in terms of showing that prepotency of land bourgeoisie in policy making process destroyed policy making capacity of ruling elite in cases that also affect the bourgeoisie. With the establishment of the republic, many laws were enacted in order to change the laws that regulate land ownership structure in Ottoman (Aktan, 1966, 319-320). First concrete working about land reform was Land and Settlement Law in which Ministry of Interior prepared and sent to parliament without the coordination with other ministries and the inspection of council of state in 1930 but this law did not carry a value because it was not be prepared due to coordination between ministries. In

1934, Settlement Law that regulated distribution of land to all peasants that were displaced from their settlements and to immigrants who migrated to Turkey was approved by assembly (Karaömerlioğlu, ibid, 119). The discourse that announced no peasants would remain landless was voiced by Atatürk in 1936 and 1937 and by executive elite in constitution meetings in 1937 but land reform debates lost its popularity with the outbreak of Second World War (ibid, 119-120). A land reform law draft began to be discussed by name A Law Providing for Land Distribution and Establishing Farmers in the parliament after ending of the war but this draft was encountered serious resistance by big landowner deputies. This draft was so smoothed that land distribution to peasants became impossible. In response, a 17th article was prepared by the first preparers of the law that comprised distribution of land to farmers and thus, it was planned to bring the draft to its original form. However, same commission this time passed the 17th article from commission by making a change that deteriorated its original form and then sent to the parliament. The land reform law draft, which was truncated due to the opposition of the landowner deputies, was enacted with the name, A Law Making the Farmer a Land Owner (Avcıoğlu, ibid, 340-347 and Aktan, ibid, 320-321). The 17th article, which was changed and softened, was stating that lands in which landless or low grounded sharecroppers, tenants and agricultural laborers tame can be expropriated in order to distribute to farmers and workers thereby leaving determined part of the land to landlords. Original form of the article was that lands in which sharecroppers, tenants, and agricultural labors tame were distributed to active workers of these lands. The 17th article even with its smoothed form had been passed and became a law through the personal efforts of İsmet İnönü. However, opposition to the 17th Article and the Land Reform a few months after the entry into effect of the law was such a great that Minister of Agriculture Şevket Raşit Hatipoğlu was obliged to resign and then, Cavit Oral who was the one of the opponents of the Land Reform replaced former minister. Therefore, this incident shows us that big landowner bourgeoisie attained dominancy in 1945 to be able to hinder Land Reform in which both Atatürk and a part of politicians who were not representative of bourgeoisie desired to be implemented.

The second factor that caused to be not worked of policy making mechanism due to interference to decision making zone of the government was faction in political elite and the bureaucracy and we present some incidents taking place during the Second

World War as evidence of this. The fall in production due to World War II led to the expansion of stock activities and the sale of these goods at prices far above the market. Consumer price index raised to 333 in 1945 while it was 100 in 1938 (TurkStat, *ibid*, 602). That means, inflation of war period was 233 %. Inflation in basic foodstuffs in İstanbul was 266 % for bread, 184 % for flour, 403 % for rice, 619 % for sugar, and 100 % for salt (*ibid*, 544). That high inflation enable producers to achieve high profits caused black marketeering become widespread. Disturbances originating from huge profits creating black-market activities of small-big merchants especially in 1942-1945 period spread to society. This social disturbance should caused a great pressure in the parliament that politicians, during the budget negotiations in 1945, demanded the establishment of special courts to investigate the secret relations between politicians, bureaucrats and businessmen (Buğra, *ibid*, 166). The increase in black-market activities made the living conditions of a large part of the society difficult, while the rich merchants, capitalists and big landowners made great profits and enriched their wealth (Utkugün, 2016, 128-130). Especially İsmet İnönü and a small part of the bureaucracy wanted to destroy this order but they could not achieve this because both bureaucracy and politicians did not support them due to the fact that they also benefitted from profiteering, and rent activities of war period (Boratav, 2006, 287-309). This loneliness caused by the lack of unity in the political elite prevented even the decisions to be taken in the extraordinary circumstances of the war. For example, Şevket Süreyya Aydemir, who was the President of the Industrial Inspection Committee of the Ministry of Economy, reflects that the decisions about the war economy in the beginning of the Second World War could not be implemented due to the division within the political elite (Aydemir, 1999, 73-74). Economy Minister Hüsni Çakır's response to the complaints of Aydemir about inability to take precautions about war economy was that “there are 17 ministers in the cabinet and all of them speak other languages”.

These incidents reflecting political environment of 1939-1945 period show that landowner bourgeoisie attained power to prevent land reform while industrial and commercial bourgeoisie attained power to continue rent creating, black-marketing, and profiteering activities although government attempted to cut this actions. Faction in political elite and in bureaucracy prevented to be taken crucial decisions about fate of economy while preventing the government to preclude attempts of land



bourgeoisie to hinder land reform and actions of industrial and commercial bourgeoisie to acquire extraordinary rents. It became impossible to raise agricultural surplus by making change in structure of land ownership and to channel this surplus to industry when attempts of land bourgeoisie for preventing land reform were achieved. This fact hindered planning-based economic model of post-war period to maintain success of planned period of 1932-1939 because Turkey that was exposed to negative effects of the war had financing problems. An industrialization move with financing problems was not possible. The faction in both the political elite and the bureaucracy, on the other hand, influenced the post-1945 industrialization for the reason that the decisions concerning the welfare of the country were lost in this faction. For example, Mahmut Şevket Esendal, who was the general secretary of the government party during the period in which İvedili Industrial Plan had been prepared, “was hostile to industry and industrial civilization”. He believed that “industry bring the grief to world and that Turkey should be protected from this grief” (Aydemir, 1971, 503). The interpretation of Şevket Süreyya Aydemir who was one of the preparers of İvedili Industry Plan about this table was that “Hungry wolf of the bureaucracy ate, nibbled, and consumed it (the plan) as if it was unclaimed object” (ibid, 501). Under these conditions, Even if the industrialization plan would come into force, it would not possible to make a certain conclusion about its success.

According to us, why the undermining activities of dominant social classes and the faction in the political elite and the bureaucracy began to affect political environment was disappearance of an institution anymore in 1939-1945 period. This institution was suppressing faction in both state apparatus and dominant social classes on behalf of long termed public welfare. This institution is presidency of Atatürk. As mentioned above, both implementations that enriched private capitalists in 1923-1932 period and the implementations that strengthened position of the state in the economy to the detriment of possible utility of private capitalists in 1932-1939 period were seeking to obtain development aim for long term public welfare. In 1932-1939 period, private capitalists had no capacity to reverse statist practices that strictly controlled private capital although they were represented at minister of economy level in political environment. Bourgeoisie class seems to obtained ability to maintain its profiteering and rent creating activities during war period and to counteract the Land Reform in post-war period although İsmet İnönü, who sided

against rent-focused activities of capitalist class and who was the source of statist policies, replaced Atatürk. This fact shows us that there was already a contradiction in political mechanism before 1938 but this contradiction did not pose outcomes that would undermine development aim, which was targeted with establishment of republic, thanks to capacity of Atatürk and executive political elite who took sides with Atatürk. The death of Atatürk seems to led the politicians who were the representatives of capitalist class and the bureaucrats who were under influence of these politicians to got maneuver field in their actions that were contrary to public welfare. This is an indication that the political elite began with the lack of state autonomy after the war.

1945 does not actually express the end of a war began in 1939 but it rather expresses the end of the expansion struggle that had continued between European countries for more than 100 years and that led to rise of an another country as leader state, which is outside of European continent. This war led to the outbreak of a two-pole world in which United States and Soviet Russia generated these two opposite poles. The first action of the U.S. after the war was to offer economic aid packages that are named as Marshall Plan that would enable the European states, which suffered great damage from the war, to recover their economies and revitalize their internal markets. It would be mistake to think that this assistance was made completely in good faith and gratuitous in order to make passing prosperous society easier for people who were damaged by heavy war because aid package in context of the Marshall Plan had been executed by the United States in return for implementation of the U.S. recommended policies by the recipient country (Öniş, 1995, 38). However, all of targets that were determined in İvedili Industry Plan, which was planned to be put into effect in 1946, were completely contrary to conditions of United States that proposed these conditions for the agenda in order to provide the aid. In the end, Turkey either would impose the industrialization plan at the cost of deprivation of Marshall Aid or fulfilled what United States demands by suspending the industrialization plan. Therefore, this fact is important for us to decide about existence of state autonomy in post-war period in Turkey in which faction in state apparatus weakened acting ability of the executive political elite against interest groups during war period.

In the post-war period, it seems absolute contrast in path that was followed by Turkey, which began an industrialization plan preparations in the last periods of the

II. WW. First of all, in 1946, The September 7th Decisions, which had a liberal content that diverges the content of previous plans and the economic policy applied in those years, were taken (Soyak, *ibid*, 173). Turkish Lira was devaluated with the decisions although the ISI model that was economic policy applied at that time required over-valued exchange rate for cheaply import of intermediate goods required for production. Thereafter, Turkey Economic Development Plan was prepared in 1947 by Süleyman Vaner. It is obvious that September 7th Decisions and Vaner's Plan were put into effect in order to benefit from Marshall Aids because both Vaners Plan and the plan that was asked Turkey to follow in the context of Marshall Plan did not cover industrialization that was the prioritised subject and main pillar of economic development of Turkey before 1945. The 1947 Plan envisaged private sector-led economy and investments in the agricultural, transport and energy sectors rather than industry in line with the economic structural changes in which United States asked to be implemented in return the Marshall Aid. However, İvedili Industrial Plan was so far-reaching and industry based plan with regard to comprising various sectors like mining, transportation, agriculture, labor questions, regional planning and to planning establishment of General Machinery Factory, Electrolyte Copper Combine, Ereğli Iron and Steel Factory. It can be seen that this plan was indifferent from previous plan in terms of its scope and development strategy. As it was a continuation of the first plan, it was already expected to be complementary to the first plan, and also, among those who prepared the plan, there were names like Şevket Süreyya and İsmail Hüsrev who were leading figures of Kadro Magazine. These names were especially known as influencing the İnönü Government in preparation and implementation of the First Five-Years Industrialization Plan by way of articles they wrote. Therefore, it is understood that the plan of the government during the war was to continue the industrialization move that was interrupted because of the war immediately after the war. However, United States as offering Marshall Aid and the United States sponsored this plan that were offered in return for financial aid made it impossible to implement the Ivedili Industry Plan, which was born from the internal sources of the domestic political elite during the war. This fact shows that post-war economic policies were created with the demand of a foreign-origin class and this is the evidence of the lack of state autonomy. Therefore, it seems that Turkey abandoned domestic political elite intended industrialization seeking on behalf of a program that came with

deterioration in industrialization. This is the indication of the fact that a foreign interest group, which can be approached as United States or big foreign capitalists, undermined state autonomy of Turkey. Therefore, this stagnation in potential industrialization appearing with the facts that 8,6 % average annual industrial growth was below of both GNP and agricultural growth in 1946-1950 period and that share of industry in GNP in 1950 decreased to 13,1 % while it was 15, 6 % in 1945 should be searched in two factors in which lack of state autonomy caused: The first is failure in land reform and the second is could not be implemented of the İvedili Industry Plan. In fact, if this plan had been put into effect, Turkey both achieved continuation of success of 1933-1939 period industrialization move and went through deepening in industrialization by way of heavy investment in capital goods. If the autonomy of the state had been preserved against internal factors, it would be increased agricultural surplus by way of the Land Reform and this surplus would be transferred to industrialization thanks to capacity of state to direct agricultural surplus. As we will see in below, the path the East Asian countries followed in their industrialization process was not different from this path.

Single party regime that was eroded with “the government tiredness” in which “indecision and mess” of both war and post-war period (Aydemir, *ibid*, 502) brought forth ended with Democratic Party (DP) Government in 1950. The DP government implemented agriculture led development model that came up with Marshall Plan in the initial years of their government rather than industry-led one. This economic policy brought high growth in 1950-1953 period due to very good weather conditions and strong demand for agricultural products. In 1954, the previous three years positive conjuncture was lost and both the demand for agricultural products and agricultural revenue decreased. The decline in the export revenues of agricultural products in this period led to decrease in foreign exchange revenues and this fact required the import to be carried out by debt. Therefore, measures in relation to restrict imports and to control the use of foreign exchange were taken in the end of 1953 (Krueger, 1974, 8). Strict import restrictions followed these measures in post-1953 period. These measures could not prevent that 1954-1958 period continued with the increasing debts, foreign trade deficits and chronic shortages of foreign currency. Then, this situation was followed by a complete cessation of import licenses at first, and the August 1958 Stabilization Program later (*ibid*, 66-72).

We encounter an obstacle to evaluate industrialization of 1950-1960 period in terms of state autonomy perspective. In this period, the state had not a serious policy towards industrialization. Even, the DP was looking the planning as phobia (ibid, 7) because it comprised so many agricultural, trade, and industrial bourgeoisie in their top management. For this reason, although the number of public investments and Public Economic Enterprises (PEEs) increased during this period, they were not products of an effort for industrialization, but a product of politic manner because most of them did not operate in productive areas (Fry, 1971, 307). Lack of an attitude of political elite towards industrialization prevented us to make analysis about industrialization-state autonomy relationship and whether there was obstruction of dominant interest groups to industrialization effort of political elite or not.



### **3. INDUSTRIALIZATION IN PLANNED DEVELOPMENT PERIOD IN TURKEY IN STATE AUTONOMY PERSPECTIVE (1960-1980)**

The period that started with 1960 in Turkey had something in common with the period that started with 1932. The first is both periods actually were crisis period. The 1932-1939 period consisted of events following an economic crisis that was Great Depression, while the 1960 period consisted of events following a political crisis that was 1960 military coup. The second is both periods were planned development periods. An industrialization plan was in force in 1933-39 period while four development plans were in force in 1960-80 period. The third, hegemony of bureaucracy at least certain times of mentioned periods was common characteristic of two periods. While first industrialization plan was the product of bureaucracy that was supporter of statism ideology as mentioned above, the power of the bureaucracy in the period starting with 1960 maintained until civilian life began in November 1961. Lastly, fourth common characteristic of two periods was that both periods except 1975-1980 comprised the years in which industry growth rate was maximum.

In this section, we will examine the 1960-1980 period industrialization, which is described as planned period, in terms of state autonomy perspective as we did in the previous section. In the previous chapter, we inferred firstly that the 1932-1939 period industrialization took place in the period in which the government had state autonomy and secondly that the lack of post-war state autonomy had ceased the industrialization move before it began and thus had prevented the deepening of industrialization in the 1930s. The fact that the 1960-1980 period was planned period and that there was improvement in industrialization especially in the first decade necessitates us to disclose whether this improvement was related to state autonomy or not. Therefore, in this section, we will attempt to test such hypotheses: What made possible improvement in industrialization in 1960-1980 period was state autonomy, too? Did the industrialization take place without state autonomy? Can industrialization take place without state autonomy? Did the lack of state autonomy in this period hinder Turkey to industrialize deeply like East Asian countries? For

this purpose, we will refer the political environment of the period and give some incidents to help us to draw the limits of state autonomy as we did in the previous section.

The period developing with the year of 1960 had some characteristics, which were essential for the state autonomy. The first one of these characteristics was the absolute authority of ruling class as emerging from a chaos environment with triumph. This authority enabled the new government that took over the management from the DP in 1960 to annihilate potential opposition by suppressing all elements that clustered around or against the DP as well as the DP's itself and then the state as an institution emerged as sole hegemon. As one of the clustered elements around the DP whose founders were mostly representative of capitalist class of single party period, bourgeoisie class lost its dominancy against new ruling class in 1960 (Oh, Varcin, 2002, 719). This loss of power experienced by the capitalist class was intentionally or unintentionally strengthened by the steps taken by the government in order to expand the rights of the classes that were outside of the dominant class. The fact that one of the most important aims of those who prepared the 1961 Constitution was to provide social rights to especially public workers and wage earners who were neglected during the DP (Bianchi, 1984, 163) enabled dominated classes to gain status against the dominant class. The reason why this situation served the state to consolidate its strong position against the dominant class of this period, which consisted of agricultural, industrial, and commercial bourgeoisie, is inhibition of dominant capitalist class by law to undertake activities that were at the expense of other social classes. For example, with the passage of the Trade Unions Act and the Law on Strikes, Lockout and Collective Agreements in 1963, it was paved the way for amelioration of working conditions of workers and the workers attained new social rights. This fact, for example, occluded capitalist class to increase surplus that was obtained from employees by pressuring the government to decrease wages to reservation wage level. Thus, capitalist class lost one way to increase their profits and to become dominant economic class by eliminating other social class (employees) in a zero sum game.

The second characteristic of the period developing with the year of 1960 in terms of importance for state autonomy was the fact that the executives of this period were populist (halkçı). The building of the 1961 constitution on a vision that would

advance the whole of society in all areas provided the government with wide state autonomy. Providing bindingness to this vision with the constitution prevented the political elite, even if it desires, to comply with demands of interest groups. For example, the industrial bourgeoisie lobby in the first civil assembly after the military coup attempted to prevent proposal of restructuring of the PEEs but this effort was refused by the government (Ahmad, 1993, 133). The bourgeoisie demanded state to take steps to support the private sector rather than increasing state's own share in the economic field through the PEEs. However, this demand was not compatible with the obligation that was given to government by the constitution to prioritize investments that would increase the welfare of the society. The 41th Article of the constitution that was prepared under the head of "The Regulation of Economic and Social Life" was remarking that social life would be build on justice and that economic activities would be build on the aim of enhancing public welfare and attaining full employment. However, it adds that full employment aim would be not at the cost of poverty of a part of society. This part of the constitution that covered also Article 41 did not coincide with the intention of the politicians that were part of the Justice Party (JP) in the coalition government to have close relations with the bourgeoisie (ibid, 132-133) because it obliged the political elite to engage in economic activities that would improve the welfare of the public rather than of any dominant social group.

The new government, which adopted public welfare as 41th Article of 1961 Constitution shows, aimed a range of reforms that were related to social, economic, and other areas for this purpose. Planning of these reforms were left competents of related subjects although military government periods generally the periods in which decision making mechanism does not work with pluralist system. This behavior posed a situation that competent civilians outside military were included to decision making mechanism. Most well-known example, the military government, which aimed to prepare a democratic constitution, did not assign this mission to military legists and created a constitutional committee consisting of civilians. Hence, the 1961 Constitution was the product of most prominent civil jurists of the period, not military jurists.

One of the objectives of the new government was economic development and the regime had intention to assign this process to civilians as in preparation of the



constitution. The regime established the State Planning Organization (SPO) on 30 September 1960 to undertake the planning mission. Two of statutory tasks of the SPO's were "...to assist the government in determining the economic and social policy and objectives to be pursued" and "to prepare long and short-term plans that will achieve admitted goals of the government" (Sezen, 1999, 75). If four five years development plans that were in force between 1963 and 1980 are considered, it is apparent that there was a development objective in that period. In other words, it is seen that the SPO performed the task of "to assist in determining an objective" and "preparing plans for government goals". So, how much could the SPO assist the government in determining the economic and social policies to be pursued in that period? In other words, how much efficient was the SPO?

It seems that new government planned highly active status for the SPO in policy-making process about economic development. This effort can be understood from an incident happening in preparation stage of first development plan. In a meeting in which the law text about planning was presented to National Unity Committee, the committee that did not appreciate organizational scheme in which politicians were superior to planning bureaucrats asked representative of the group, which prepared law text, "We want to see the planning as superior to the government, why have you thought the High Planning Board (HPB) under the government?" (Karaosmanoğlu, 2005, 109). Although this effort of the government did not bring a planning board that is superior to political elite, an organizational structure that restricts interference of political elites to planning took place. The SPO would consist of the economic planning department, the social planning department and the coordination department, and would be represented at the HPB with the undersecretary of the organization and presidents of these departments. The tasks of the HPB were to "assist the council of ministers in setting economic and social goals and to examine, before being submitted to the council of ministers, the plans, which prepared by the central organization of the SPO, with regards to suitability and sufficiency of these plans to determined targets" (Sezen, *ibid*, 77). With these task descriptions, we clearly see that the bureaucracy had been included to decision-making processes with highly active role in that period. The HPB consisted of eight members. Four of them were from the SPO and others from ministers in which one of them was prime minister. The plans that were prepared by the central organization of the SPO were

discussed and finalised here before presenting to the Council of Ministers. The aim with this structure, according to us, was to prevent to be made a change in content of the plan, which was prepared by the central organization of the SPO, during council of ministers meeting and was to preserve the plan's bureaucratic originality that does not reflect the political tendencies. In HPB, the voting power of members was equal in addition to equal distribution of bureaucracy and political elite. Therefore, the plans that stem from sub-units of the SPO would be defended by the SPO bureaucrats when the plan draft discussed in the HPB meetings and intervention of four ministers to the plan would be prevented because the necessary absolute majority could not be provided. Plans that were submitted to the council of ministers would be approved without making any changes during the Council of Ministers meetings because the plan already had the approval signatures of ministers that participated in the HPB meeting. Thus, the HPB reflects the strength of the bureaucracy by preventing government to take economic decisions towards development as arbitrary and without reference to economic authorities (Milor, 1990, 17) while the board provided the substructure of political and bureaucratic cooperation towards development. However, this power of the bureaucracy was not long-lived and the SPO lost its active role in economic policies after civilian government replaced the military government.

The military government gave way to Republican People's Party (RPP) and JP coalition government in 20 November 1961 when the SPO maintained development plan preparations. A part of coalition government that did not lean towards planning and that did not accept the SPO bureaucrats attempted to exercise influence over the SPO with the beginning of civil life. First of all, the HPB meetings were attended more deputies than it should be except first few meetings although these meetings should be made with four planning bureaucrats and four ministers (Karaosmanoğlu, *ibid*). Later, the politicians made understand to the planning bureaucrats the idea that, "if needed, we will intervene and we will remove the unpleasant parts from the draft" (*ibid*, 150). This negative attitude continued with the rejection of the demands that would increase efficiency of the plans by the political elite. For example, while the First Plan was being prepared, it was revealed that some practices arising from the foreign trade policy in place were an obstacle to the industrialization target of the plan. Planners asked council of ministers to make adjustments that will ensure

compliance among policies in order for the practices in place to serve goal of industrialization but this demand was not accepted (ibid, 153-154). The manner to avoid co-operation with planning bureaucracy in the high-level political elite was also seen in the ministry bureaucracy. While the state debts were highly essential data in the model that was generated in the first plan for development, the General Directorate of Treasury did not share the state debt statistics with the SPO (Türkcan, 2010, 219). Such incidents show that the attitude of the political elite to defuse the SPO also hampered the emergence of bureaucratic integration and harmony towards planning. Under these circumstances where political elites actions towards neutralizing the SPO continued during preparation period of first five years development plan, the bureaucrats who prepared draft of the plan and determined policy recommendations “were exposed to deathblow” (Küçük, 1971, 71) when they submit the plan draft to political elite with the thought that the draft will be put into practice as is.

The most prominent issue of import substitution industrialization in the countries, which have not yet established industry to export manufacturing goods, was to finance industrialization with available economic activity. The only sector able to finance industrialization in Turkey in 1960 was agriculture. During the planning work that was started in DP period before military government, taxing specialist Dr. Koopman stated that in an economy where the capital / output ratio is 3, a saving rate of 28 % is needed for 7 % growth rate but 12 % saving rate of the day is too inadequate to realize this and some measures should be taken (Türkcan, ibid, 163-164). Therefore, Land and Tax Reforms were necessity of the plan and had vital importance to obtain necessary savings for achieving development and accordingly industrialization. For this purpose, in addition to increase in the tax burden of companies, medium and large agricultural enterprises were attached to tax scope but these regulations faced with great reaction of landlords and of industrial sector and caused them to take a stand against planning (Kükürer, 1999, 88; Karaosmanoğlu, ibid, 130; Coşar, 2010, 190). Meanwhile, while the SPO, which worked on the first plan, added the Land and Tax Reform to the draft of the plan as source of financing of industrialization (Türkcan, ibid, 237), the coalition government, which came to power after the military government, constituted the Tax Reform Commission in order to soften the tax propositions that led reactions of the land and industrial

bourgeoisie. In the commission, the decisions that were imposing tax rebate to export, narrowing down of tax scope to agriculture, and extending the scope of tax exemptions of small farmers (Coşar, *ibid*) were made. Therefore, decisions against the proposal of the SPO about the taxation of agriculture were made firstly, and then, taxing of agriculture proposal of the SPO was rejected by the political elite in the High Planning Board due to pressures of especially the land bourgeoisie<sup>6</sup>. Meanwhile, after ministers continued to inform the planners about the changes they wanted to be made before the plan was sent to parliament (Karaosmanoğlu, *ibid*, 154), the SPO undersecretary and heads of three departments of the organization resigned by stating that planning would not be maintained only by providing technical data and that the political elite avoided to implement policies that would achieve industrialization and that they would not take responsibility for it. After the resignations, a person who was highly against the SPO took on a task of the SPO Undersecretariat. New undersecretary had thoughts of “Tax reform is not business of planning.” and “Planning is ... not necessarily!” (Türkcan, *ibid*, 9) in subject where Atilla Sönmez who was the head of Economic Planning Department put being not impose of tax reform on par with being not continue of industrialization plan. All these facts show that the development move under the supervision of the bureaucracy, which is understood by the military administration's statement of “we see planning above the government”, lost the environment to sprout after military government left the administration. The first reason of this fact is that actions of political elite to neutralise planning bureaucracy because political cadre did not lean towards such an economic structure. These actions led planning bureaucracy to lose their belief about existence of political cadre that adopted planned development model of bureaucracy and this fact posed resignations in the SPO. Already, after this resignations, plans began to be prepared considering which policies are governments able to implement rather than considering consistency of plans with respect to continuity of each other or rather than capacity of Turkey (Küçük, *ibid*, 71-75). This

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<sup>6</sup> The confession of mistake made by political elite with rejecting the SPO's proposition to excise agricultural tax for financing of development had been articulated by minister of state for industry with these words on 20 November 1961: “We are mistaken friends! The situation is not as we know it. We said to abolish land tax. We said to cease saving bond cut. We disapproved agricultural income tax. We could not think of fail to pay civil servants' wage increase. ... Far from doing tax reduction, we need new taxes (Yön, 1961, 8).”

situation foreshadowed development plans in which political elite would shape rather than a development period in which plans would shape.

The second reason of why development thrust under supervision of bureaucracy lost the environment to sprout after ending of military administration is lack of state autonomy of political elite against agricultural bourgeoisie where we embody lack of state autonomy with the refusal of agriculture tax proposal of the bureaucracy due to pressures of agricultural bourgeoisie. Obstruction of agricultural bourgeoisie to a subject that would ensure financing of the plan caused development plans to get stuck yet in preparation stage by demolishing applicability capacity of the plan<sup>7</sup>. Even if the political elite would remain faithful to the planned development model and to the position of the SPO in this model, the lack of state autonomy would cause the policies that were disadvantage to interest groups to be not implemented by the political elite because the state's capacity to make policy contrary to dominant classes was weak. Therefore, in civilian political life after 1961, where state autonomy and bureaucratic capacity (move of bureaucracy as a whole towards an aim) were weak, the SPO continued to fulfill its task to prepare short and long-termed development plans due to constitutional obligation. However, the SPO had partially fulfilled its task to help the government in determining economic and social policy until 1965 due to partial exclusion by the government<sup>8</sup>.

The importance of the year of 1965 in terms of the fate of planned development understanding and the fate of the SPO was coming Justice Party to power alone. Although the SPO fell under influence of politicians after resignations with refusal of taxing of agriculture, the organization was dominant in preparation of the first development plan because planning supporter the RPP was coalition partner up to 1965. However, the bureaucracy fell under fully control of the political elite and lost

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<sup>7</sup> In the First Five Years Development Plan (SPO, 1963, 482-483), it was specified the necessity of increase in tax revenues for the success of the plan.

<sup>8</sup> Reason of why the SPO fulfilled its task partially is that the RPP was a partner of coalition government. One of the reasons for emergence of the idea of planning in 1960 is that planning is the legacy of Kemalist ideology. Therefore, the RPP, the representative of the Kemalist ideology, always took sides with planning during the coalition government and supported the State Planning Organization while the JP was against planning (Heper, Keyman 1998, 264). During this period in which the RPP was ruling partner, the 1962 transition plan and the First Five Years Development Plan were prepared and steps were taken to realize the objectives of the plan. However, the SPO could not persuade political elite to implement taxation of agriculture. Therefore, financing issue of industrialization could not be overcome.

its function towards planning over time since anti-planning supporter JP came to power alone. For example, Memduh Aytür who was the undersecretary of the State Planning Organization in the 1964-1966 period stated that he never worked with a government that supported him and that the government tendencies in the Demirel period were in conflict with the SPO's structure and tendencies (Aytür, 1991, 165-166). There are some views about how the link of the SPO with planning and industrialization broke in the JP period.

For instance, according to Soyak's an article (ibid, 177), with two incidents that took place in 1965 and 1967, the SPO undertook some obligations that did not comply with main mission of itself and thus, tie of the SPO with industrialization and planning disappeared. With the Law number 933 on the Principles of Implementation of the Development Plan issued in 1965, the SPO was taken responsibility to regulate foreign capital that would get into Turkish markets within the context of the Law on Foreign Investment Incentive. In 1967, Bureau of Development and Incentive to Investments and Export was incorporated into the SPO. According to Soyak, these assignments were not related to the SPO's tasks that are specified in its statute and they led the organization to lose its founding purpose and to become an institution that transfers public resources to the private sector. On the contrary, in our opinion, if the SPO undertakes control of foreign capital that will get into country, it increases its authority towards industrialization. With this new assignment, the SPO obtained such abilities about industrialization: It could use this new foreign capital in investments that would increase capital intensive production. It obtained ability to prevent this capital to become consumer credit and source of increase in luxury consumption goods import. If foreign capital becomes source of domestic consumption, there is also risk to change direction of productive investments like manufacturing industry investments to relatively unproductive investments like tourism and construction. Therefore, with the right to say on foreign capital, the SPO obtained ability to prevent such a probability. The transfer of the Bureau of Development and Incentive to Investments and Export to the SPO could also emerge as another factor that would serve the industrialization and this assignment did not present a contradiction with the content of the plans. The SPO could use this policy tool for bringing the industry a level to be able to make production in capital and technology intensive sectors and for enhancing the export level when imposing

import substitution industrialization as East Asian countries did. It could make a change in structure of industrial production and increase export by determining certain goods that had important share in world trade, high value added, and high capacity to bring foreign exchange and by transferring incentives to production of these goods. In December 1960, just two months after its establishment, the SPO already demanded an expansion in No. 91 Establishment Law's articles stating the areas in which the SPO had a voice. The reason of this demand should be that the SPO bureaucrats thought that increase in areas under the control of the SPO would be for benefit of industrialization. The amendments that were demanded by the SPO in Law No. 91 were as follows:

.Any decision affecting the economic, social, financial area and concerning use of resources shall be notified to the SPO,

.Economic and social planning, investments and work program of the PEEs, all institutions in which public has a share, state agencies, private banks and institutions should be notified the SPO,

.The income and expenditure account of the Treasury should be continuously notified to the SPO,

.Import-export programs are prepared with the participation of the SPO,

.The SPO should be informed about meetings held with the GATT and the Common Market and if a decision has made terms, final decision should not be taken without submitting it to the HPB,

.The decisions leading to any international financial relationship were needed approval of the SPO,

.The approval of the SPO should be obtained for the aids in which international organizations will give providing determine where it is used,

.Before participating in negotiations of trade agreements, the issues to be discussed should be notified to the SPO and be obtained approval by the organization,

.The SPO is received opinion about drafts law on domestic and foreign borrowing, and the SPO participates in negotiations that are about foreign debts,

.The SPO should be regularly notified each month about how and where was the funds, which were allocated by domestic and foreign sources to public and private sector, used (Türkcan, *ibid*, 253-254).

Accordingly, these new two assignments were not assignments that hindered the SPO to perform its planning mission. On the contrary, these assignments in which the organization demanded in the beginning period of its establishment could serve the SPO's task of planning and of enhancing industrialization. The reason why these practices had negative results in planning, as Soyak claims, was not the nature of the new policy instruments according to us but the fact that the political elite became means of capitalist's actions to exploit the bureaucracy for their own interests. Aim of political elite to enrich capitalist groups and the aim of the bureaucracy to enhance industrialization was contradicting each other in terms of both the scope and the consequence. While aim to industrialization covers a whole, aim to enrich capitalist groups covers only one class of a society. Consequently, the SPO, which had under the control of the political elite after 1965, was able to use the new policies to contribute the aim of political elite to enhance capitalist class, not in a way to improve industrialization. For example, during the undersecretariat of Turgut Özal, the Investment Incentives Department was transferred to the SPO and Turgut Özal's brother Yusuf Özal was brought to head of the department. During this period, the SPO's personnels whose working field was incentives had prepared applications of investors who would appeal for incentive by making consultancy after hours and they had gave an incentive decision to applications that prepared themselves (Karaosmanoğlu, *ibid*, 259). As can be seen, the reason why the policy instruments, which could be used to serve industrialization plans, served providing rent was not the nature of these practices but the purpose of use. Therefore, it is true that the SPO evolved into an institution that transferred public resources to the private sector as claimed by Soyak in his mentioned study but the reason was about aim of political elite to extend the capitalist class and hence, being use of policy instruments in this direction. In Taiwan, for example, in the planned period, the bureaucracy controlled all major policy instruments, including trade policy. However, unlike Turkey, the state did not limit the scope of its economic activities with ensuring the welfare of one of the social classes. Taiwan determined macroeconomic stability as the main target. This fact enabled the bureaucracy to be isolated from various representatives



of various sectors such as industrialists, financial sector agents, merchants (Cheng, Haggard, Kang, 1998, 92). That is to say, the political elite in Taiwan did not allow a bureaucracy under private demands of interest groups, it kept the private sector actors away from the policy-making mechanism in order to achieve the macroeconomic stability and it did not allow the policy instruments to serve a particular class. With transition of the SPO to a new position in policy making mechanism after 1965, capitalist class began to seek their interests at bureaucratic class and the bureaucracy became answerer of demands of self-seeker capitalists.

We observe that this kind of relationship among politicians, bureaucracy and capitalists that undermined planning and development accordingly is the reason of why South Korea, which was the best example of the planned development with its success between 1960 and 1990, did not get efficiency from planning until 1960s. The bureaucracy in South Korea was tasked with development aim in mid-1950s but it was exposed to political interventions that restricted elbow room of itself in an environment where patronage relations and corruption took place. This fact hindered the bureaucracy to have an efficient part in development in pre-1960 period (ibid, 100). It is seen that the effort to institutionalize the planning in South Korea after 1955 was undermined this time by the inconsistency of the political elite in commitment to the development goal and by lack of bureaucratic capacity in which this inconsistency caused.

In 1955, Ministry of Reconstruction (MOR) was established in South Korea to prepare development plans. In 1958, Economic Development Council (EDC) was established to help MOR in planning with consultancy task. As it can be noticed, the role and the capacity of the EDC in planning was highly low compared to the SPO. The task of the SPO was to prepare the plans and to assist the government in generating economic policies rather than consulting and this task was binding with the constitution. The task of consultancy was passive because it is carried out on demand. This status caused the bureaucratic cadre of this institution to be weak in terms of capacity and caused MOR politicians and bureaucrats to put pressure on EDC bureaucrats. The political elite's reluctance to comply with the prepared plans undermined the efficiency of planning until 1960 in South Korea (ibid, 100-101).

In South Korea, with the year of 1960, a process contrary to the Soyak's thesis (2003) in which the nature of the policy instruments controlled by the bureaucracy

posed a decrease in efficiency of the bureaucracy in planning had been developed and the period in which the most brilliant decades of planned development began. In 1960, the bureaucratic capacity was ensured with the government's appropriation, unlike the previous period's political elite, of the institutionalization of the planning that emerged in 1955. In 1960, a new ministry named as Economic Planning Board (EPB) was established with a power over planning envisaged by the bureaucracy and various policy instruments related to forex, finance, trade policy, and budget entered control of this ministry (ibid, 101). With the establishment of the Capital Import Bureau in 1961, the EPB had a say in foreign borrowing. With new adjustments in 1962, the council obtained ability to control activities of firms using foreign capital (ibid, 102). As it can be seen, the fact that the control of foreign capital and even of activities of domestic firms that used foreign capital as a source of financing were under the planning institution was in the scope of industrialization plans and this fact served to industrialization. Therefore, the reason of why same policy instruments posed a situation in which the SPO lost its tie between industrialization was not undermining of policy instruments, which were transferred to the SPO, the efficiency of the SPO as stated by Soyak (2003) but was general political aim of that period to deactivate the SPO.

One way to deactivate the SPO, according to us, was found in making appointment of staffs regarding political closeness criterion. After the JP came to power, the institutional structure of the SPO was changed gradually and the conditions required to enter the institution were softened. While the personnels were subjected to written examinations and the competent people were recruited during the founding years of the SPO, the written examinations were abolished with the Law No. 933 issued in 1965 and the interview system was introduced. This change paved the way for the fact that the cadre of the organization had been constituted by people who were close to the government (Sezen, ibid, 94). This setting up the JP's own cadre in the organization began to be felt immediately. In 1966, Orhan Çapçı in which "planning is the out of specialization of it" (Türkcan, ibid, 151) was brought to undersecretariat. Mr. Çapçı was the general director of Vakıflar during the period of government of Adnan Menderes in which JP was heir of him. The fact that the SPO appointments were made regarding political closeness criteria led to peak dominance of the

government over planning bureaucracy due to the absence of a party that took sides with planning in power.

The second way to deactivate the SPO in economic policies was found in excluding it from policy-making mechanism. In fact, the bureaucracy was crucial because it was the guarantor of long-term and consistent practices in line with development target. Another importance of the bureaucracy is that it was an institution that could hinder government's activities that would undermine development like discretionary distribution of resources due to populist reasons. Therefore, the bureaucracy emerges as guarantee that development or industrialization target is not sacrificed in the organic link between politicians and any dominant social class or classes in which there is a voter-chosen relationship between them. However, Prime Minister Demirel had took important economic decisions together with technocrats whose numbers were not more than fingers of a hand like the SPO President Turgut Özal, the Central Bank President Naim Talu and the Treasury Undersecretary Kemal Cantürk (Tekin, 2006, 143) and had excluded the bureaucracy from policy making process.

Disappearance of statue of the SPO with defined two way in determininig economic policies caused us to obtain two characteristics about economic policies of the JP period. The first characteristic of the economic policy of JP period was that it was not the product of the plans but of daily political debates. Therefore, it consisted of inconsistent economic decisions. For example, the authority to determine quota lists and to shape the trade was in the Union of Chambers of Commerce, Industry, and Commodity Exchanges, known as TOBB, and this conflicted with the industrialization aim of the period because the TOBB was determining the quota system considering commercial capitalists. The existence of this power in TOBB had another aspect that did not coincide with development plans. That is, with this practice, the government lost possibility to protect, to privilege, and to promote industrial sectors that were determined as strategic and essential for development. The JP government ignored the fact that this order caused the self-seeker capitalists to get rent to the detriment of the national economy and posed country to progress to financial bottleneck. This order was not touched until 1969. The incident that took place in 1969 shows that the economic decisions of the period were not taken considering the plans, the development target and the long term policy.

Necmettin Erbakan who was the Secretary General of TOBB won the presidential elections of TOBB in 25 May 1969. Necmettin Erbakan was a name in which Prime Minister Süleyman Demirel did not want because Necmettin Erbakan had won this race with the support of the middle and small capitalists within TOBB. During this period, the government was supporter of big capitalists in TOBB. Following this presidential election, the JP Government handed over the authority to determine quotas and to shape foreign trade from the TOBB to the Ministry of Commerce (ibid, 144-145). In other words, the government seems to abandoned this practice because of its political interests, not because of contradictory nature of this practise with development plans. If the authority to determine quota lists and to shape import would be, for instance, in the SPO, the import of goods to be used in the production of capital-intensive products could be intensified. Or, the import of the sector goods that exceeded the stage of infant industry was allowed and the sector could be opened to competition. This could trigger production for gaining comparative advantage and could advance industrialization. However, abandoning from this practice for political reasons shows that economic policies during the JP government were shaped not by the consistent and long-termed development plans but by the daily decisions, political ambitions and populist manner.

The second example in which the distribution mechanism was not used in accordance with the plans in this period is seen in the banking sector. The banking sector was under strict control during the 1960-1980 period. The maximum amount of prices of banking sector services was determined by the state (Artun, 1987, 52). However, this did not lead to the realization of sectoral activities in line with the objectives of the SPO. In the First Five Years Development Plan (FYDP) (SPO, 1963, 494) and the Third FYDP (SPO, 1973, 921), the SPO aimed to be transferred the savings to certain productive areas. However, 3,8 % of the banking credits given to the private sector in 1963, 5 % in 1969, 5,6 % in 1973 and 4,9 % in 1978 were used in industry (Kepenek, 1987, 155). These consequences show that, due to being undermining of its efficiency, the SPO could not procure to be used of the policy instruments in a way to enable industrialization.

The second characteristic of economic policies of JP government with the disappearance of statue of the SPO with defined two way in determininig economic policies was capitalist class elevating-led economic policies rather than

industrialization-led economic policies and this situation posed consequences that undermined industrialization. For example, import quota and licences were determined by The Union of Chambers of Commerce and Industry in this period. The Union consisted of three chambers: The Chamber of Industrialists, The Chamber of Commerce, and The Chamber of Industrialists and Commerce. Industrialists were supporting import restrictions and were demanding expanding of these restriction lists because they were achieving high profits from protectionism. Merchants, on the other hand, were not content from import restrictions because these restrictions hindered the merchants to maintain their activities based on selling imported goods at prices that were pretty above the market price and thus, to obtain high profits. However, the merchants were explaining their oppositions with the justification that protectionist policies were hindering the increase in efficiencies of industrialists by protecting domestic industry from competition and were reducing the possibility of the industry to procure foreign exchange. The third group was newly-industrializing firms. These firms were highly dependent on import of raw and intermediate goods for their productions and hence, they were in need of foreign exchange. Thus, firms were competing each other for restriction, expansion, or removal of import quotas and which of these firms would come out victorious from this competition depended on power of these firms to affect the Union administration in the direction of their interests rather than which firms maintained their activities in the direction of development plans. Due to the fact that the period was a period in which chronic foreign currency shortage existed, the chambers of the Union were also competing with each other in this period to obtain a privilege in the distribution of foreign exchange. The fact that the bureaucracy had not adequate capacity to use financial tools to make the plans operational would exacerbate the competition among the chambers and this circumstance emerged as a factor that hindered industrialization of the state because banks preferred to transfer credits to tourism, real estate and foreign trade sectors and this fact posed industrialists to lack from industrial capital. This behaviour caused industrial raw material needs of industrialists to be afforded limited in that period and hindered further industrialization (Bianchi, *ibid*, 253-255).

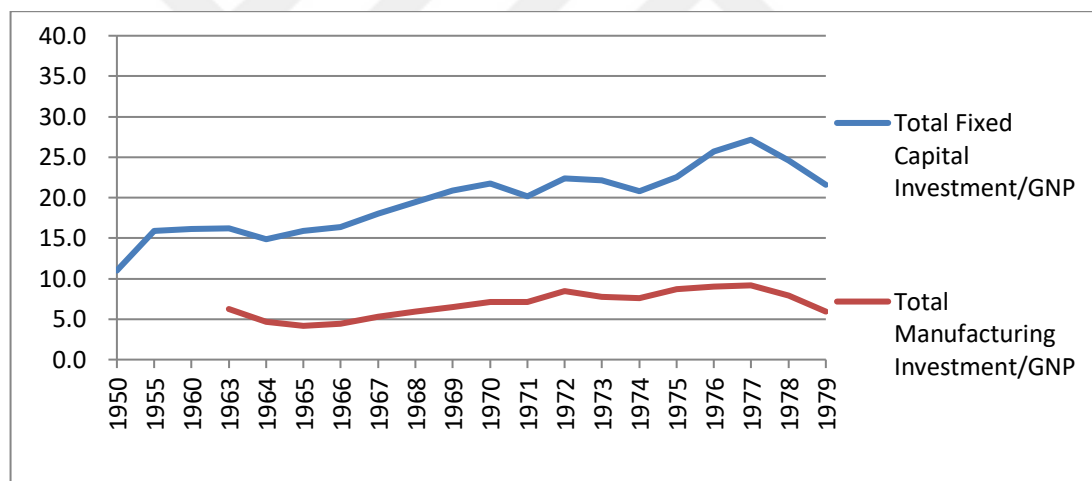
It should be understood the statement the lack of capital prevented further industrialization as preventing increase in production at available industrialization level rather than preventing deepening in stages of industry like from stage of

production of durable consumption goods to stage of production of capital goods. Increase in production at available industrialization level served increase in profits of industrial capitalists due to pattern of production that does not go beyond import substitution and assembling industry. Therefore, industrial capitalists were complaining by factors that hindered increase in production at available production conditions of import substitution industrialization like channeling credits to tourism not by conditions of import substitution industrialization model. Industrial bourgeoisie had obtained important privilege from highly over-valued foreign exchange rate of 1960s, privileged credits, and protectionism stemming from import substitution and it had maintained efficient lobby activity to be continued of these privileges (Shambayati, 1994, 316). These lobbying activities were carried out by associations. Firms that constituted the major share of production in certain sectors established associations and influenced the government on issues such as price, distribution of intermediate goods to the private sector, imports, and subsidized distribution of tariffs to their sectors (Sönmez, 1992, 167-169). This capitalist class could also maintain importation under favor of over-valued exchange rate and had continued to get its profits without experiencing demand deficiency due to high wage policy of the government in labor markets. The industrial bourgeoisie that had obtained big rents from this system ongoing in 1960s and had become an important economic class began to prevent the decisions, which were needed to be taken in line with public welfare after a point. Over-valued exchange rate policy became unsustainable after mid-1960s because this policy restricted export opportunities and exacerbated financing problem. The bureaucracy was proposing devaluation of currency as a solution to this problem but this proposal could not be implemented due to resistances of industrial bourgeoisie. When the system could not be sustained anymore, on 10 August 1970 the Demirel government took the decision to devalue Turkish Lira on 10 August 1970 “at the risk of losing the government” (Tekin, *ibid*, 150).

The industrial bourgeoisie that attained a status in late 1960s to be able to weaken the policy-making capacity of the government prevented, this time in early-1970s with the agricultural bourgeoisie, the government to take decision shaping economic life. Therefore, these bourgeoisie groups became responsible of the fact that industrialization movement of 1960s and 1970s ended up with financing crisis in

late-1970s. 1971 military coup government had focused on the issues of land and tax reform intended for financing problem of the industrialization and public investments intended for increasing the public sector's share in economic activities but these issues were also opposed by land bourgeoisie and industrial capitalists (Buğra, *ibid*, 203). The government could not eliminate firms due to the fact that their dominance in the market was very strong (Oh, Varcin, *ibid*, 720). Later, these reforms could not be fulfilled due to pressures of these interest groups and industrialization was again left to financing problem. The undertaking of the public sector to heavy industry investments with 1973 necessitated the import of capital goods but the fact that financing could not be provided from both tax revenues and export revenues resulted in emission and borrowing and then, industrialization push ended up in the late 1970s with the debt and financing crises.

How did this picture of 1960-1980 period in the context of politicians, the bureaucracy, interest groups, and industrialization affect economic indicators?



**Figure 2: Share of Investment in GNP in Turkey (%)**

Source: Strategy and Budget Department of the Presidency of Republic of Turkey, *Investment and Saving Statistics* [14.01.2019]

When we examine the share of total fixed capital investments in GNP in Figure 2, it is seen that 1965-1971 period was a stable investment period. Investments experiencing a halt with the effect of 1971 military intervention and 1973 oil crisis began to rise again between 1975 and 1978 and then, experienced sharp fall in 1978 and 1979. Share of fixed capital investments in GNP decreased to 15,9 % in 1965 while it was 16,1 % in 1960. While this ratio was 21,8 % in 1970, the jump happened

after 1974 and the ratio increased to 27,2 % in 1977. When the share of manufacturing industry investments in GNP is examined, a similar trend is observed. The manufacturing industry investments, which grew more than GNP during the 1965-1972 period, fell behind the growth rate of GNP in 1973 and 1974, and it again caught an acceleration in 1975-1977 period. This ratio increased to 8,49 % in 1972 from 6,24 % in 1963 and it held its level for the period after 1972. This table shows that manufacturing industry investments of the 1965-1977 period had an up-trend in line with the planned period.

**Table 1: Industry and Manufacturing Industry Growth Rate in Turkey (%)**

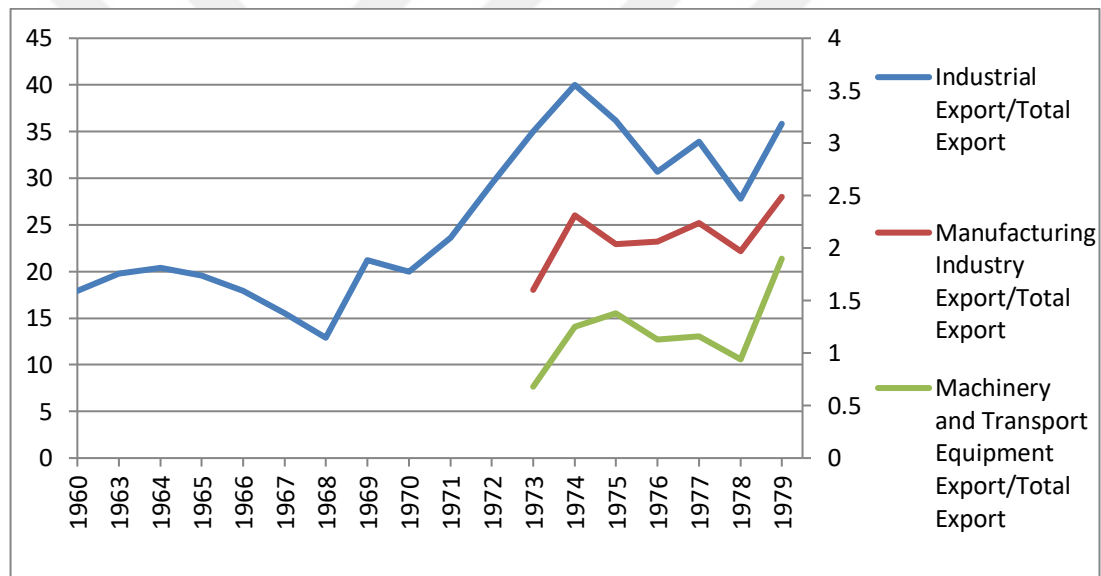
	Industry Growth Rate	Manufacturing Industry Growth Rate
1950-1959	9,2	9,57
1960-1969	9,37	9,59
1970-1976	8,01	8,44
1977-1979	1,57	1,2

Source: TurkStat, *Statistical Indicators: 1923-2011* (Turkish Statistical Institute, 2012), 693 and 716-725

When the industry growth rates are examined in Table 1, it is seen that the average annual growth rate of the industry in 1960-1969 period was higher than the period of 1950-1959. While it took place a decrease in growth rate in 1970-1976 period, there was a sudden fall in 1977-1979 period. While the growth rate of 1960-1969 period was 9,37 %, this rate decreased to 8,01 % in 1970-1976 period. In the same periods, these rates were 9,59 % and 8,44 %, respectively for the manufacturing industry growth rate. In the 1977-1979 period, it appeared that the industry was affected negatively by the financing crisis in which financing requirements for industry triggered since mid-1960s and which two oil shocks in 1973 and 1979 and increasing government expenditures due to Cyprus Operation in 1974 exacerbated. Industry and manufacturing industry growth rates decreased to 1,57 % and 1,2 % respectively. Share of industry in GNP rose to 20,7 % in 1967 from 15,7 % in 1960. However, in the 1968-1979 period in which second, third, and fourth development plans were in force, share of industry in GNP did not exceed 20,7 %.



Considering post-1960 period did not make difference with the share of industrial investments in GNP and industrial growth rates although it was industrialization-led development period, the most distinguishing feature of this period in terms of industrialization was developments that were in favor of structural change in industry. Turkey completed stage of import substitution in non-durable consumer goods in 1960 (Kepenek, *ibid*, 224) and passed the stage of import substitution in durable consumer goods in 1963 with development plan. In 1970, it had largely completed import substitution in durable consumer goods (*ibid*, 234). The fact industrial production occurred with structural change in industry during planned development period can be understood from the fact that share of industry in total export began to increase after 1968.



**Figure 3: Structure of Export in Turkey (%)**

Source: TurkStat, *Statistical Indicators: 1923-2011* (Turkish Statistical Institute, 2012), 484-487  
 Left axis pertains to blue and red lines, Right axis pertains to green line.

While this ratio was 17, 9 % in 1960 in Figure 3, it started to increase rapidly after 1968 and reached 40 % in 1974 and then, it started to decrease in the following period. Other indicators of structural change in industry again in same table were share of manufacturing industry goods and of machinery and transport equipments in total export. The share of manufacturing industry goods in total exports raised 26 % in 1974 and this level was roughly preserved in the following periods. Again, the

share of machinery and transport equipment in total exports increased from 0,68 % in 1973 to 1,38 % in 1975. After the ratio decreased to 1 % level in 1978, it increased to 2 % in 1979. The second indicator of the fact that industrial production in favor of structural change in industry is the structure of industrial production.

**Table 2: Structure of Industrial Production in Turkey (%)**

	1962	1967	1972	1977
Consumer Goods	62,3	52,9	53,2	49
Intermediate Goods	27,8	35,4	33,9	37,7
Capital Goods	9,9	11,7	12,9	13,3

Source: Yakup, Kepenek, Gelişim, Üretim Yapısı ve Sorunlarıyla Türkiye Ekonomisi (Teori Yayınları, 1987)

In 1962, while consumer goods constituted 62,3 % of total industrial production, this ratio decreased to 49 % in 1977. The share of intermediate goods increased from 27,8 % to 37,7 % while the share of capital goods increased from 9,9 % to 13,3 % between 1962 and 1977.

If these facts, which are about structural change in industry of that period, are considered along with the fact that Turkey completed import substitution in non-durable consumption goods in 1960 and import substitution in durable consumer goods in 1970, it appears that deepening in industrialization could not be achieved in 1967-1980 period in which international trade was convenient for export and financial resources were abundant relatively. During this period, industrial growth rates had fallen even below the 1950-1960 period and intermediate and capital goods exports had not reached a satisfactory level in 13 years. When the structure of industrial production is examined, it is seen that the share of capital goods production in total industrial production increased by 18 % in 1967 compared to 1962 but in ten years period between 1967 and 1977, this change was just 12,6 % (not yearly change, it is total increase). The same situation is seen in the production of intermediate

goods. The share of intermediate goods in total industrial production increased by 27 % in 1967 compared to 1962 but but in ten years period between 1967 and 1977, this change was just 6,4 %. In other words, structural change between 1967 and 1977 could not leap forward. Source of these incidents should be sought in the fact that planning began without solving financing issue of the development plan because of agricultural bourgeoisie's resistance to tax reform and of success of the bourgeoisie in its resistance due to lack of state autonomy of government. In the following periods, due to the fact that the ability of planning bureaucracy to shape planned development was destroyed and the capacity of the government to enable the industrialists to make production towards export by putting them off maintaining their industrial activities in highly protective environment did not exist, financing problems became unsustainable and the country had been unable to obtain foreign exchange to make industrial investments.

Therefore, lack of bureaucratic capacity and state autonomy were origins of why industrialization progressed to a dead-end in planned period. If these two premises for planned development were provided, financing of planning would be ensured, necessary industrial investments compatible with development plans would be made, private industrialists would be provided to move compatible with plans, and the industrialization would continue what planners envisaged. However, the lack of these two premises in Turkey led to the progress of industrialization with indicators that did not make the industrialization possible to continue.

**Table 3: Some Economic Indicators in Turkey: 1963-1979**

	Foreign Trade Deficit (Million \$)	Export / Import (%)	Workers Remittances (Million \$)	Quantity of Money (M1) (Million TL)	External Debt Stock (Million \$)	Consolidated Budget Balance/GNP (%)
1963	-319,5	53,5	0	12.167	-	0,25
1964	-126,5	76,5	9	13.999	964	-0,86
1965	-108,2	81,1	70	16.434	1.051	-0,8
1966	-227,8	68,3	115	19.780	1.149	-0,098
1967	-162,3	76,3	93	22.682	1.286	0,22
1968	-267,2	65	107	25.968	1.502	-0,36
1969	-264,4	67	141	30.127	1.678	-0,87
1970	-359,1	62,1	273	35.400	1.891	0,1
1971	-494,2	57,8	471	43.600	2.177	-2,43
1972	-677,6	56,6	740	52.900	2.291	-0,12
1973	-769,1	63,1	1183	69.800	2.654	-0,56
1974	-2245,4	40,6	1426	88.800	2.901	-0,72
1975	-3337,5	29,6	1312	117.600	4.291	-0,72
1976	-3168,4	38,2	982	150.400	6.920	-1,15
1977	-4043,3	30,2	982	209.200	10.935	-4,33
1978	-2310,9	49,8	983	283.700	13.925	-1,52
1979	-2808,3	44,6	1694	444.400	13.439	-3,13

Source: TurkStat, *Statistical Indicators: 1923-2011* (Turkish Statistical Institute, 2012)

In Table 3, while the foreign trade deficit was 108,2 million \$ in 1965, it experienced a rapid increment rising to 359,1 million \$ in 1970, to 2,2 billion \$ in 1974 and to 4 billion \$ in 1977. As we have referred above, resistance of industrial bourgeoisie in import substitution model had restricted export potentials and the rate of exports

meeting imports that was 76,5 % in 1964 and 81,1 % in 1965 decreased to 62,1 % in 1970 and to 29,6 % in 1975. This rate was 44,6 % in 1979. These ratios announced financing requirement for continuation of import and triggered steady increase in external debt. While external debt was 964 million \$ in 1964, it increased to 1,9 billion \$ in 1970, to 4,3 billion \$ in 1975, and to 13,4 billion \$ in 1979. Under conditions of foreign exchange scarcity and growing debts, formula of keeping alive of domestic demand was found in growing money supply. While narrow money ( $M_1$ )<sup>9</sup> was about 12 billion Turkish Lira in 1963, it increased to approximate 35,5 billion TL in 1970, to 117,6 billion TL in 1975, and to 444,4 billion TL in 1979. Share of consolidated budget deficit in GNP as an another indicator to exacerbate financing problem by triggering borrowing had increased regularly after the 1972. While the ratio was 1,15 % in 1976, it was 3,13 % in 1979 after raising to 4,33 % in 1977.

In spite of all these problems, factors that provided continuation of the system especially in late 1960s and 1970s developed out of control of Turkey. That the European countries experienced high economic growth in that period augmented their labor demands and Turkey realized high labor migration to the European countries in particular to Germany. This situation prevented higher rate of unemployment that was not below of double-digit since 1960, was steadily upward trending until 1980, and was high for an industrializing country. The unemployment rate, which was 11 % in 1962, rose to 12,1 % in 1967 that was last year of first five years plan. However, if we add 165.000 people working abroad (Kepenek, *ibid*, 318) to the domestic labor supply and accept them as unemployed, the unemployment rate will be 14,5 % for 1967. In 1972, which was last year of the second plan, the unemployment rate was 13,3 %. In this period, it occurred a boom in the number of workers working abroad and the number reached 600,000 (*ibid*). Similarly, when we accept this number as a potential labor supply, the unemployment rate increases to 16,6 %. Finally, in the last year of the third plan, in 1977, the unemployment rate was 13,5 % and the number of workers working abroad was 711.000. When the previous calculation is repeated for the 1977, the unemployment rate will be 17,1 %. Turkey, which had 11 % unemployment rate in the beginning of the planned period, will face 17,1 % very high unemployment rate if favourable conjuncture in external world did

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<sup>9</sup>  $M_1 = \text{Currency in circulation} + \text{Money in demand deposit accounts} + \text{Money in Central Bank Reserves}$

not appear. Undoubtedly, there is another positive contribution of labors working abroad besides their alleviating effect to unemployment rate. They can be a remedy a country that experiences chronic foreign exchange bottleneck due to chronic export deficiencies. Due to worker remittances, Turkey was able to continue importation of intermediate and capital goods in which Turkey was in need in order to maintain import dependent industrial productions (Ahmad, *ibid*, 133). In 1965, worker remittances financed roughly 65% of the foreign trade deficit while this ratio was 76 % in 1970. In 1972 and 1973, workers' remittances reached a capacity to compensate entire foreign trade deficit but after this period, a steady decline in this rate began (TUIK, *ibid*, 515).

The political developments and concomitant economic indicators of the 1960-1980 period reveal the following facts about this period. After the 1960 coup, the country was attempted to put planned development track and, in this direction, a very efficient planning organization was established as the executive. However, as cited from Aytür's (1991), Türkcan's (2010), Küçük's (1971), Sezen's (1999), and Karaosmanoğlu's (2005) mentioned studies, the SPO's strength in planning started to weaken with civilian political life and, after 1965, the SPO was dominated by the JP government. This situation caused the planning bureaucracy to lose its efficiency by being excluded from the policy-making mechanism. This situation, which points out the lack of bureaucratic capacity, had been accompanied by the lack of state autonomy of the government to formulate policies against dominant interest groups. The resistance of the agricultural bourgeoisie to tax reform and the insistence of the industrial bourgeoisie on protectionist policies raised financing problems. Financing problems and inability to transform protectionist and rent creating import substitution industrialization to export-led industrialization posed following consequences: In this planned period, expected industrialization spurt, which was aimed to be realized through vertical industrialization, i.e. from light manufacturing industry to capital and technology intensive industry, could not be realized. The aim of industrialization plans, which was deepening of industrialization without external borrowing towards the end of 1970s, was not able to be realized. Financing difficulties came along with structural problems and led to the emergence of the debt and financing crises in the late 1960s and 1970s.

#### **4. POLITICAL ECONOMY OF INDUSTRIALIZATION IN EAST AND SOUTHEAST ASIA AND LATIN AMERICA**

If interventionist policies in Latin America, East Asia and Turkey during their industrialization era are examined, it is noticed that these policies had important similarities. Import tariff protection, preferential credits for both investors and exporters, control on foreign exchange allocation, direct cash payments for exporters, tax concessions to investors, preferential licence allocation to investors and exporters who operated in capital-intensive sector, capital transfer for selected and favoured enterprises, government infrastructure investments, encouragement of R&D activities, real wages repressions to decrease production cost (Amsden, 1994; Weiss, 2005) were practices that emerged in East Asia. Thus, governments in Asia had control over pricing, interest rates, wages, bank credits, and monetary and fiscal policies (Kwon, 1994, 635). Similar policies were also in force in Latin America and Turkey in their development periods roughly between 1930 and 1980. Import tariffs, preferential licences for firms importing capital goods for investment, lower effective exchange rates for industrial raw materials, fuels and intermediate goods, cheaper loans for determined sector investments, infrastructure investments by government to increase efficiency and to decrease cost of production of private sector, and government participation in heavy industries (Baer, 1972, 98) in Latin America and negative real interest rates, subsidized credits to priority sector, import tariffs, quota restrictions, and import licensing tariffs, over-valued exchange rates, public investments through PEEs and export incentives (Tekin, 2006; Akyüz, 1990) in Turkey were some of these policies. As can be seen, the policies, which were in force, in three regions intended for industrialization-led development were not different. So, why these policies did not generate a similar result with Asian Miracle in Turkey and Latin America?

The policy-making capacity of the governments against dominant interest groups as we have referred as a factor determining the fate of industrialization move in Turkey is also explanatory of why industrialization in Latin American countries was full of

financing crisis firstly and could not be deepened secondly while East Asian countries performed rapid, consistent, and successful industrialization move. In this section, we will firstly present economic indicators of Latin America and Asia countries as a proof of our two arguments in which while Latin America countries began their industrialization move before East Asia countries, they could not deepen their industrialization as East Asia countries did and which although Southeast Asia countries began their industrialization move in roughly 1960s, they obtained steady success in industry and they maintained this success without falling debt or financing crises in 1970s and 1980s in which oil shocks and world economic contraction took place. Then, we will examine the political economy of industrialization periods of the two regions' countries and present the events, which occurred between the government and social classes, as a base of our arguments.

**Table 4: Some Industry Indicators of Latin America and Asia Countries**

	Industry/GDP		Manufacturing Industry/GDP		Gross Fixed Capital Formation/GDP		Merchandise Export/GDP
	1960	1980	1960	1980	1960	1980	1980
S. Korea	20	41	14	28	11	26	27
Taiwan	-	-	17,3	29,9	20,55	30,57	50,81*
Singapore	18	37	12	28	9,5	39,52	162,92
Thailand	19	29	13	20	12,91	27,77	20,1
Indonesia	14	42	8	9	7,86	20,87	30,2
Malaysia	18	37	9	23	15,69	30,49	49,59



**Table 4 – cont'd**

Argentina	38	38	26,5	29,9	23,47	25,25	10,4
Mexico	29	38	19,3	24,9	16,78	24,76	7,8
Brazil	35	37	26,3	30,3	22	19	8,56

Source: World Development Report (1982 and 1983)

Latin America Manufacturing Industry Statistics: Grindle (1986)

Gross Fixed Capital Formation/GDP: World Bank Data, Gross Fixed Capital Formation

Taiwan Merchandise Export Statistics: Taiwan: National Accounts Yearbook 2016

Taiwan Manufacturing Industry Statistics: Balassa (1982)

\* Export of Goods and Service

As can be observed, East and Southeast Asia countries experienced notable improvement in their industry and manufacturing industry between 1960 and 1980. Except Indonesia in share of manufacturing industry in GDP, these countries rendered industry and manufacturing industry important part of their economic activities in twenty years. For example, South Korea, Malaysia, Singapore, and almost Thailand doubled share of manufacturing industry in GDP. If gross fixed capital formation examined, it can be understood that source of this improvement in industry was high investment. In 1980, investment was constituting remarkable share of their domestic incomes. Lastly, in point of showing competitiveness of their industrial production, mentioned countries were able to export their production in 1980.

When Latin America countries are examined, it seems that three Latin America countries experienced a stagnation in industry between 1960 and 1980. Firstly, they could not improve share of industry and manufacturing industry in GDP in twenty years. Secondly, in Argentina and Brazil in which an industrialization move attempt appeared in 1960s and 1970s, needed investment boom could not be realized in these years. In 1980, a significant distinction did not take place. Lastly, share of merchandise export in GDP revealed nature of industrial production of these three countries. It seems that industrial production in these countries did not reach competitiveness in 1980. Production was inward oriented and this limited export and the foreign exchange revenues.

**Table 5: Inflation and Finance Indicators of Latin America and Asia**

	Current Account Balance/ GDP		Debt Service		Budget Balance/ GNP		Taxes on income, profit, capital gain / GNP		Inflation	
	1970	1980	1970	1980	1970	1982	1972	1981	1960-1970	1970-1980
South Korea	-6,93	-3,44	19,4	12,2	-4	-3,7	3,97	4,62	17,4	19,8
Taiwan	0,01	0,06	-	-	-	-	-	-	3,1	8
Singapore	-29,8	-7,95	0,6	0,8	1,3	0,1	5,27	9,97	1,1	5,1
Thailand	-3,53	-3,1	3,4	5,2	-4,3	-3,5	1,56	2,82	1,8	9,9
Indonesia	-3,39	-0,8	6,9	8	-2,6	-2,2	6,55	19,14	-	20,5
Malaysia	0,20	-11,75	3,6	2,3	-9,8	-15,8	25,2	36,9	-0,3	7,5
Argentina	-0,52	-2,97	21,5	16,6	-3,4	-8,5	0,97	0,95	21,7	130,8
Mexico	-3,0	-1,42	24,1	31,9	-3,1	-6,9	3,79	5,82	3,6	19,3
Brazil	-1,98	-5,8	12,5	34	-0,4	-2,4	3,24	3,1	46,1	36,7

Source: Current Account /GDP, Inflation, Debt Service: World Development Report (1982 and 1983)

Budget Deficit and Taxes on Income, Profit, Capital Gain/GNP: WDR (1984)

Taiwan Statistics: Balassa (1982)

This table is important for showing cost of industrialization in both mentioned Asia and Latin America countries. While, except Mexico, Asia countries sustained their industrialization move in 1970s without facing unfavorableness that would undermine industrialization, cost of industrialization in Latin America countries was apparent. Other than Malaysia, Asia countries proceeded in 1970s with improvement in current account balance. This is important for industrialization to be not caught of financing bottleneck trap. In spite of rapid deterioration in current account balance, the reason of why Malaysia did not fall into this trap was low debt-service ratio. They were not obliged to use their export revenues in debt payments and so they could finance their industrialization move. For example, debt service ratio was relatively high in three Latin America countries and Mexico and Brazil experienced sudden deterioration in their debt service. Again Asia countries except Malaysia

spent their industrialization periods in 1970s with budget balance amelioration, share of budget deficit in GNP doubled in Latin America countries. Inflation accompanied these unfavorablenesses that were indicators of financing difficulties or of self-insufficiency in industrialization in terms of financing creation.

#### **4.1 Political Economy of Industrialization in Latin America**

Latin American countries, which had followed outward-oriented strategy based on export of natural resources and agricultural products, began to implement an inward-oriented strategy after the Great Depression like all other countries. The self-closed conjuncture of international trade of the 1930s necessitated the transfer of funds from the dominant economic activity in Latin America, too, for financing of industrialization. For this purpose, the agricultural reform became the aim of the executive class in Latin America in the 1930s and 1940s because it was a tool for deepening industrialization (Grindle, 1986, 48). The agricultural reform would contribute the deepening of industrialization due to subsequent reasons; agricultural sector was most important source of export. Due to increase in productivity and decrease in food prices, the reduction in food expenditures of households and thus, the increase in savings could be provided. Due to mechanization of agriculture, agricultural labor surplus would be created and this labor surplus would be low-cost labor reserve of industry. Finally, the agricultural sector was supplier of raw material for manufacturing industry.

In the same period, a very small percentage of the population in Latin America<sup>10</sup>, who confiscated the majority of the land during the struggle for independence of their countries, became land oligarchy in 1930s, and it consolidated its power in this period with concessions given by the state to the agricultural sector and with practices that pleased the land bourgeoisie due to the fact that this class was source of agricultural export in that period (Gereffi, Wyman, 1987, 23). Another strong group inherited from the 19th century was commercial bourgeoisie, which kept raw

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<sup>10</sup> In Mexico, in 1984, 20 % of the cultivable land was owned by 50 owners. In 1910, 1 % of the population controlled 85 % of the total cultivable land. In the Pampas region of Argentina (760,000 square km area, the most densely populated agricultural center) in 1840, 300 owners controlled 8,6 million hectares cultivable land. In Peru, this fact was more visible. The land bourgeoisie in Peru had gained control over the land before the entire land bourgeoisie in Latin America (Furtado, 1976, 70-71).

material export under control before 1930 and which did not lean towards industrial investments after 1930 with the thought that industrial activities would not create extraordinary profit opportunities of trading (Anglade, Fortin, 1985, 27-31). However, the industrialization effort with the import substitution strategy had led to protectionist policies and the industrial bourgeoisie making production behind these protectionist walls gained extraordinary profits and became another prominent class in the society with its economic wealth. This classes picture appearing in Latin America after 1930 and the absence of capacity of governments (state autonomy) to follow policies, which were generated towards public welfare, against these groups led industrialization to continue with crises and to fail because a policy, which would contribute to the progress of industrialization, faced with the opposition by one of the members of the mentioned class picture when the policy contradicted the interests of this/these group(s) and could not be applied due to the lack of state autonomy. For example, industrial production in Latin America between 1930 and 1940 increased significantly through import substitution policy accompanied by protectionist measures but whenever the real devaluation slowed or reversed, industrialists began to press for increasing protectionism (Haber; 2008, 564-567) because the devaluation was the source of protectionism. When the devaluation increased, imports became more expensive and this provided domestic industrialists to gain competitiveness in domestic market against foreign commodities. When Latin American countries were faced with financing difficulties in the 1950s and 1960s, the agricultural reform was again embraced by governments in 1960s and 1970s. However, the reform either could not be achieved due to the opposition of the land bourgeoisie or it served the land bourgeoisie, which constituted a very small part of the population, due to the fact that they owned most of the agricultural land and, in this way, they strengthened their power in land (Grindle, *ibid*, 48-61 and Solbrig, 2008, 493-503).

While the resistance of the agricultural bourgeoisie to agricultural reform did not permit the transfer of the necessary resources to the industry (Kay, 2002, 1093), the insistence of the industrial bourgeoisie in ISI and protectionist policies caused industrialization in Latin America not to be deepened and thus, ISI policy, which were full of financing bottlenecks, came to the exhaustion limit in the early 1970s. In these years, industrial growth trailed off, opportunity of urban population to find a job in industrial sector diminished, it was not experienced an improvement in income

distribution, and the possibility of domestically produced goods to be exported disappeared due to high foreign price of that goods because of over-valued exchange rate (Baer, *ibid*, 95). Governments except Chile's military government of 1960s and 1970s could not touch the protectionist environment of import substitution that posed the problems we referred due to very strong alliance between industrial bourgeoisie and industrial workers (Haber, *ibid*, 572-584; Sachs, Williamson, 1985, 526).

The main economic activity of Brazil before 1930 based on agriculture of temperate goods and exportation of these goods. Following the Great Depression, they followed import substitution industrialization strategy like other Latin American countries. This industrialization move, which was enclosed with protectionism, led industrial capitalists and commercial bourgeoisie to become politically dominant class due to becoming main actors of available production structure (O'Donnell, 1979, 53-55). The government did not direct industrial capitalists during the 1930-1950 period to use their savings in manufacturing industry investments to advance industrialization (Anglade, 1985, 56-57). This situation caused the industry not to overreach the light and non-durable consumer goods production stage (Gereffi, Evans, 1981, 33). In this environment where the export capacity of the industry was limited due to the fact that deepening in industrialization could not be achieved, foreign exchange bottleneck was experienced with the halt of export revenues after the 1953 Korean War and industrialization entered the period of stagnation because the inability to deepen industrialization meant that intermediate and capital goods import dependent structure of the industry could not be changed. After this period, the government planned an industrialization led development with Programa de Matas. However, this development move got stuck in 1962-1965 period due to financing bottleneck following opposition of agricultural bourgeoisie to taxation of agriculture and to agricultural reform, which aimed at increase in wages in agricultural sector to augment total demand (Anglade, *ibid*, 57-61).

While two pillars of agricultural reform were the taxation of agriculture and the rise in agricultural wages, the other was the measures to increase productivity. The measures, which were took by politicians after mid-1960s to increase productivity in agriculture and to bolster export oriented industrialization through investments made with capital obtaining from export of agricultural products, served land bourgeoisie

due to the political power and the dominance in land ownership of this bourgeoisie groups.

The irrigation projects, which were developed to prevent the collective separation of small peasants from land due to drought, were conducted under the control and the management of the land bourgeoisie and the projects were realized in a way to serve their own benefit (Grindle, *ibid*, 74; Haggard, 1989, 134). Under favour of large irrigation projects, the effects of drought had been alleviated but the separation of the peasants from the land could not be prevented. For example, land bourgeoisie that constituted 1 % of population but 40 % of land in northeastern Brazil increased both their production and value of their lands with these reclamation projects (Grindle, *ibid*, 74). Similarly, due to same reason, agricultural credit programs in Brazil affected only 10 percent of the agricultural population (*ibid*).

The high manufacturing industry growth of the period of 1968-1973 was achieved with external debts under favorable world condition for capital movements. This situation caused an increase in inflation and a decrease in real wages. In 1973, share of external debt in GDP increased to 17,3 % and the country faced with a balance of payments crisis again. In this conjuncture, Finance Minister Simonsen planned public-led heavy industrialization in 1974. Private sector, which will make investments in government-determined areas, would also be encouraged but this plan could not be carried into effect due to opposition of industrial and commercial bourgeoisie and the minister resigned (Anglade, *ibid*, 69-97; Furtado, *ibid*, 128-130). The debt-driven conjuncture of 1970s accompanying by this industrial structural imperfection that was in need of foreign capital but unable to achieve it caused Brazil's credibility in foreign world to be shocked and Brazil lost its credit facilities. Under this circumstance, the government applied to the IMF for \$ 17-19 billion worth credit in 1980 (Anglade, *ibid*, 105).

Argentina, which began to follow the import substitution strategy with the outbreak of Great Depression, encountered a strong trade and industrial bourgeoisie class in the 1930s as the key actors of the new economic conjuncture just as in Brazil (O'Donnell, *ibid*, 53-55). Although the 1930s were a rapid industrialization period, military coup attempts in 1930-1950 period, inefficient distribution of resources, deteriorations in the balance of payment account and the financing problems in industrialization caused the economic crisis in the 1950s. Governments in this period

both could not put adverse effects of economic crisis on industrial bourgeoisie's shoulders due to inability to impose policy against this dominant economic class of period although responsible of balance of payment crisis was industrial bourgeoisie and could not achieve attempts to put right the industrialization by means of agricultural reform due to opposition of agricultural bourgeoisie to this reform (ibid, 115-130; Furtado, *ibid*, p.127-128). As it can be seen, the lack of ability of the governments to implement policies against bourgeoisie class caused the industrialization of the 1950-1965 period to continue with export shortages, financial difficulties, and import bottlenecks in capital goods import (O'Donnell, *ibid*, 133-136) and the further industrialization was came to dead end.

The United States was an important building block of economic activity in Mexico, which followed the export-led growth strategy based on mineral exports in the pre-1930 period because it constituted 60 % of the total mineral investments (Gereffi, Evans, *ibid*, 34). In the 1925-1960 period, the government in Mexico reduced foreign control in agriculture and mining, nationalized oil, made land reforms for the benefit of peasants, and increased state control in the financial sector. The same period was the period that an industrialization move began due to transition to the ISI but the Mexican industry still could not overreach the production of consumers and some intermediate goods by the mid-1960s (Fitzgerald, 1985, 211-213). The fact that the industry could not achieve vertical integration, that means the dependent structure of industry on intermediate and capital goods, distorted the trade balance and created a balance of payments problem. The government planned public investments programme and heavy industrialization to remove structural imperfection in industry triggering the balance of payments problem but professionals, capitalists, and bureaucrats opposed the plan of the government to finance the new industry move through the taxation of the private sector and they prevented tax reform both in 1964 and 1972 (*ibid*, 216-225).

Thus, certain socio-economic groups seem to undermine the state autonomy by increasing its effectiveness in both economy and political arena during the period of import substitution because the government envisaged a policy to eliminate the balance of payments problem and to deepen industrialization but could not implement it due to resistance of the dominant classes. For example, the government had public banks as an instrument to control industrialization but it could not

effectively distribute loans through these public banks. Due to lobbying activities of the industrial bourgeoisie and the working class (Haber, *ibid*, 581-582), badly managed firms were bought by public justifying "too big to fail" and so the distribution of funds that were potential source of industrialization move was made ineffective and other companies suffered from financial difficulties due to credit inadequacy.

In the same period, the fact that agricultural bourgeoisie was another dominant economic group led to the failure of the agrarian reform efforts, which were envisaged to be executed in 1970s in addition to tax reforms, to finance the industrialization attempt of the 1960s. It is planned with the agricultural reform that 15 % of total public investments would be allocated for agricultural reform but the practices as a part of the reform served in favor of the land bourgeoisie that increased its dominance in land since 1940s and the peasant agriculture project, which was planned to increase agricultural production and productivity, failed due to opposition of the land bourgeoisie (Grindle, *ibid*, 61-67 and Haggard, *ibid*, 134). The inability of the state to realize tax and agricultural reform in 1960s and 1970s for the financing of industrialization and to transfer increasing oil revenues following the oil shock in 1973 to the productive areas caused an increase in borrowing in this period and this situation posed emergence of debt crisis in the beginning of 1980.

#### **4.2 Political Economy of Industrialization in East and Southeast Asia**

The industrialization in East and Southeast Asia in terms of consciousness of policy instruments and of needed steps that would provide improvement in industrialization was similar to Turkey and Latin America but the Asia countries became different from Turkey and Latin American countries in terms of its attitude and power against social classes.

In the 1950s and 1960s, Asian countries including Singapore, Taiwan, South Korea, Malaysia, Thailand, Philippines and Indonesia had not any manufacturing industry sector in which comparative advantage was attained. Therefore, all of these countries began to follow the import substitution strategy in light manufacturing, consumer durables and intermediate goods with 1950s (Riedel, 1988, 6). However, unlike Latin America, import-substitution industrialization was carried out under the control of the state and rent-seeking activities of industrial capitalists were not allowed. Thus,



practices and policy instruments that can serve to industrialization could be the means of industrialization.

With the year of 1961 following the military coup, after eliminating interest groups of the previous period (Haggard, *ibid*, 138), the new government in South Korea embarked policies to enhance industrial structure that was based upon light manufacturing before 1960. First of all, it undertook infrastructure investments and prepared a suitable environment for industrial production. Later, by restricting foreign direct investments, it adopted the understanding of domestic producer dominated industrial production. The government aimed to be produced of all inputs of industrial goods by domestic producers. In doing so, thanks to research and development activities, it aimed to transform the industrial production from labor and capital intensive to technology intensive (Lall, 1994, 650). Control of banking activities by the government enabled itself to transfer the credits to determined sectors that provide deepening in industrialization.

These steps towards industrialization did not take place in an environment where export was ignored. Export was encouraged by government with practices like subsidized credits for working and investment capital, duty free import for intermediate and capital goods, preferential licences for foreign exchange and direct cash payments (Weiss, *ibid*, 18) while the government exerted strong pressure on strong companies to direct their activities to the export in an environment where the domestic market was tightly protected. The ability of the governments to direct the industrial bourgeoisie for production towards gaining comparative advantage and for investments again in productive industry provided the completion of import substitution in consumer durables and intermediate goods by the 1970s. With the Heavy and Chemical Industry Drive decree in 1973, steel, petrochemicals, nonferrous metals, shipbuilding, electronics, and machinery sectors were this time determined as sectors in which export in these sectors would be encouraged. The aim to achieve competitiveness within 10 years in these sectors was determined (*ibid*). The government realized broad credit support in these sectors. In 1978, half of the total loans were transferred to these sectors as a consequence of aim to industrialize in these sectors.

The active role of the executive class in industrialization was not limited with measures binding domestic industrial capitalists. Foreign direct investments, which

would serve development of the country, were on the allowance list while bureaucrats rejected investments that would not serve the country's development interests. Additionally, the government was notifying foreign manufacturers in the country about which commodities or product class would be produced and how much of it would be sold in the domestic market (Neurath, 1988, 85-86).

In Taiwan, domestic landlords were eliminated by Kuomintang (KMT) before Taiwan did not achieve its independence (Haggard, 1986, 348). After 1960, Taiwan firstly reduced the political power of all social classes including capitalists and labor organizations. Secondly, it distributed the lands, which inherited from Japan, to their tenants and the all lands in country up to three hectares to tenants in order to eliminate the unrest in the countryside. Thus, the government both eliminated all the classes that had been dominant before 1960 and achieved to unite the formerly dominated classes around itself (Wade, 1988a, 38-41).

Elimination of the agricultural bourgeoisie in both Taiwan and South Korea prevented to be hindered of agricultural reforms that were planned to be means of passing capital intensive production stage and of providing diversity in industrial goods production and that contributed improvement in industrialization (Moore, 1988, 120-123). Success in agricultural reforms has been the most important factor affecting the future of industrialization. The government was imposing strict interventions especially in rice, sugar, tobacco, and grape. It was directly intervening price mechanism with practices such as incentives, production level, and purchase price and was transferring the surplus from agriculture to industrialization (Wade, *ibid*, 57). While the taxation of agriculture constituted source of the capital to be used in the industrialization, keeping the prices of agricultural products low reduced the cost of industrial production due to lower wages and this fact provided a comparative advantage to Taiwan. The production target in rice and sugar and the determination of the amount of production to be exported supplied foreign currency needed for industrial investments (Moore, *ibid*, 127-133).

The fact that industrial bourgeoisie was under control enabled the government to carry out the industrialization in the direction of what it desired and thus to deepen industrialization while preventing the continuation of the rent system created by protectionism. In 1969, the protection rate in import-competing manufacturing industry was 133 %. In the same year, 61 % net effective subsidy was given for

domestic production while this rate was 15 % for export. However, through price controls, the government prevented the industrial bourgeoisie to increase prices and thus to attain significant profits. The government stipulated the prices of the manufactured goods to be close to world prices and threatened the private sector with liberalizing import if there were differences between them. This posed an environment in which manufacturing prices in Taiwan and international market were the same and ensured the advancement of industrialization by creating a competitive environment (Wade, 1988b, 141-155).

Because of the weakness of domestic firms in terms of capacity to undertake a development, Singapore did not constitute its development strategy on creating domestic bourgeoisie class and it followed an EOI policy instead of the classic ISI policy. In line with this strategy, the government established the National Wages Council because of that the wage cost in the country was above the world average and it took an active role in determining the wages. Thus, the production cost of the goods was reduced to a competitive position for export (Huff, 1995, 1424-1425). EOI policy was accompanied by an foreign direct investment (FDI) based development model in the same period. In this line, it was embarked intensive FDI policy in capital intensive manufacturing industry, especially in electric and electronic sector, between 1965 and 1980 (ibid, 1423) and foreign investments became tool of development thrust that aimed at progress in human capital and industrialization (Jomo, ibid, 9). Thanks to state autonomy it had, the government brought working class under control, eliminated already weak business group from decision making mechanism, and provided political stability. Therefore, it succeed in its development strategy (Mackie, ibid, 322-323).

The dominance of governments of South Korea, Taiwan, and Singapore in policy-making mechanism was seen in some Southeast Asian countries, which experienced high growth and significant industrialization rates in the 1970s and 1980s.

Indonesia's development process can be divided into two periods depending on the changes in political life: The Sukarno Period from the independence of Indonesia to 1967 and the Suharto Period from 1967 until 1990s. During the parliamentary democracy period of 1950-1958, it was not embarked a development thrust. Military, political parties, and the bureaucracy were already disorganized and an institutionally weak state appeared in this period (Anderson, 1983, 482). In addition to this state

structure, a national bourgeoisie that would undertake development could not be taken over from the pre-1950 period and patronage relations came to the forefront in the 1950-1958 period (Robison, 1988, 49-53). During the 1958-1965 period, Sukarno banned the party government system and formed a government by taking support of the military and the PKI (communist party). This government determined the nationalist development policy and ISI policy began to be followed. The domestic bourgeoisie began to gain power through preferential loans, import licenses, concessions, and monopoly permits to the private sector (ibid, 54). However, this industrialization move brought with the negative economic conditions, high inflation, budget deficits, and balance of payments problems due to the state's unwillingness to undertake heavy industrialization and the lack of capacity of the domestic bourgeoisie to carry out industrialization based on internal sources (Mackie, ibid, 313).

Suharto, who took over the government in 1967 as a result of the military coup, was planning an economic development. However, the weak state made this development impossible with internal resources and the government took steps to influence foreign capital. Initially, hyperinflation was controlled. Price controls were removed. Most nationalized PEEs were returned to their former owners. Interest rates were rationalized. Multiple exchange rate regime was gradually removed (Anderson, ibid, 488-489). While foreign capital was the source of the investment activities of the domestic bourgeoisie, FDI policy constituted another pillar of the government's development move. As a result these measures, a significant amount of foreign capital flowed into the country. The government directed FDIs to serve the development strategy. These investments concentrated in high technology and capital intensive areas. In addition, with the incentives and protectionism, the domestic bourgeoisie was encouraged to become a partner with foreign investments in these areas. Foreign investments were prevented from entering the sectors in which local bourgeoisie could meet the demand on her own. In these sectors, domestic industrialists maintained their activities with tax and import concessions and supported loans (Robison, ibid, 57-58). The only subject of investment activities was not the bourgeoisie. Between 1973 and 1985, the state embarked intense investment activities in intermediate goods and in sectors in which competitiveness was low (Smith, 1995, 28).

As can be seen, the industrialization story in the second half of the 1960s and in 1970s is based on a development thrust and on government policies implemented in line with this thrust. The capacity of the government to implement the development strategy it adopted should be attributed to its political power. Two prominent features of the Suharto administration were: the military was dominant in political arena (administration) and the bureaucracy was determinant of economic policies (Crouch, 1979, 577-579). The military government was in favor of economic development and the bureaucracy formed economic policy accordingly. Suharto, thanks to backing of the military, had strong capacity to eliminate all dominant classes and to exclude these classes from the policy-making mechanism. For example, the industrial capitalists, which were expected to become prominent class of 1980s due to its position in economic activity, still could not influence the policy-making mechanism by 1980s. The textile sector, which was the engine and the most advanced sector of the economy, began to contract in early 1980s. Under this circumstance, the capitalists, including the Indonesian Textile Association that was the most important representative of the textile industrialists and exporters, demanded financing assistance, replacing machines with new ones and protection of the sector by the government but these demands were not responded by both the bureaucracy and government (Wibisono, 1989, 34-37). As another example, in order to advance industrial production, the Ministry of Industry wanted to apply ISI in polyester fiber but this incidence caused a reaction in producers (spinners) in which polyester fibre was intermediate goods in their production. These producers complained that polyester fibre would be produced in higher costs in domestic market and this fact would lead to increase in production costs and then decline in export due to decreasing competitiveness after increasing price of export. Therefore, they demanded the abolition of protectionism. The Ministry of Industry, by remaining faithful to its plan and by disregarding spinners, increased protection in polyester fiber, restricted imports, and aimed to increase domestic production. However, it applied strict control over domestic fiber production and announced that import barriers will be removed if prices go above world prices (ibid, 41-45). These examples show that economic decisions were formed in line with industrialization purposes still in 1980s in Indonesia.

In the period of military governments of 1960s and early 1970s, Thailand achieved respectively 8,4 % and 7,2 % growth rate. Between 1965-1983, the average annual growth rate in light manufacturing was 11 %, while the share of industry in the same period increased from 14 % to 19 %. Share of manufacturing export in total export increased from 2 % in 1960 to 27 % in 1981. This success in industry was achieved through both import substitution strategy and export-oriented development strategy. With the First National Economic Development Plan (1962-1966), it was adopted ISI-based development aim. With practices like tax reductions and cheap inputs, industrialists were encouraged to invest in manufacturing industry. It was undertaken improvement in infrastructure facilities by public. In 1959, Industrial Finance Corporation was established by the government as a bank status. The government gave loans with zero and very low interest rates to determined specific sectors (modern industrial sectors) (Hewison, 1988, 77-80). Although these intervening practices that made the production towards import substitution profitable, import substitution strategy and the accompanying practices were not maintained as in Turkey and Latin America when the strategy became unsustainable. In Thailand, the bureaucrats, the military, and the private sector including the industrial capitalists, which made production towards domestic market, adopted development strategy of the government (Mackie, 299-305). In 1972, the ISI model deadlocked due to financial difficulties and the EOI strategy was adopted in the Third National Economic Development Plan (1972-1976). The success in this fact should be sought in the fact that military governments of 1960s and early 1970s excluded the interest groups from the policy-making mechanism. In this period, the technocrats were dominant in economic policies and faction between ruling class was not seen. In 1973, attempts to strengthen private capital began. In accordance with the capital accumulation aim of the third industrial plan, the state established absolute authority on the labor force and reduced the real wages. Therefore, transfer to industrial sector was provided (Hewison, *ibid*, 80-82). The aim to strengthen the private capital in industry was not uncontrolled. Foreign direct investments that were not compatible with industrialization move were not allowed (Jomo, 2005, 6-8).

After its independence, three groups appeared in Malaysia: British bourgeoisie, non-Malay bourgeoisie, and Malay bourgeoisie. In 1956, the first industrialization plan (First Malaya Plan, 1956-1960) began to be implemented but no positive

developments about industrialization appeared because British landowners were guiding the plans and preventing to be taken of measures, which would advance industrialization, and to be transferred of capital into industry (Halim, 1982, 264). In the second and third plan period between 1961 and 1970, all kinds of steps that would enhance industrialization were supported. Tax exemptions were introduced. Protectionism was augmented through increase in tariffs. Thus, ISI policy became prominent as dominant development strategy until 1970 (ibid). The two key features of the government's economic policy until this period were that policies were established to strengthen the Malay bourgeoisie and to improve especially capital-intensive industry (Hui, 1988, 20-27). However, the government intensified its investments especially in banking, mining and agriculture sectors after 1970 because the government did not succeed in its aim to increase the dominance of the Malaysians in the economy. The private commercial and industrial bourgeoisie was significantly promoted but the investments were not of the desired dimension. Therefore, the government began to direct most of oil revenues and loans to state investments (Chee, 1990, 110). While the number of government agencies was 10 in 1951, it increased to 701 in 1979. This expansion allowed the state to expand into all economic sectors (Halim, ibid, 266). This situation accompanied implementations that carried the state's role in economy to the peak. In 1976, the International Co-ordination Act was enacted. With this law, all investments in the manufacturing industry were taken under the control of the Minister of Trade and the bureaucracy gained the capacity to decide about management, size and the composition (structure) of investments (ibid, 267-268). In 1980, the government this time established the Heavy Industries Corporation of Malaysia (HICOM) in order to convert the Malaysian industry from light manufacturing industry to capital intensive industry and transferred the control of the heavy industry to this corporation (Chee, ibid, 112). As a result of the financing of industrial investments with high debts, there was a recession in 1985 and privatization practices were carried out. The industrialization strategy was this time shifted to the foreign direct investments and an important incentive policy was followed (Smith, ibid, 29). However, this strategy too was not uncontrolled. With 1985, the government introduced the obligation to be met of inputs of foreign investments from domestic sources and to be integrated of Malays bourgeoisie into production process. Thus, the country began to proceed towards technological progress (Chee, ibid, 113-115).

As is seen, capacity of East and Southeast Asia countries' governments to follow the policy path, in which development aim necessitated, when they had the aim of development enabled these countries to proceed on planned way. However, although similar target and similar protectionist policies in this direction were applied in Latin America and Asia countries in similar periods, Latin America governments' lack of state autonomy to use these protectionist policies to serve industrialization emerges a one of the significant reasons of why similar consequences about industrialization in Latin America did not take place. Governments' policies for industrialization-led development move in Latin America failed due to opposition of land and industrial bourgeoisies because consequences of these policies did not comply with interests of these groups. Industrialization was limited because of financing bottlenecks as result of failure to achieve agriculture and tax reforms while industrial bourgeoisie was not detained from making production behind protectionist and rent-creating walls of import substitution. In such an environment, policy instruments did not prevent industrialization to face continuous financing crises. Therefore, industrialization in Latin America both could not be deepened and could not be built on a sound and stable basis unlike Asian countries.



## 5. INDUSTRIALIZATION IN GLOBALIZATION ERA: REASONS FOR FAIL TO INDUSTRIALIZE IN TURKEY BETWEEN 1980 AND 2000 IN STATE AUTONOMY PERSPECTIVE

Independence was one of the most sensitive and most emphasized issues of the republican period of Turkey that gained its political independence in 1923 after a running battle. In this context, the fact that economic independence was seen as the most important component of political independence by the executives led to be searched for formulas that would provide economic independence immediately after the victory. The early 1920s presents a view that Turkey fell behind in industrialization. For this reason, industrialization was the formula that was emphasized in early republican period in order to overcome economic backwardness and to obtain economic independence. The fact that no meaningful steps were taken in this respect until the Great Depression pushed the government to pioneer the industrialization move after this period. As mentioned above First Five Years Industrialization Plan and four five years development plans between 1960 and 1980 were born as a product of the industrialization attempts and Turkey achieved highest growth rates of the republican history in these two planned periods.

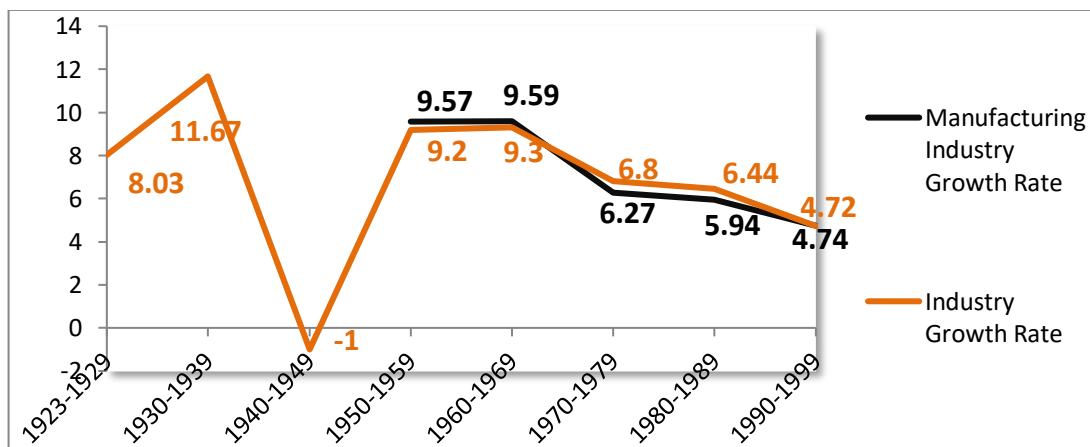
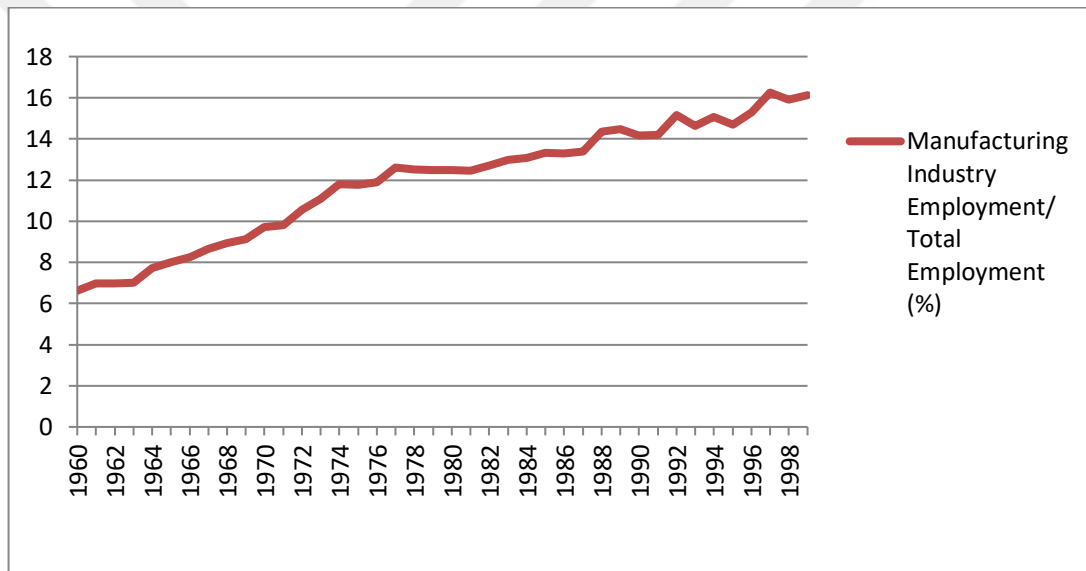


Figure 4: Industry Growth Rate in Turkey: 1923-1999 (%)

Source: TurkStat, *Statistical Indicators: 1923-2011* (Turkish Statistical Institute, 2012), 693-725

It can be observed from Figure 4 that during the 1930-1939 period, the industry grew by annual average 11,67 %. In the 1960-1969 period, average annual growth rate of industry was 9,3 %, while of manufacturing industry was 9,59 %. In the annual average industrial growth rate, this ratio decreased to 6,44 % in 1980-1989 period and to 4,72 % in 1990-2000 period. The growth rate of manufacturing industry remained at 5,94 % in 1980-1989 period while at 4,74 % in 1990-1999 period. As can be seen, the post-1980 period was the period in which industrial growth experienced a very rapid decline.

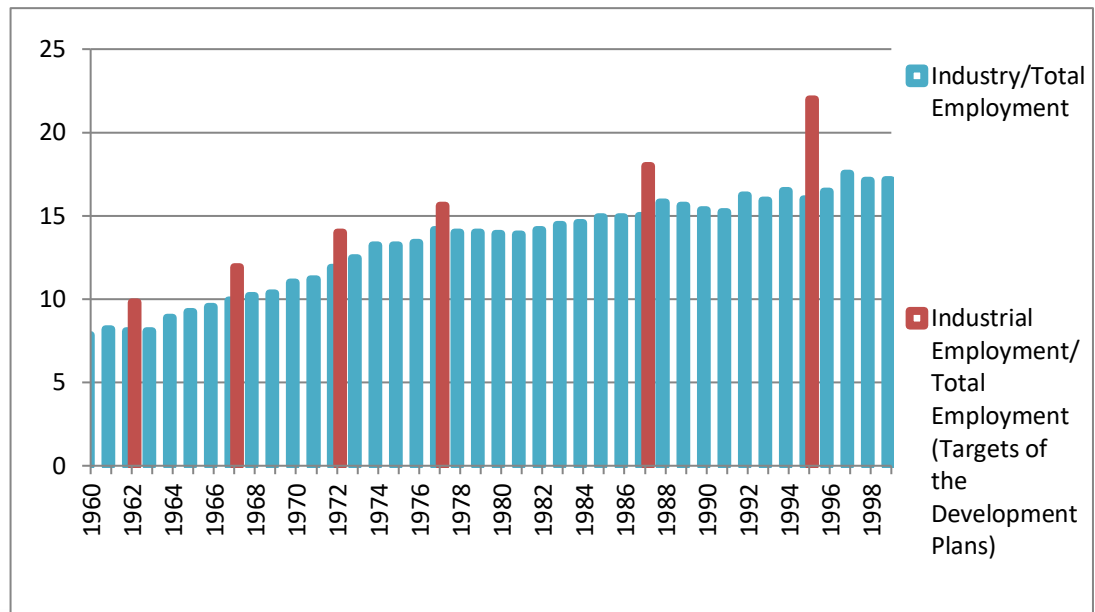
Significant decline in growth rates of industry and manufacturing industry also restricted the employment creation capacity of this sector and caused to be deviated from employment targets of the development plans about 1980s and 1990s.



**Figure 5: Manufacturing Industry Employment/Total Employment (%)**

Source: TurkStat, *Statistical Indicators: 1923-2011* (Turkish Statistical Institute, 2012), 137-138

The share of manufacturing industry employment in total employment increased rapidly until 1977 and the growth rate began to lose its momentum after this year. By increasing to 12,61 % in 1977 from 6,62 % in 1960, the share of manufacturing industry employment in total employment increased 90 %. However, this ratio increased only by 29 % between 1980 and 1999 by raising to 16,12 % from 12,47 %.



**Figure 6: Targeted and Actual Industrial Employment/Total Employment (%)**

Source: Actual employment statistics: TurkStat, *Statistical Indicators: 1923-2011* (Turkish Statistical Institute, 2012), 137-138

Targeted employment statistics: for 1962-1977 (First FYDP, 446)  
for 1987 and 1995 (Third FYDP, 147)

The stagnation in post-1980 employment in manufacturing industry is also seen in industrial employment. While the share of industrial employment in total employment increased by 80 % in the 1960-1977 period, it increased only by 23 % in 1980-1999 period. Additionally, the difference between the targeted and actual industrial employment rate began to increase in the post-1980 period. The share of industrial employment in total employment was 14,16 % while the development plan target was 15,6 % for 1977. In 1987, the rates were 15 % and 18 % respectively. In 1995, the difference further went up. While the realized industrial employment rate was 16 %, the targeted rate was 22 %.

The structural adjustment and stabilization program known as the January 24th Decisions was enacted in 1980 in Turkey that maintained the late-1970s with financing difficulties and debt crisis stultifying the industrialization. These decisions were notifying disengagement from protectionism and the ISI that partly or completely dominated each decades of the republic. Inability of two stand-by agreements signed with IMF in 1978 and 1979 following 1977 debt crisis to solve financing problems required Turkey to do something concrete for new aids.

Therefore, these decisions were taken after pressures emanating from creditor countries and institutions and after occurring an idea of “something should be done now” in Turkey in consequence of these pressures (Baysan, Blitzer, 1990, 9). Perhaps, the most important consequence of this idea as a symbol of a disengagement was that the economic decisions in which this idea posed did not compatible with the economic tendency that appeared in the planned period. However, at the time the decisions were announced, the fourth five years development plan covering 1979-1983 period was in force. If it is considered that the fourth development plan was prepared in accordance with previous plans and with target of improvement in stages of industrialization, the practices of the 24 January Decisions that completely contradict with the planned period indicated that these decisions were not part of the planned period. This already could not be expected because the policies that were promised to be implemented and were introduced during the 1980s were policies in which IMF and WB shaped by way of structural adjustment credits and stand-by agreements (Celasun, 1990, 40). However, the fact that the five years development plans continued to be prepared after this period and the new development model emerged as a prescription to the financing problems of late 1970s in industrialization shows that the goal of industrialization was still the main goal of this period. However, the new policies as part of the decisions show that industrialization was aimed to take place in a different economic environment. While some of these policies distinguished as providing structural transformation, e.g. flexible exchange rate policy, free interest rates policy, gradual import liberalization, export subsidies to enable export oriented growth, withdrawal of public sector from productive areas through privatization, others distinguished as providing stabilization, e.g. improved external debt management, reduced budget deficits through rationalization of public investments, tight monetary policy to control inflation (Baysan, Blitzer, *ibid*, 10-11).

The entering into force of the decisions comprising liberalization and deregulation led to a duality when the Fourth Plan was in force because this last plan included neither withdrawal of the public from the market, trade liberalization, financial market liberalization nor a very high devaluation. Actually, most of the countries implementing the IMF's structural program in the 1980s faced with this duality. Additionally, being faithful to the plans at a time when the structural program

remained on the agenda required both the capacity of politicians and the ability and independence of the bureaucracy (Leftwich, 1994, 367). Therefore, in the period when both 24th January Decisions and development plans were in force, target of economic policies was clue for us to make judgement about the state autonomy of the period. Starting from this point of view, in this section, we will present the fact that post-1980 period economic policies were generated intended for realizing 24th January Programme as loss of state autonomy against an external factor. Our argument is that international organizations bound Turkey to implementation of structural adjustment and stabilization programme condition for postponing aids and making new loans. Although the program<sup>11</sup> was prepared by economists and consultants from IMF, WB and U.S. universities in order to serve their own purposes (Ünay, 2006, 68) and was involving factors that would undermine industrialization, Turkey made a commitment to follow the program because of aid conditionality<sup>12</sup> and this circumstance annihilated the possibility to follow the fourth development plan. Considering that the program was prepared to make actual the neo-liberal principles, this program destroyed Turkey's "ability to calibrate national policies to local conditions and needs (especially with respect to their development objectives and capacity to foster conditions for steady quality employment growth) in relation to global economic rules and practices" (Akyüz, 2008, 1) and state autonomy was disappeared. This fact made the duality between the program and the plan unimportant because lost of state autonomy announced that the structural adjustment and stabilization program rather than development plan would be priority of government.

That implementation of the 24th January Program became a priority of political life of post-1980 period posed deterioration in institutions to realize this priority. This deterioration in functioning of the institutions constituted a reason of why could industrialization undermining practices of the Program be not prevented. Turgut Özal who previously held office twice as undersecretary of the SPO was appointed by the Demirel Government as undersecretary of the prime ministry in late 1979 and he was

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<sup>11</sup> While Öniş and Şenses (2007, 8) state that organizations such as IMF and WB take on a task to transfer neo-liberal policies to the neighboring countries through the Stabilization and Structural Adjustment Programs, Amsden (1994, 627) states that top management of the WB is appointed by developed countries, notably by U.S., and that this management staff serves these countries.

<sup>12</sup> The 1980 program was supported by significant financial assistance of the IMF and by five structural adjustment credits of the WB (Uygur, 1990, 8).

tasked with full authority to prepare the new economic program. Not long after, a military takeover realized in September 1980 but the Program remained one of the two areas in which military government did not touch and Turgut Özal continued to carry out the Program as the minister of state and the deputy prime minister in the military government. In the general elections held in 1983, Özal this time became the prime minister and he became the implementer of the Program with the habits in which he caught during military government. These habits were taking the economic decisions, which were shaped by free market economy thought, with a few technocrats and even his brother firstly, without meeting any obstacle secondly, and by bypassing the bureaucracy thirdly (Sayarı, 1992, 37). Özal's desire to bypass the traditional bureaucracy brought new legal regulations and institutions. While the statutory decrees were discovered as new way of taking economic decisions, the legal framework of the newly established institutions was arranged in a way to disable the bureaucracy. The first one of these institutions was Mass Housing and Public Participation Fund (MHPPF), which was established in 1984 with broad authorities and as directly depending upon Prime Ministry. The budget of this fund was excluded from approval of parliamentary and this fund could only be partially audited by the Supreme Auditing Board. This situation made expenditures from the fund possible to be transferred to any area what the government desired (Waterbury, 1992, 52). In addition to this fund, the Extra Budgetary Fund served to be weakened the power of the bureaucracy in policy making mechanism (Heper, 1990a, 330-331). The another one of these institutions was the Economic Affairs High Coordination Council established in 1983. That this council had capacity to take decisions about PEEs, foreign trade, and the subjects in which prime ministry and ministries regard as significant enabled the prime minister to create a bureaucratic elite around himself and to deactivate the SPO (Sezen, *ibid*, 233). The last example of these institutions is the Undersecretariat of Treasury and Foreign Trade, which certainly served a much more critical purpose. This undersecretariat was established with the authority to audit treasury transactions, money, credit, internal and external debt transactions, import and export regimes, foreign trade, bilateral and multilateral economic and commercial agreements, banking and capital markets (*ibid*, 234). The new undersecretariat, which was established in 1983 with a statutory decree as depending upon the prime ministry, enabled the prime minister to exclude not only the bureaucracy but also the cabinet from the economic decision-making process (Öniş,

1991, 33). If it is considered that one of the areas in which the undersecretariat had authority to regulate was foreign trade in the period export oriented industrialization model was followed, it is seen that the prime minister gained the capacity to shape the new development model on his own (Sezen, *ibid.*). This capacity led the government to implement the policies, which were decided to be implemented in the context of the January 24th Decisions, without meeting any obstacle because of exclusion of the bureaucracy and the SPO from policy making mechanism even if these policies had effects to undermine industrialization.

In this post-1980 period in which the policies imposing by international organizations through credit and debt restructuring agreements began to be implemented after the destruction of the traditional policy making process, we will present the export-oriented industrialization model and the steps taken intended for the trade and financial liberalization as factors that undermined the industrialization of this period. These three factors that were conditions of the international institutions disabled the government, even if it desired, to implement development plans involving an industrialization move, which envisaged trade protectionism, financial market under control of the government, and industrialization policy intended for continuation of import substitution in capital intensive sectors in 1970s, because Turkey entered into obligation to implement mentioned three factors with the agreements which were signed with international institutions conditionally for financial relief. This shows that state autonomy constituted the basis of policies that undermined industrialization in post-1980 period.

### **5.1. Export Oriented Industrialization Model**

The import substitution model even proposed by the WB, IMF, United States for the developing countries in the 1950s and 1960s lost its reputation, just as Keynesian policies lost their popularity, at these organizations and U.S. in the 1970s and 1980s and the EOI strategy became industrialization policy that recommended by these organizations. The second half of the 1950s and 1960s were the period in which most of the European countries and U.S. industrialized a considerable extent. However, due to the similarity of the commodities produced by these countries, manufacturing industry goods trade among these countries was limited. Therefore, industrialized countries needed countries in order to export their manufacturing industry products

but, during the 20 years period of Great Depression, II. World War, and their effects, these potential countries did not reach the income and development level to absorb the export goods of developed countries. For this reason, as becoming means of the progress in industrialization, the ISI model and planning would provide that industrializing countries would become the market of capital-intensive products of industrialized countries due to progress in development and income level and that these countries would be able to repay their debts to developed countries and to international institutions (Maxfield, Nolt, 1990, 50-58). Therefore, in spite of its protective nature, it is seen that the demand of international community to be followed of this development model, in a way, was in the scope of benefits of industrialized countries and international organizations. If the reason of the fact that following of protectionist policies by developing countries was not problem for developed countries is benefit of demanding part, it is expected from the countries and institutions to recommend this time liberalization and removal of import barriers to the countries that were recommended by same community to follow ISI model. Underlying reasons were, firstly, strict trade protections prevent the developed countries to benefit from both raw materials and market opportunities of these developing countries. Secondly, when the countries following the import substitution model began to adopt the export-oriented industrialization model, they would use all of their resources to increase their exports. Thus, the foreign currencies they provided in this way would also make them pay back the debts they received from international organizations and other countries (Aydın, 1993, 23). Finally, we think that the third reason is the efforts of developed countries to make developing countries dependent on themselves. If the non-industrialized countries implement the EOI model in a world trade system in which the industrialized countries that are able to produce capital intensive industrial goods take part in and which industrializing countries have lost possibility to obtain competitiveness with cheap labor costs due to pauper labor army countries like China, India, Indonesia, these non-industrialized countries will give up production of industrial goods, in which they have not obtained comparative advantage in free trade conditions, due to relatively high cost of production of these industrial goods and they will begin to import these goods. That these countries become importer of industrial goods due to cheaper cost would ensure the continuity of the industrial export and production of industrialized countries. This third reason behind the EOI model recommendation of the



international community evokes one of the arguments that played an important role in the removal of Corn Laws in England about 140 years ago. One of the arguments of the advocates of the liberalization of agricultural products in the England was that in the case of free trade of agricultural products, countries will focus on agricultural production in order to increase their export revenues, and thus, because of being neglecting of industrial production, England will overtake its rivals in industrialization (Chang, 2003, 61).

The export-oriented industrialization model is based on the assumption that the export revenues will constitute the financing of industrialization. The model envisaged focusing on the production and export of one or few goods that have been comparative advantage rather than focusing on all goods that have been exported in high or small quantities when the EOI model was adopted. Thus, the focusing of factors of production on exports of goods that have been comparative advantage would increase export revenues sooner and it would not be met with difficulties in financing of industrialization. There is no doubt that the model has advantages and disadvantages compared to the import substitution model. World oriented production rather than domestic market oriented production is first of the advantages of the model because this brings about an increase in demand and production. Secondly, the fact that trade in international markets is made with foreign currency causes an increase in foreign exchange revenues. However, this model does not change the demand dependent production structure of ISI. Exports and naturally production will diminish if world demand decreases and financing of industrialization will be again problematic. The second problem arises from the fact that this model focuses on the export of goods that have highest comparative advantage among all goods in the country. The model does not encourage to be obtained comparative advantage in goods that have been produced during the transition to this model and does not encourage the export of these goods. Export of just the goods with the most comparative advantage causes the export revenues to go to the industrialists that are producer of this one or few goods, which have most comparative advantage, and the investments begin to be made for the production of this or these few commodity groups again. The intensification of investments in few goods, which have comparative advantage and constituted a large part of the export anymore, causes the commodity groups that were made production and were exported even if modest

quantity to lose their importance because, in the case of that comparative advantage is in one of the manufacturing goods, it will be necessary to liberalize the trade in the manufacturing industry in order to be able to export this goods. Then, since the import of the commodity groups in which comparative advantage does not exist become cheaper, domestic production of these commodity groups will decrease after their import. Therefore, considering non-durable consumer goods, durable consumer goods, intermediate and capital goods, and technology intensive goods production stages of industrialization, countries that have passed the EOI model without completing these stages will lose comparative advantage in capital and technology-intensive goods on the assumptions that government interventions do not exist and that these countries have comparative advantage in non-durable, durable consumption goods and even in intermediate goods at best, and their industries will most likely concentrate in the production of consumption and intermediate goods. This means that industrialization intended for realization of production of capital and technology intensive goods in the import substitution period stops at the stage of consumer or at best intermediate goods production. However, East Asia countries had been protected from this limit of the EOI model by following the Export Push Industrialization model. In their outward oriented periods, instead of focusing on export of goods having the most comparative advantage, these countries focused on gaining comparative advantage for manufacturing goods and they exported as they gained comparative advantage. These countries had provided to be gained of the competitiveness through protectionist policies. After the acquisition of competitiveness, export of these goods had begun and the countries provided to be used of export revenues in re-investment in the sectors providing progress in stages of industrialization. This situation enabled new investments to serve both industrialization and increase in export (Bradford, 1990, 38-41).

With the 24th January Decisions, Turkey adopted the EOI model in which major part of the bureaucracy of the pre-1980 period objected remarking that necessity to devalue domestic currency after EOI model will pose huge increase in public debts. Under favor of this development model, Turkey would solve the chronic export problem and thus, financing problems would disappear. With the increasing export, the problem of foreign exchange shortage would be overcome and the import of intermediate and capital goods required for industrial production could be took place.

However, this expectation about industrialization did not take place and, as we have seen above, the industry experienced the lowest growth rates of the republican history if we exclude the period of II. World War. This was accompanied by other structural problems in industry. In this section, we will explain this picture about post-1980 industrialization with lack of state autonomy. Although the development plan was in force as determinant of economic policies to be followed, lack of state autonomy caused governments in Turkey to implement economic policies in which international organizations imposed. Therefore, the governments that implemented economic policy package specified in 24th January Decisions would not be able to follow the policies specified in the development plan even if they desired because the aid and debt relief opportunities of international organizations were subject to the implementation of the Program<sup>13</sup>. We will explain why did the Program pose post-1980 deterioration in industrialization with three characteristics of the Program. The Program was not compatible with Turkey's industrial dynamics firstly, investor behaviours secondly, and world conjuncture of that period thirdly. Thus, the lack of state autonomy created acceptance and implementation of the programme, which had these characteristics and was clear to undermine industrialization<sup>14</sup>, and then deterioration in industrialization took place.

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<sup>13</sup> For example, in the Fourth Structural Adjustment Loan Agreement signed in 1983, the World Bank took under review the preparation of the 1984 Annual Program. The program included flexible exchange rate policy, reduction of the PEEs investments, concentration of investments in areas with the highest potential for foreign exchange rather than the most productive and capital intensive areas. These goals were completely opposite to the objectives of the previous plans and the reason of this contrast was the impact of the World Bank (Sezen, *ibid*, 259). In the Fiscal Sector Adaptation Credit Agreement signed in 1986, the World Bank this time stipulated that preferential loans to be granted to productive sectors would be adjusted on the basis of positive real interest (*ibid*, 260). As can be seen, the state autonomy lost against an external factor completely eliminated the political elite's capacity to implement the policies that will enable industrialization.

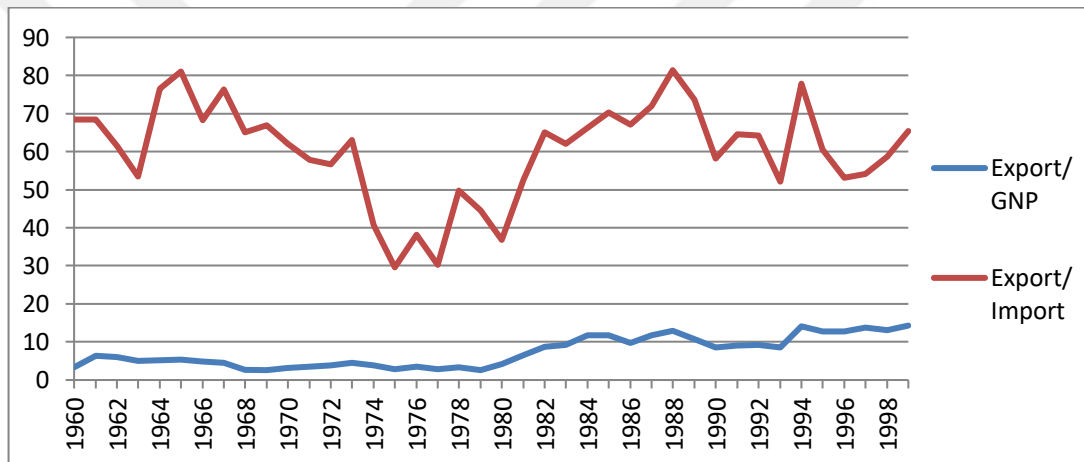
<sup>14</sup> After 1977-1978 crisis, Oral Akman who was head of the economic department of the SPO submitted a report to the undersecretary of the SPO about EOI strategy in which international organizations put pressure on Turkey to adopt and stated that devaluation, foreign direct investment, and accumulating of investments on sectors rather than advance industrial sectors were not measures that enabled Turkey to get rid of crisis (Türkcan, 2010, 457-462).

Again, undersecretary of the SPO Bilsay Kuruç submitted a note to Prime Minister Bülent Ecevit on 14th of May 1979 about the effects of the policies in which the IMF stipulated in return for loan support and he stated devaluation would make impossible to establish industry (*ibid*, 463-464).

Lastly, words of Birgen Keleş, who was one of the former bureaucrats of the SPO, about Memduh Aytür, who was the former undersecretary of the SPO, are important: "24th January Decisions wounded deeply Mr. Memduh. As a person that worked in the SPO at undersecretary level, he immediately understood how the decisions will undermine development and prevent the industrialization." (Aytür; 1991, p.284).

The fact that the EOI model is based on the assumption that the export revenues will constitute the financing of industrialization requires us to examine export indicators to evaluate the success of the model on the surface at least.

As can be followed in Figure 7, exports, which accounted for only 4,2 % of the GNP in 1980, increased rapidly to 11,7 % in 1985 and maintained its level until 1989. After the fall to 9,24 % in the period of 1989-1993, it reached its highest level with an average 13,3 % in the 1995-2000 period. Considering the distorting effect of the import-dependent mode of production of the pre-1980 development model on balance of payments, we need to examine the rate of exports meeting imports in order to see whether the post-1980 development model was a remedy of this problem.



**Figure 7: Share of Export in GNP and in Import in Turkey:1960-1999 (%)**

Source: TurkStat, *Statistical Indicators: 1923-2011* (Turkish Statistical Institute, 2012), 480-481

The rate of exports meeting imports increased to 70,2 % in 1985 from 36,8 % in 1980. While this improvement continued until 1989, it decreased to 60 % in average between 1989 and 1993 and to 58,4 % between 1995 and 2000. In other words, the share of exports in GNP, which continued to increase after 1993, seems to be not accompanied by increase in the rate of exports meeting import. When we compare these facts with the 1960-1980 period, we see that the post-1980 period performed much better in the export/GNP data. While this rate never did not exceed 6,3 % in the 1960-1980 period, the average of 1980-2000 period was 12,35 %. When we compare the export/import rate, we see that this rate lagged behind of 1960-1970 period in the 1990-2000 period. The export/import rate was 60,9 % in avarege in the

1990-2000 period while was 68, 6 % in average in the 1960-1970 period. This rate was 65,4 % in 1999 while was 67 % in 1969.

An approximately 75 % level the export/import rate in late-1980s seems to be able to prevent emergence of a financial crisis similar to that of late 1970s when considered with the domestic saving rate of 15-25 %. However, the fact that this success was parallel to the intensive export incentives in the 1980s makes problematic to attribute this success to the export-oriented industrialization model.

In this period, a wide range of policies to increase export were implemented. The first one of them was undoubtedly devaluation. The exchange rate was increased to 70 TL from 47.10 TL with the 24th January Programme by being devaluating 48,6 % nominally and then continuous devaluations followed this. This rate increased to 127,23 TL in the last quarter of 1981, to 258,83 TL in the last quarter of 1983 and to TL 1744 in the last quarter of 1988 (Aşikoğlu, 1992, 105). Real effective exchange rate, on the other hand, was devalued by 30,68 % in 1980. While the index was 100 in the first quarter of 1979, it decreased to 69,32 in the first quarter of 1980. This index decreased to 64,55 in the first quarter of 1983, to 54,77 in the first quarter of 1986 and to 45,43 in the last quarter of 1988. Thus, the exchange rate was devalued by 55% in real terms compared to 1979 (ibid, 111). Continuous devaluations made imports from Turkey cheaper for foreign countries and gained Turkish exporters the competitiveness.

Another policy intended for creating a favorable environment for export was wage decline. Decrease in real wages by 40 % in the 1980-1988 period (Onaran, 2002, 771) reduced both the production costs and the possibility of production to be absorbed in the domestic market. Thus, production was transferred to export.

Another policy was export incentives like preferential export credits, tax rebates, exemption from charges and other fees. In particular, we see that tax rebate was the most prominent tool of export incentive until 1988. Total manufacturing tax rebate, which was 4,5 billion liras in 1980, increased to 319,7 billion liras in 1984 and 664 billion liras in 1988. After this year, this amount experienced a rapid decline and it fell to 21,2 billion liras in 1990 (Uygur, 1991, 44). When the share of manufacturing tax rebate in eligible manufacturing export is examined, it is seen that it increased from 9,2 % in 1980 to 21 % in 1984. That means, 21 % of value of total

manufacturing export, which subjected to tax rebate system, was repaid to exporters. This rate decreased to 10 % in average in the 1985-1989 period and to 7,2 % in 1990 (ibid). In addition to tax rebate, it is seen that privileged export credits are another important support instrument for export in the high-interest loan environment of the 1980s. In 1980, while short term effective interest rate was 38,3 %, average effective export credit rate was 16,8 %. These rates respectively were 49,4 % and 22,3 % in 1981, 45,3 % and 26,7 % in 1983, and 62,8 % and 44,4 % in 1984 (ibid, 50). With 1985, preferential export credits lost their export incentive characteristic and the ratio of preferential export credit rate to non-preferential credit rates exceeded 80 %.

**Table 6: Share of Manufactured Export Subsidies in Total Manufactured Export in Turkey (%)**

	Direct Payments	Export Credits	Duty Allowance	Tax Allowance	Total Subsidies
1979	11	9,9	0,3	0	21,2
1980	5,6	14,9	4,2	na*	26,7
1981	9,1	13	3,3	na	27,4
1982	15,1	10,8	3,6	na	31,5
1983	17,4	10,5	5,6	na	35,9
1984	17,3	5,9	2	2	27,2
1985	10	2	5,1	2	19,1

**Table 6 – Cont'd**

1986	9,9	4,8	8,6	2,6	25,9
1987	8,6	2,9	6,7	4,3	22,5
1988	7,6	4,8	6,6	4,3	22,5
1989	5,5	8,8	7,7	5,9	27,9
1990	4,4	9,2	7,7	6,2	27,5

Source: Ercan, Uygur, *Policy, Trade and Growth in Turkey: 1970-1990* (The Central Bank of the Republic of Turkey Research Department, 1991), 56

\*n.a. is taken as 2.0

In Table 6, when we examine how much the export subsidies constituted total manufacturing industry export between 1979 and 1990, we observe that export subsidies constituted or explained 27,4 % of the total manufacturing exports in 1981, 31,5 % in 1982 and 35,9 % in 1983. This rate is above 25 % in the 10 years period. Considering the high devaluations and restrictions on real wages, it is clear that the steps taken to support the export took an important place in export increases of 1980s. In addition to all these practices, Foreign Trade Companies were established in that period. These companies with the number of between 30 and 35, which had reached the determined export limits, were supported with extra incentives including tax deduction, 6-10 % more tax rebate, and more lower rated preferential export credits. Thus, it was created an export sector in which low numbered large companies accounted for most of the export (Öniş, 1991, 31).

Apart from the incentives and other supporting policies, some developments in that period created a convenient environment for increase in export. These are Iraq-Iran

War, increase in capacity utilization rate in industry<sup>15</sup>, which was established in pre-1980 period, increase in import demand of middle east countries due to increase in oil prices, bilateral agreements of the government (Şenses, 1990, 68) and substantial credit facilities after the 24th January Programme (Öniş, 1993, 85).

Therefore, it is evident that the export increase in 1980-1990 period was achieved through generous export subsidies, real wages reduction, devaluation, industrial infrastructure of ISI period, and the conjuncturel export opportunities and that the EOI development model could not structurally overcome the foreign trade deficit problem, which constituted the pillar of the debt crisis in the late 1970s because, with the deepening of trade and finance liberalization and the decrease in export subsidies at the end of 1980, the rate of exports meeting imports went into a decline in 1990s and the country was again dragged into financial and debt crises.

The first reason of this is that the policies implemented for the success of the export-oriented industrialization model were incompatible with Turkish industrial dynamics. This incompatibility prevailed industrial dynamics of both pre-1980 and post-1980 period.

One of the policies demanded by international organizations in exchange for financial aid in the late 1970s and 1980s was an increase in interest rates with the intentions of increase in savings and restriction of domestic demand but private sector's response to increase in interest rates are negative and these institutions disregarded this fact. However, as we will see below, the importance of the low interest rates for investments was indicated in the third development plan.

Devaluation was another policy that was implemented because of the demand of the IMF in return for new debts and debt relief agreement. Devaluation was demanded for success of the export oriented model due to the fact that the devaluation would bring the export of Turkey competitiveness. Normally, foreign exchange devaluation is expected to increase the export and thus the investments but this is a negative in

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<sup>15</sup> In the sectors such as weaving, glass, iron and steel which constituted the major part of the export after 1980, the technological density was reached in the pre-1980 period. While 17,9 % of the export in 1983 was met by these industries, this ratio increased to 19,8 % in 1987 due to the increase in capacity utilization rates (Şenses, Kırım, 1991, 364). While 21,1 % of the export to the Middle East was met by these industries (installed capacity in the pre-1980 period) in 1983, it increased to 31,1 % in 1987 (Şenses, 1990, 68).



Turkey. The reason of this fact is that the Turkish industry did not reach a capacity to make production of intermediate and capital goods in the ISI period. Therefore, investments in Turkey in that period was dependent on import of these manufacturing goods. In such a industrial structure, the high and continuous devaluations with 1980 would make the investments costly and would cause a decrease in investments. It does not seem possible that this fact could not be discovered by the international institutions which demanded the 1980 structural program because the pre-1980 Turkish economy was already being monitored by the reports of the foreign institutions. For example, in the fourth development plan (SPO, 1978, 120), it was stated that the shortage and the expensiveness of foreign exchange caused low capacity utilization rates and decrease in production in the 1973-1977 period. For this reason, in a program prepared for sorting the financial crisis out and enhancing industrialization, it should be taken into consideration that the devaluation would cause a decrease in investments due to the cost effect. However, the institutions seem to cared the positive impact of devaluation on export for the sake of artificial success of the EOI model, ignoring the negative impact on investment.

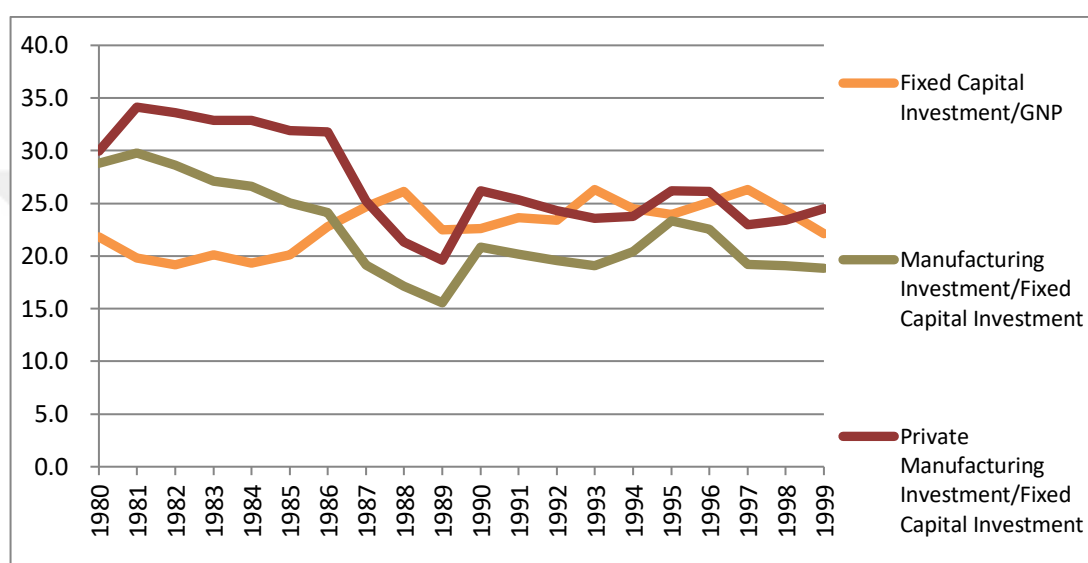
As the last policy, we want to refer the impact of inflation on investments. Because Turkey was import dependent country, devaluation made import costly and this caused inflation to go up. Additionally, due to deregulation nature of the programme, controls in prices of PEEs were demolished and PEE prices increased. Lastly, passing to the EOI model without obtaining international competitiveness in Turkey necessitated export subsidies and this factor also led to an increase in inflation (Kazgan, 1989, 62) and inflation had negative effect on industrial investments. In the third (SPO, 1973, 902) and fourth development plan (ibid, 203), inflation was drawn attention and it was stated that the inflation should be taken under control for the future of the plans. Increased inflation endangers ISI policy, which targets the domestic market, because it means a decrease in demand. In the EOI model, the inflation reduces the competitiveness of Turkish goods and triggered a decline in exports. This means a reduction in foreign exchange revenues, i.e financing of industrial investments. Therefore, all of the policy proposals imposed by international institutions by ways of structural programmes or credit agreements with the promise of industrialization were completely incompatible with the pre-1980

industrial dynamics of Turkey and were such as to trigger a decline in industrial investments and thus industrial production.

The policy recommendations in the program did not only incompatible with the pre-1980 period industrial dynamics but also with the post-1980 period industrial dynamics and had characteristics to undermine industrialization. The goods in which Turkey had a highest comparative advantage in the ISI period were labor-intensive textile and clothing goods and it was planned that the export of these goods would be the engine of the EOI. However, in an environment in which the continuation of the export of these goods was essential for the success of the EOI model, textile goods were removed from the list of goods subject to tax rebates in 1986 (Baysan and Blitzer, *ibid*, 14). However, considering that the increase in export in the post-1980 period was achieved through generous export incentives, this would lead to a decrease in export and thus in foreign exchange revenues and would pose re-financing problems in industrialization. In spite of this fact, the deregulation pressure of international organizations reveals that the policies they proposed were not industrialization-aimed but liberalization-aimed policies. The programme that comprised these liberalization-aimed policies was incompatible with Turkish industrial dynamics and undermined industrialization. The termination of one of the incentives, which were implemented to increase export of textile goods, in 1986 brought about the period in which growth rate of industrial export started to slow down with 1987. By the end of the 1980s, with the decrease in the tax rebate, the export started to decrease and the import started to increase (Coşar, *ibid*, 438). The slowdown in export growth would hamper the import of intermediate and capital goods by posing decrease in foreign exchange revenues, and thus, industrial investments would decrease.

The second reason why the structural programme had characteristic to undermine industrialization is that this programme was generated without considering the pre-1980 period private sector (investors) behaviors. The argument that the EOI model will be the source of the foreign exchange, which generates financing of industrialization, will be valid in cases in which the export revenues will be used in industrial investments to increase the productivity and comparative advantage, and in which the industrial capitalists are inclined to productive investments.

When Figure 8 is analyzed, it is seen that the share of fixed capital investment in GNP increased in the 1980-1988 period. This increase accompanied the increasing export revenues of same period. This rate increased from 21,8 % in 1980 to 26,1 % in 1988, and this level continued throughout the 1990s. However, considering that fixed capital investments consist of transportation, tourism, construction, and health investments, it is evident that industrialization-led development can be maintained with manufacturing industry investments. The situation in this area does not match with the expectations of the EOI model.



**Figure 8: Post-1980 Investment Indicators in Turkey: 1980-1999**

Source: Strategy and Budget Department of the Presidency of Republic of Turkey, Investment and Saving Statistics [07.02.2019]

The share of manufacturing industry investments in fixed capital investments declined in the 1980-1989 period. This ratio decreased from 28,8 % in 1980 to 15,6 % in 1989. After experiencing an augmentation between 1990 and 1995, it again began to decline and decreased below to 20 % levels. Therefore, the manufacturing industry investments, which were expected to be accompanied the increase in export and foreign exchange revenues in the 1980-1988 period, resulted in the opposite. Compared to 1980 level, while share of total manufacturing investment in total fixed capital investment declined 50 % in 1999, the share of private manufacturing investment declined 20 % in 1999.

Decreasing manufacturing industry investments caused a negative picture in industrialization by triggering structural defects in manufacturing industry. For example, while import penetration in manufacturing industrial production decreased from 14,7 % in 1972 to 13,3 % in 1978, this rate increased to 22,4 % in 1988 from 15,9 % in 1983. While, imported input ratio in capital goods production decreased from 49,3 % in 1972 to 35 % in 1978, it regressed to 35,4 % in 1988 from 35,6 % in 1983 and this rate was above the pre-1980 period (Celasun, 1994, 471). This shows that the positive gains of the heavy industrial investments that started especially after 1973<sup>16</sup> and the improvements towards higher stages of industrialization had been lost. While this situation was the concomitant result of the decline in manufacturing industry investments, it was also the proof of our hypothesis about the EOI model's structure to halt the progress between stages of industrialization. Because the goods in which Turkey had a highest comparative advantage were labor intensive textile and clothing, it will be specialized in the production of these sectors' commodities and capital-intensive sectors will be ignored. This hypothesis became a reality during the 1980s and this fact was criticized by an Organisation for Economic Co-operation and Development (OECD) report. The OECD Report (1990 as cited in Celasun, 1994, 472) criticizes Turkey's concentration in these sectors when countries like South Korea and Taiwan concentrate on capital intensive sectors. The report stated that Turkey should concentrate on the capital and technology intensive sectors as well.

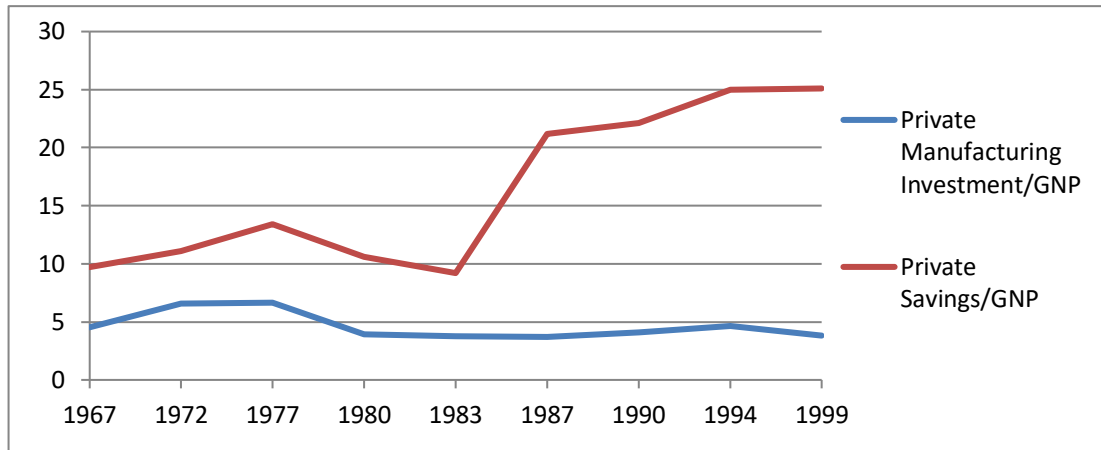
Manufacturing industry productivity was another of the areas that were affected negatively by the decline in manufacturing industry investments. The decrease in productivity is important to trigger a slowdown in industrial production. While the growth rate of private sector labor productivity in the textile and clothing sector in the 1965-1976 period was 6,3 %, it decreased to 4 % in the 1981-1988 period (Uygur, 1990, 28). The same applies to capital productivity. During the 1965-1976 period, while the capital productivity growth rate was 1,9 % in the textile and clothing sector, this rate decreased to 1 % in the period 1981-88 (ibid, 28-29).

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<sup>16</sup> In the period 1969-1976, the growth rate of capital goods (machinery and transport equipment industry) production was 18,5 % and the basic metal industry (iron and steel) growth rate was 14,9 % (Uygur, 1991, 11).

The fact that there will be decrease in value creation capacity of a sector, which are not supported with investments, and that this sector can not achieve the expected contribution to growth was supported by Taymaz and Voyvoda's (2012, 91-92) a study that shows the contribution of the manufacturing industry products to the total industrial productivity growth in the 1980-2000 period. The contribution of the productivity growth of the textile and clothing industry to the total industrial productivity growth in the 1980-1988 period was 5,75 %. This rate decreased to 3, 3 % in the 1989-2000 period. These rates for textile apparel and leather products were - 6,39 % and -5,9 % respectively.

Actually, the private sector's this behaviour that was not inclined to manufacturing industry investment and that posed structural defect in industry was not unexpected when the Turkish industrialization, the industrial dynamics and, the investor behaviors of the 1960-1980 period is taken into consideration. In the 1960-1980 period, the private sector was supported by policies such as investment allowances, tax exemptions, over-valued exchange rate, protection from foreign competition, intermediate goods support from PEEs, cheaper credits, foreign exchange distribution applications (Togan, 1996, 19). In addition to these incentives, the private sector was forced to make investments in capital-intensive sectors. In this period, the intermediate goods quotas were distributed according to the size of firms, capacity utilization rates, and whether production meets demand. However, if companies did not apply for capital goods import licenses, it was made a reduction in their intermediate goods quotas. In other words, firms were encouraged to incline the capital goods import so that the infrastructure for capital intensive production was prepared (Krueger, *ibid*, 217).



**Figure 9: Private Saving and Investment Statistics: 1967-1999 (%)**

Source: Investment Statistics have compiled from Strategy and Budget Department of Presidency of Republic of Turkey, Investment and Saving Statistics [07.02.2019]

\*Saving Statistics for 1967-1980 period by Uygur (1991), for 1983-1999 period by Strategy and Budget Department of Presidency of Republic of Turkey, Investment and Saving Statistics

\*for 1983-1999 period: private saving/GDP not private saving/GNP

As a result of mentioned supports in pre-1980 period, private sector savings could be directed to manufacturing industry investments. Savings and investments moved in parallel roughly up to 1983. However, saving and investment gap increased after 1983 because the government lost the policy tools to direct the private sector to manufacturing industry investments. In this economic environment the deregulation shaped, the private sector withdrew from productive investments. This situation was not surprising because despite the government policies, which promoted private sector manufacturing industry investments, it was complained in the development plans from the behavior of private capital not making investments in productive areas (SPO, 1967, 12; SPO, 1973, 114). In addition, the capitalists were insisting on the ISI and the protective measures that undermined industrialization and exacerbated the financing problems. The reason for this was that the private sector cared the extraordinary rents of high protectionism rather than the development of the country. In a country where this capitalist profile was agent in the industrial sector, the fact that the structural programme envisaged to prohibit the government interferences, the incentive practices deteriorating price mechanism, the state activities in production and that the programme brought practices like devaluation and increase in interest rates in which private capital in pre-1980 period responded with a decrease in investments resulted in a rapid decline in manufacturing industry investments in the

post-1980 period. Moreover, the financial liberalization, which was another aspect of the structural program as we have referred the next section, led capitalists to concentrate on rent-seeking activities instead of capital investments by providing a very suitable environment for extraordinary profits and led us to face with this negative picture of post-1980 industrialization.

The third reason why the structural programme had characteristic to undermine industrialization is that adoption of the EOI strategy as a development model occurred in spite of its limitations in the world economic conditions of 1980s. The East Asian countries had achieved their export success in a time when the world conjuncture provided a suitable environment for export. When East Asian countries exported their manufactured goods in the 1955-1973 period, world industry increased by 5,6 % and world trade increased by 7,3 % annually. While low inflation in the world prevented the emergence of policies aimed at restricting consumption, the high employment in industrialized countries posed an increase in demand (Gereffi, Wyman, *ibid*, 14). However, we see that this positive conjuncture disappeared in the mid-1970s. Annual growth of world trade fell from 9 %, which was average of the 1960-1973 period, to 4,5 % and industrialized countries began to implement strict protectionist policies (*ibid*, 15). After 1980, it is seen that the factors limiting the export opportunities of the countries that adopted the EOI model increased. Firstly, the world economic growth was not as high as the 1945-1973 period and there was a decrease in demand. Secondly, while the North countries followed liberal policies in the 1960s and 1970s, they followed protectionist policies in the 1980s<sup>17</sup> and the export opportunities for the countries that adopted the EOI model became narrow. Increase in protectionism led to increase in competition in the export to these markets. Thirdly, in the 1980s, the North countries protected their sectors such as clothing, textiles, and leather which were the leading sectors of the newly industrializing South countries that adopted the EOI model. The fact that countries such as Taiwan and Korea gained a steady ground in these sectors by developing

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<sup>17</sup> In the post-war period, liberalization attempts were made by taking into consideration the conditions of the developing, namely economically disadvantaged, countries. For example, in multilateral agreements, financial stability or development aims of countries were cared and practices like depreciation and tariffs were reserved. However, the liberalization attempts, especially after the 1980 period, changed a rigid dimension. While developed countries imposed liberalization in areas in which developed countries would benefit like industrial goods and finance liberalization, they imposed restrictions on areas where developing countries would benefit like agricultural goods, labor movements and technology trade liberalization (Akyüz, 2008, 3).

their technologies posed a problem for the newly industrializing countries in which share of technology in their productions was low. Under these conditions, it became very difficult for the countries following the EOI model after 1980 to industrialize by replicating First Generation Newly Industrializing Countries (Öniş, 1993, 78-79). Hence, in the context of the newly adopted the EOI model, Turkey was advised to be concentrated on the production of textile and clothing sector due to comparative advantage in these sector but according to us, it is unclear whether these sectors were the sectors in which Turkey had comparative advantage in international trade or these sectors were the sectors in which Turkey had a highest comparative advantage, or competitiveness, in the domestic production. First of all, the second generation NICs of Asia industrialized due to the achievement in export of labor-intensive goods between 1970 and 1981 and they were major rivals of Turkey's in post-1980 period with their cheap labor costs. The share of manufacturing industry export in total export in Indonesia increased 2,5 times between 1970 and 1981, while the share of clothing export in total manufacturing industry export increased 14 times (Naya, 1988, 77). Similarly, these rates were 3,5 and 27 respectively in Philippines and were 4,76 and 10 respectively in Thailand (ibid). Secondly, the international institutions, which recommended Turkey to concentrate on clothing and textile sector, remarked problems and limits in these sectors of Turkey through reports they made before 1980. The following limitations were highlighted in the Export Oriented and Small Scale Industries in Turkey Report (1976, 28-35) of the World Bank. Yarn production provides an opportunity to enter the export market but this can be done with various incentives. The quality and the production capacity of the fabrics are far below the world import requirement. The limits of the export of woven goods and standard grey goods due to deficiency of quality and of delivery on time principle, per unit cost in textile products is much higher than far east countries. The necessity of high and perfect quality requirements for the printed and braided products and the necessity of highly effective firms for production of these products.

In spite of all these conjuncture unfavorable and the limits in which Turkey had in the export of labor-intensive products as the international organizations specified, Turkey focused on the production of labor-intensive goods and the export of these goods and it shaped its new development model in accordance with agreements which were signed with international organizations. This system required



extraordinary state support and an artificial success was achieved until 1988. After this period, that deregulation and liberalization gained weight in the economic policies revealed defects of the programme about industrialization under the negative conditions for export. Because, both international trade conditions of the period did not provide a favorable environment for the export and Turkey had not a sector, which was attained comparative advantage, without export incentives. This facts caused to be faced with disappointments about the EOI model.

## **5.2 Trade Liberalization**

Turkey that included trade liberalization in the 24th January Programme in accordance with agreements which were signed with international institutions took quick steps in this regard. Before the trade liberalization, the import was subject to specific lists. The Liberalization List I included the goods that were subject to free import while the Liberalization List II included the goods that were subject to restricted import. Additionally, the import was controlled with Quata List, EEC-consolidated list and a list that included goods imported under bilateral clearing adjustments. In 1981, the first step in trade liberalization took place with the transfer of many products from List II to List I (Olgun, Togan, 1991, 153). In 1983, goods that were included in the Liberalization List I were increased and customs duties were significantly reduced (Şenses, 1991, 362). In the same year, with the removal of quantitative restrictions by negative list system and the reduction of tariffs, 60 % of total imports were liberalized (Baysan, Blitzer, *ibid*, 17; Ersel, 1991, 6). In 1984, lists were reduced to Liberalized List, Imports Subject to Permission, and Prohibited List. The tax rebate system started to decline in 1984 and was terminated in 1988 (Ersel, *ibid*, 4). Quantitative restrictions ended in 1985 (*ibid*, 6). With the signing of the GATT Subsidy and Compensation Tax Code Agreement in 1985, export subsidies to the signatory countries were banned (Akyüz, 2008, 7). The liberalization of imports continued in 1985 and 1986 with the reduction in tariff rates and in prohibited goods list. Export subsidies decreased by 40,1 % between 1983 and 1990 (Abaan, 1992, 5).

In DOHA Round organized by World Trade Organization in 2001, it was emphasized that trade liberalization is not a target but a tool for industrial development (Khor, Yen, 2006, 16). Therefore, we can claim the fact that international organizations stipulated trade liberalization to Turkey and the trade

liberalization was included in 24th January Programme as evidence of that trade liberalization was thought as one of the policy instruments that would make the EOI model successful. In the Uruguay Round in 1986, the previous round of the DOHA Round, the goal of a 27 % reduction in tariffs for developing countries (ibid, 17) may be seen as consistency in policy recommendations of international institutions but, according to us, this incidence led us to question the role of trade liberalization in industrialization of developing countries. If trade liberalization is a tool to provide industrialization, why 27 % reduction in tariffs spread over a time period and was not asked to be implemented immediately? Or, why 27 % liberalization in tariffs was envisaged rather than wider liberalization. If it was thought that wider trade liberalization would damage the industrialization phases of the countries, were industrialization phases of all developing countries same? Because, all developing countries were set the goal to liberalize their trade by 27 %. If it was thought that a wider liberalization than 27 % may undermine the industrialization of the developing countries, why did same international environment, which recommended an export oriented strategy in which trade liberalization was one of the pillar of that strategy as a prescription for financing crisis of Turkey in late-1970s, stay silent Turkey to liberalize its trade by 60 % only in three years.

According to us, the reason for this is that the trade liberalization was not an instrument of industrialization. Contrary, international institutions specified trade liberalization as an objective. Countries that did not complete their industrialization would begin importation due to their comparative disadvantage when they implemented trade liberalization. That means, these countries would become the export market of industrialized countries. It appears that this attitude of industrialized countries on trade liberalization is the result of the experiences from their industrialization periods. While the trade liberalization, which was implemented under the condition of comparative advantage, benefited these industrialized countries, the trade liberalization in which they implemented under the condition of comparative disadvantages was disadvantage of them and they began to follow protectionism immediately. For example, in India, the colony of England, the introduction of free-trade and laissez faire system in the early 1800s occurred in the condition of that India had no comparative advantage. Thus, the Indian domestic market was dominated by Lancashire textiles between 1812 and 1830 (Lal, 1988,

199). It is evident that the trade liberalization in these conditions benefited England because it attained the opportunity to increase its export. However, the same England this time carried out strict trade protectionism between 1920 and 1945 due to the fact that Germany and the United States threatened the comparative advantage of England (Akyüz, 2005, 7). In other words, the industrialization of the United States and Germany had progressed enough to generate a threat of meeting domestic demand in England through import from these two countries.

England's this strategic foreign trade policy, when it was an industrialized country, is the long-term foreign trade policy of today's industrialized countries that followed this strategy in their industrialization phases. For example, England put under protection its industry with the 1721 Legislation and the subsequent complementary decisions of this legislation. Import duties on manufacturing raw materials were lowered. Tax rebate for the raw materials, which imported for use in the production of export goods, were implemented. In most of the manufacturing industry products, the export tax was abolished. Imported substitution measures were taken in the manufacturing industry. The extent of export subsidies for manufacturing industry goods was expanded (Chang, 2003, 21-22). As can be seen, the industrial revolution of England, which started with the 1750s and reached maturity with the 1850s, was carried out under strict protectionist regime. When England removed tariffs in most of manufacturing industry goods in 1846, it attained its technological superiority over other countries and reached the highest level in industrialization compared to other countries. That means, trade liberalization at this stage would benefit England because of its superiority in productivity and competitiveness.

The U.S. also seems to followed the same path in its industrialization period. In the 1800-1840 period, the U.S. kept the average tariff rates in the range of 20 % and 50 % and the tariff of industrial products at 40 % (Akyüz, *ibid*, 8). The base of the high tariff policy implemented in the 1800s was that the Reports of the Secretary of the Treasury on The Subject of Manufactures in 1791 stated that the industries, which are desired to be competitive, cannot reach that level without protection (Chang, *ibid*, 25) and this is a lesson for the industrializing countries, which were obliged to implement the liberal policies in the 1980s imposed by international community. The reason of increasing tariff rates to 35 % in all manufactured goods was that "the necessity to protect the infant industries" that was prevailing idea of that period

influenced the political elite (ibid, 26). The 1840-1870 period is defined as partial liberalization period but tariff rates in that period did not fall below the tariff rates in Europe. The protectionist trade policy, which increased again after 1870, increased the average tariff rates to 40 % - 50 % again (Akyüz, ibid). The softening of the dimensions of the protectionism during the First World War ended with the outbreak of the Great Depression and the U.S. was able to implement the trade liberalization after the Second World War (ibid).

This protectionist policies followed by England and the U.S. during their industrialization period was also followed by Japan and other countries of Europe. The free trade period prevailing after the abandonment of mercantilist policies in Europe gave way to protectionist trade policies in the late-1870s and early 1880s. The European countries except England, Holland, and few small European countries applied high tariff rates between 1880 and 1914 (ibid, 7). Japan, on the other hand, applied protectionist policies especially after 1911 (between 1868 and 1911, it did not have the autonomy to determine trade policy) to protect the infant industries (Chang, ibid, 46-48).

South Korea, as mentioned above, applied import protection and export subsidies covering subsidized credit allocations and duty drawbacks in the 1960-1973 period in their export of manufactured goods stage. During the 1973-1980 period in which the country was in the phase of heavy and chemical industrial production, these infant sectors were protected with strict import restrictions (Weiss, ibid, 19). Therefore, the trade protection and industrialization strategy that emerged in Europe and America in the 19th and 20th centuries were applied in the same way in South Korea, which started industrialization in the early 1950s.

It appears that the facts in which we have presented about historical processes of some of the today's industrialized countries show that these countries implemented strict protectionism in their industrialization processes. However, the international organizations such as IMF, WB and OECD that are in the grip of the U.S. and European countries, which industrialized due to imposing trade protectionism, hindered the developing countries to industrialize by following same paths in 1980s and 1990s due to their pressures for free trade. The developing countries that attempted to industrialize in second half of the 20th century could not benefit from the role of the trade policy, which enable industrialization with a cycle hereinbelow,

by losing their autonomy to determine the trade policies and their industrialization process failed.

In a country that is in the industrialization thrust, the first source of the export is resource-based products. The countries, which generate financing for industrialization with the export of these products, passes labor-intensive goods production stage. At this stage, tariff and protectionism are applied for labor-intensive sectors to protect the this infant industry. No tariff is applied to other industrial sectors (intermediate goods, capital goods) because the production of these goods is not yet realized. The country that gained competitiveness in the labor-intensive goods passes next stage of industrialization that is production of intermediate and capital goods. At this stage, while protectionism is applied to these products, protectionism in labor-intensive products is removed because competitiveness is gained. This process continues with the production of high-tech intensive goods stage and at this stage, protectionism in intermediate and medium-tech capital intensive goods is removed (Akyüz, 2005, 20-28). South Korea that is one of the subjects of East Asian industrialization, which is a current and popular subject in the literature, has succeeded its industrialization by following these stages.

South Korea started the production of labor-intensive goods in the 1950s and of machinery, transportation and other capital goods in the mid-1970s. South Korea following strict protectionist policies in this process did not make this protectionist policies permanent and used them as a tool for the progress of industrialization. This fact is revealed when the export structure and tariff rates of South Korea during its industrialization period are examined.

**Table 7: Export Structure of South Korea (%)**

	1970	1981
Primary Commodities	24,9	18,2
Raw Materials	15,3	11,3
Agr. & Food Products	9,6	6,9
Manufactured Exports	75,1 (100)	81,3 (100)
Resource-based Manufacturers	12,5 (16,7)	8,1 (10)
Miscellaneous Manufacturers	13,9 (18,6)	5,5 (10)
Textiles	10,2 (13,5)	11,6 (14,2)
Clothing	25,6 (34,1)	18,2 (22,4)
Transport Equipment	1,1 (1,5)	9,7 (11,9)
Chemicals	1,4 (1,8)	3 (3,7)
Electrical Machinery	5,2 (7)	13,8 (13,2)
Non-electrical Machinery	1 (1,3)	2,3 (2,9)
Precision Instruments	0,4 (0,5)	1,8 (2,2)
Total Exports	(100)	(100)

Source: Seiji Naya, "The Role of Trade Policies in the Industrialization of Rapidly Growing Asian Developing Countries", **Achieving Industrialization in East Asia**, ed. Helen Hughes (Cambridge: Cambridge University Press, 1988): 70

As can be observed in Table 7, in 1970, labor intensive goods export constituted 47,6 % of total manufactured export in South Korea that completed labor-intensive goods production phase in 1960s. It is seen that Korea passing capital intensive production

phase in 1973 made rapid progress in this phase. While the share of labor-intensive goods export in total manufactured exports fell to 36,6 %, the share of transportation equipment increased by eight times to 11,9 %, the share of chemicals doubled to 3,7 %, the share of electrical machinery approximately doubled to 13,2 % and the share of non-electrical machinery increased to 3 %. With these improvements, the share of capital-intensive goods export in total manufactured goods export in Korea increased to 35 % in 1981. It is seen that Korea shaped its trade policy in the examined period in a way to support its industrialization and exportation as mentioned in Akyüz's protection scenario.

Korea removed protection in the non-durable consumer goods sector, which was strictly protected with high tariffs in 1950s, after gaining comparative advantage. In 1968, the tariff rates applied in this sector were decreased to 9 % nominally and -9 % effectively (Balassa, 1982). In 1970s when the phase of production of capital intensive goods began, it was increased protectionism in this sector until it was gained a comparative advantage. As can be seen in Table 8, while the effective protection rate in the consumer durables sector was 51 % in 1968, this rate increased to 131 % in 1978 when the industrialization phase was in the phase of capital intensive goods production. Similarly, while the effective protection rate applied in the machinery sector was 43 % in 1968, it increased to 47 % in 1978. At the same time, both nominal and effective protection rates in capital intensive consumer durables, machinery and transportation sectors were higher than average manufacturing industry tariff rate in both 1968 and 1978. This shows that South Korea both carried out its industrialization behind high protective walls like Japan, European countries, the U.S. as we have showed and it formed its trade policy in a way to bring depth in industrialization thanks to its autonomy to determine its own trade policy.

**Table 8: Protection Rate in South Korea (%)**

	Consumer Durables		Machinery		Transport Equipment		Overall	
	N	E	N	E	N	E	N	E
1968	31	51	28	43	54	164	11	1
1978	40	131	18	47	31	135	18	31

Source: James Riedel (1988) "Economic Development in East Asia: Doing What Comes Naturally", **Achieving Industrialization in East Asia**, ed. Helen Hughes (Cambridge: Cambridge University Press, 1988): 32

\*N: Nominal, E: Effective

Turkey, on the other hand, was included "the liberalization movement" under the pressures of international institutions as mentioned above due to lack of state autonomy and lost its ability to use its trade policy to deepen industrialization.

Turkey had completed import substitution in consumer goods in the pre-1980 period. It is expected Turkey, which became to be able to make consumer goods production, to be in the phase of production of intermediate and capital goods in 1980s and to increase protectionism in these sectors until gaining comparative advantage or competitiveness in line with Akyüz's scenario. Moreover, we know that Turkey took a step towards capital-intensive goods production in the 1970s through public investments. In other words, this sector was phase of infant-industry and needed protection.

**Table 9: Protection Rate in Manufacturing Industry in Turkey: 1983-1991 (%)**

	Consumer Goods		Intermediate Goods		Investment Goods	
	N	E	N	E	N	E
1983	129,09	178,34	57,97	73,41	61,53	89,52
1984	133,98	162,91	59,21	74,23	68	102,65
1988	88,07	24,96	38,04	102,38	87,87	208,94



**Table 9 – Cont'd**

1990	52,34	79,06	25,87	52,38	37,87	72,93
1991	53,33	51,14	22,37	41,06	33,05	64,9

Source: Subidey Togan (1996) "Trade Liberalization and Competitive Structure in Turkey during the 1980s", **The Economy of Thrkey since Liberalization**, eds. Subidey Togan, V.N. Balasubramanyan (London: Macmillan Press Ltd, 1996): 20

However, while protectionism increased between 1983 and 1988 as observed in Table 9, rapid decrease in protectionism occurred after 1988. When the three sectors are examined, it is evident that none of the three sectors were not subjected to selective protectionism and that the general trend was total liberalization in these three sectors. This fact reveals that trade policy was not used as a tool for industrialization. A rapid liberalization policy had been followed in the trade policy for 10 years. The reason for this fact was that the 24th January Program aimed at trade liberalization. However, Bilsay Kuruç (1971, 197) who was the undersecretary of the SPO in 1978 criticizes scheduled import liberalization in his article, which was published in 1971 about the Additional Protocol, by emphasizing two consequences of this move. First, the import liberalization causes politicians to lose their capacity to control imports and exacerbates the balance of payments problem. Secondly, infant industries that need protectionism will succumb in competition due to decrease in protectionism and the progress in these industries will stop.

In spite of the theory that countries, which have not comparative advantage a sector in international free trade conditions, will be eliminated from the production of that sector and the fact that today's industrialized countries have carried out their industrialization with protectionist policies by taking lessons from this theory, Turkey implemented very rapid liberalization in the overall manufacturing industry without gainig a comparative advantage. The liberalization without gaining comparative advantage resulted in a slowdown in the export opportunities due to the fact that a reduction in government incentives accompanied this liberalization (Ersel, *ibid*, 4). For this reason, cash premiums were provided from the Resource Utilization Support Fund between 1984 and 1986 firstly and then from the Support and Price Stability Fund to support the export. A second return took place in export credits when it was understood that adopted policies undermined the export. When the

funding of the Interest Rate Rebate Fund, which was the source of preferential loans, decreased in the first half of the 1980s, the resource for preferential loans also decreased. This fact was accompanied by the incidence that banks were granted the authority to adjust interest rates of non-preferential credits in 1984 and these two incidences led to an increase in interest rates on privileged loans. The support practice in export credits was abolished in 1985 but was reintroduced in 1986 due to the fact that the export was negatively affected by this implementation (Akyüz, 1990, 101-102). These two examples revealed in the first half of the 1980s that the EOI model could not provide industrialization without export incentives but the practices towards trade liberalization continued until the end of the period because agreements, which were signed with international organizations in exchange for new credits and debt relief, obliged Turkey to fulfill demanded policies although Turkey experienced deteriorating effects of trade liberalization on Turkish economy and industry. However, participating in international trade without attaining comparative advantage was in contradiction with the experiences of industrialized countries. We saw that England reverted to protectionism in the 1920s because Germany and the United States threatened its comparative advantage. As another example, when South Korea gradually moved into direction of trade liberalization in the 1980s, it had taken measures more than 10 years ago to change its industrial structure to be able to produce capital intensive goods and be able to export these goods. And, it succeeded. In 1985, medium tech and high tech products constituted 50 % of its export. In 1998 this rate increased to 68,3 % (Weiss, *ibid*, 8-19). In other words, they started liberalization when they obtained comparative advantage, i.e. their industrialization reached a phase to be able to export the capital and technology intensive products. Taiwan, which devalued its currency in the mid-1960s to export labor-intensive goods and liberalized import of the goods that were inputs of export goods, began to implement the above-mentioned protectionist policies after understanding that it could not compete with Japan's labor-intensive sectors (Amsden, *ibid*, 633). Although the EOI strategy was passed in the early 1960s, that 96 % of the 15,366 imported goods were removed from quantitative restrictions lists took place in 1975 (Scott, 1979, 331 as cited in Riedel, *ibid*, 30). Therefore, largely liberalization of trade did not take place in a short time as in Turkey but took place gradually and as long as depth in industrialization gained (Naya, *ibid*, 84).

Thus, the trade liberalization in which Turkey entered into obligation due to agreements with international organizations in late-1970s negatively affected Turkish industrialization because of the fact that the liberalization occurred in a period when Turkish industry did not mature enough to gain comparative advantage. With trade liberalization, Turkey seems to have lost the possibility to use the trade policies as tools for achieving deepening of industrialization. For example, the industrialization move towards the capital-intensive sectors in mid-1970s was interrupted in the infant industry phase in 1980s since there was no possibility to protect these sectors with the trade policies because the import of goods included in this sector under free trade system became much cheaper. The fact that imports became cheaper than production made the post-1980 industrial investments unattractive. In the absence of industrial investments, industrial activities continued in 1980s with the gains, which were achieved before 1980, but the industry presented worst picture of the republic period.

### **5.3 Financial Liberalization**

Turkey, which sought the ways of getting over the debt and financing crisis of the late 1970s in foreign debt formula, could provide the necessary assistance in return for implementation of the structural and stabilization program. In response to the implementation of the program, Turkey obtained opportunity to restructure its unpaid 6,5 billion \$ debt and to get 1,3 billion \$ credit from OECD countries during this period. It was provided special drawing rights of 3,5 billion \$ between 1980 and 1984 from the stand-by agreements with the IMF and an additional 1,56 billion \$ from the World Bank (Kıray, 1990, 261). In return for the new loan and the debt rescheduling facilities, Turkey would complete liberalization process, in which international institutions demanded, by carrying out the liberalization of respectively commodity markets, financial markets, the trade, and the capital account. However, as in the liberalization of trade, the determination of financial liberalization as an aim through structural programs rather than as a means to support industrialization led this process to bring practices that undermined industrialization. Since this liberalization process was initiated in return for new debts and rescheduling of existing debts, the governments could not take action against the undermining nature of the process to industrialization. The reason for this is that the government was

deprived of policy instruments to regulate the market in an environment in which price mechanism, i.e. elimination of government interventions, was aimed.

Turkey began financial sector liberalization with practices in the direction of liberalization of the banking sector. In 1980, except for time deposit and preferential credits interest rates, the ceilings in other loan interest rates were removed (Uygur, 1990, 9). In the same year, the banking sector's liberalization was completed with the banks' right to issue CDs (Atiyas, 1990, 132-136). However, the banking sector liberalization caused the government not to take measures against the increase in interest rates triggered by three factors in the post-1980 period. High interest rates prevented the deepening of industrialization by discouraging industrial investments.

The first factor triggering increase in interest rates after 1980 was the monopolization in the banking sector. The number of company-backed banks that were 11 before 1980 increased to 18 in the early 1980s. During this period, more than 7 brokerage companies, which were again owned by same companies, were founded (Akyüz, *ibid*, 114). These institutions accounted for 36 % of total private bank loans. In other words, the liberalization of the banking sector took place at a time when this sector monopolized. With the removal of government intervention in deposit and loan interest rates, this monopolization allowed banks to determine the interest rates as they wish by negotiating among themselves. After July 1980, bankers made a secret agreement among themselves and set the deposit interest rate as 30 %. However, the small banks did not abide by this and offered a higher rate of credit. In February 1981, these bank cartels made another agreement and determined one-year deposit interest rate as 50 % (Atiyas, *ibid*, 135).

The devaluation in which the structural programme envisaged to support export was the second reason for the post-1980 high-interest economic environment. The enormous increase in the public debt in which the devaluation created necessitated the governments to supply high interest rate bond, which would compete with market conditions, because the government took decision to replace foreign borrowing with domestic borrowing in 1984 after debt relief ended firstly (Abaan, *ibid*, 13) and secondly, the possibility of borrowing from the CBRT disappeared (Akyüz, *ibid*, 108).

The third reason that triggered the increase in interest rates was the monopolization of foreign trade with the Foreign Trade Companies system. The fact that 28 companies accounted for approximately 50 % of the foreign trade<sup>18</sup> caused the EOI model not to create the same export opportunities for all producers. That demand shrinking in domestic market accompanied this fact led to the deterioration in the balance sheets of small firms that could not provide sufficient conditions to benefit from export incentives because the only market source of these small firms was the shrinking domestic market. The small firms, which suffered from deterioration in their balance sheets, increased their demand for high-interest loans and led to a further rise in interest rates. Interest rates increased so much that the cost of getting the machine reached a level that could not be make investment and as a result, small firms went bankrupt (Aydın, 1997, 31).

As it can be seen, the government's loss of control in the banking sector firstly caused to be not able to averted the private sector's activities that damaged the market mechanism. These activities of the private sector led to a financial crisis in 1982. The liberalization in the banking sector secondly eliminated the possibility of the government to meet public borrowing at a cost below the market price. The government's involvement to loan demanded side with its high debts led to further increase in interest rates. Thirdly, with the loss of control in the banking sector, the government lost the opportunity to provide the necessary financing to these small firms at an affordable level they could absorb. This financing was important for these small firms to carry their production activities from domestic market to export. While these three conditions caused increase in loan prices, increase in loan prices was one of the factors explaining why expectations about post-1980 industrialization did not take place because while increase in interest rates is a tempting factor for accumulation, it also is disincentive factor for investments due to cost effect. We have shown above that the increase in interest rates caused a decrease in private sector investments. Under the conditions of this behaviour of investors, the state had capacity to affect and direct private sector investments in the pre-1980 period with low interest loans and with the capacity to direct these loans to the sectors it desired. However, the liberalization and deregulation obligation coming with agreements

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<sup>18</sup> In 1986, 28 foreign trade companies accounted for 46 percent of total exports. In 1988, 36 foreign trade companies accounted for 55 percent of total exports (Sönmez, 1992, 31).

with the international institutions caused the governments to lose its mentioned capacity in the high interest rate environment of post-1980 period<sup>19</sup> and caused the private sector to wait for interest income instead of investing in productive areas.

The steps taken towards liberalizing the banking sector were accompanied by steps to liberalize the foreign exchange regime in the same period. The crawling peg regime started to be implemented in May 1981 and the Central Bank started to announce the exchange rate on a daily basis. Multiple exchange rate system was abolished in the same year (Altinkemer, 1992, 1). In 1984, the opportunity to banks to make forex transactions in the amount of their forex liabilities (Ersel, 1991, 7-8), and to financial and non-financial institutions to borrow from abroad (Altinkemer, Ekinci, 1992, 7) were brought. While domestic residents got an opportunity to export capital abroad and to hold financial assets abroad, foreigners were allowed to borrow and to hold financial assets in Turkey. The domestic residents were allowed for making their debt agreements in foreign currency (ibid). However, these steps taken to liberalize the foreign exchange regime in an environment with high inflation and a constant devaluation of the Turkish lira led to the ineffectiveness of the monetary policy in which politicians could use to influence the real sector agents. The governments have the ability to stimulate investments by decreasing interest rates in an economic environment in which interest elasticity of investments is high. However, that domestic residents obtained opportunity to open a deposit account in foreign currency in an environment in which domestic currency permanently devalued caused foreign exchange to be perceived by holders as an asset. When the exchange rate became the price of residents' assets, the monetary policy, which normally operates in the direction of monetary policy-consumer spending, started to operate in the direction of monetary policy-exchange rate. For example, when the expansionary monetary policy is targeted, interest rates decrease and this leads to an increase in foreign exchange prices. With the decrease in interest rates, individuals think that the price of foreign currency will rise. That means, their assets will be valued. Therefore, they begin to buy foreign currency. Thus, interest rates that are

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<sup>19</sup> Although the loan prices were cheaper in the pre-1980 period, it was stated in the third development plan that “the reduction in the loan prices would be used so as to encouragement and directing to certain sectors (SPO, 1973, 877). When we consider that there is not much time difference between 1980 and 1973-1977, we can estimate that this policy will be implemented after 1980 as well if deregulation and liberalization did not dominate post-1980 period because economic environment did not evolve to more favorable conditions for investments in post-1980 period.

reduced to for example decrease the cost of investments serve not increase in investments but increase in foreign exchange demand. This shows that the governments, which inherited the industrialization plans from the 1970s, abandoned the policy instruments that would control industrialization in the 1980s in favour of liberalization. The liberalization caused the governments to fail to fulfill the controlling the behaviors of investors and directing the industrialization, even if they desired, through the policy tools affecting the investments and the governments' tie with industrialization weakened.

Turkey that liberalized the banking sector and the foreign exchange regime respectively since 1980 completed financial liberalization in 1989 by liberalizing the capital account. Although the Central Bank did not oppose to the idea of the government to liberalize the capital account, it stated that it was not the year of 1989 by emphasizing the negative effects of this policy on the balance of payments in the high-interest environment (Ersel, 1996, 47). However, the liberalization of the capital account was the part of Article VIII of the Articles of the Agreement of the IMF (ibid) and Turkey made a commitment to perform this step with this agreement. Therefore, it does no longer matter that whether economic conditions of Turkey was favorable for this policy or not, whether timing of the policy was suitable or not, and how the policy would affect balance of payments and industrialization. Because, in the post-1980 economic environment in which liberalization and deregulation were dominant ideologies, the determinant of policies was not whether these policies can serve the development of Turkey or not but was whether these policies were scheduled due to agreements signed with international institutions or not.

The problem, which capital account liberalization would create on the balance of payments means that the EOI strategy would get stuck because the balance of payments problem could arise due to either a significant reduction in exports or a significant increase in imports. Both scenarios refer a new financing crisis for industrialization. It seems that liberalization of the capital account would negatively affect the industrialization in a the high inflationary, high interest rated, and high debted economic conditions of 1989. It is thought-provoking that external factors, which desired implementation of this liberalization package, dit not emphasize this problem, in which the bureaucrats of the Central Bank referred, when it is considered that the structural program they proposed included industrialization. However, the

government disregarded the warnings from the internal factors due to its commitment to structural program and liberalized the capital movements. The justifications and the rightfulness of the Central Bank's warnings can be seen when the post-1989 short-term capital inflow and its effects are examined in Table 10.

**Table 10: Some Economic Indicators in Turkey: 1985-1999**

	Capital Inflow/ GNP (%)	Real Exc. Rate	Export/ Import (%)	Consumer Goods Import / Total Import (%)	Credit Growth/ Deposit Growth (%)	Private Tradeable Invest./ Private Investment	Interest Rates (%)
1985	2,2	89,1	73,51	8	0,72	40,8	55
1986	1,08	80,09	71,11	8,6	1,68	38,6	48
1987	0,06	78,76	76,17	8,2	1,59	32,1	52
1988	-2,56	77,32	87,03	7,8	0,71	26,9	83,9
1989	-0,49	84,34	73,63	8,7	0,7	24,1	58,8
1990	1,99	100,1	57,69	12,9	1,46	30,9	59,4
1991	-2,03	98,44	65,06	13,7	1,21	29,6	72,7
1992	0,89	94,58	64,51	13	1,39	28,2	74,2
1993	1,71	93,64	52,43	14	2,03	27,7	74,7
1994	-3,99	75,94	80,09	12	0,61	27,5	95,6
1995	2,13	87,28	61,49	12	1,07	30,4	91,3
1996	3,71	86,78	53,76	15,6	-	31,1	93,8



**Table 10 – cont'd**

1997	-	-	54,1	10,40	-	27,2	96,50
1998	-	-	58,7	10,90	-	28,2	95,50
1999	-	-	65,4	11,85	-	27,5	46,70

Source: Nurhan Yentürk (1999) “Short Term Capital Inflows and Their Impact on Macroeconomic Structure: Turkey in the 1990s”, **The Developing Economies**, v. 37. 1: 90-91

\*for 1997-1999 Export/Import: TurkStat, *Statistical Indicators: 1923-2011* (Turkish Statistical Institute, 2012), 480-481

\*for 1997-1999 Interest Rates: TurkStat, *Statistical Indicators: 1923-2011* (Turkish Statistical Institute, 2012), 626

\*for 1997-1999 Consumer Goods Import/Total Import: Strategy and Budget Department of the Presidency of Republic of Turkey, Foreign Trade and Balance of Payments Statistics [07.02.2019]

\*for 1997-1999 Private Tradeable Invest./ Private Investment: Strategy and Budget Department of the Presidency of Republic of Turkey, Investment and Saving Statistics [07.02.2019],

Turkey, which faced with capital outflows between 1987 and 1990, experienced high capital inflows valued at 2 % of GNP in 1990, at 0,89 % of GNP in 1992, at 1,71 % of GNP in 1993. The government had two options against high capital inflows. It either would prevent the capital to circulate in market or not. The allowing the capital to circulate in market would mean the appreciation of Turkish Lira, an increase in consumption and an increase in import. The government chose appreciation of TL without considering its effect on inflation because the appreciation of the domestic currency would create a reduction in the external debt burden (Öniş, 1993).

The first effect of capital inflows is the appreciation of the exchange rate. With the liberalization of the capital account, the real exchange rate increased to 84,34 in 1989 and to 100,17 in 1990. This rate was above 90 until the 1994 crisis. In 1995 and 1996, it did not fall below the 1988 level. As can be seen, the liberalization of capital movements resulted in the opposite of the devaluation that was carried out in 1980 in order to increase export and hence foreign exchange income. The devaluation was suggested in 1980 to bring competitiveness to Turkish goods. Between 1980 and 1989, as we have showed above, Turkish industry did not progress enough to gain competitiveness. Therefore, the high exchange rate had to be maintained in 1989 as

one of the instruments of export<sup>20</sup>. Policies that would lead to a reduction in export had to be prevented because the decrease in export would lead to a reduction in foreign exchange incomes and this fact would again cause a bottleneck in the financing of industrialization. However, this fact was not cared and it was provided to be adopted the scheduled capital account liberalization. The consumption enhancing effect of the capital inflows if they are allowed to circulate in market can be observed from columns 3 and 5. While the credit growth was 70 % of deposit growth in 1989, this rate increased to 146 % one year later and to 203 % in 1993. These rates indicate very rapid and high increases in consumption. With this result, the liberalization of capital movements seems to contradict with the decline in real wages and the real positive interest policy applied in early-1980s with the structural program to restrain consumption. The appreciation of the exchange rate and the rise in consumer credits led to increase in import. While the rate of export meeting import was 75 % before 1989, it fell to 60s % after 1989. The increase in consumption caused a significant change in the structure of import and the share of consumer goods imports in total imports increased by 50-100 % between 1989 and 1994. However, because Turkey removed import restrictions in accordance with agreements signed with international organizations, it could not interfere capital inflows' this consequence that adversely affected industrialization. However, the use of tariff as a policy tool is essential for industrializing countries because of being transferring of scarce foreign currencies to industrialization. These countries prevent the scarce foreign currencies to be used in inefficient areas by increasing the tariffs in the goods that are not necessary for industrialization and create financing for industrialization (Khor, 2006, 10).

It seems that capital account liberalization undermined and contradicted the thesis that the EOI model would constitute the financing of industrial investments because it was foreseen that the intermediate and capital goods import capacity of the Turkish industry, which was dependent on import of these goods, would be sustained through export revenues without borrowing and facing the balance of payments crisis but,

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<sup>20</sup> This fact explains "what should be" from the perspective of the international organizations that justified the devaluation in 1980 with the increase in export. In his book section published in 1987, the economist Taner Berksoy determined that the export of the 1980-1984 period was very sensitive to exchange rate changes (Berksoy, 1987, 150). If this is a fact, which could be observed in that period, international organizations that care! Turkey's export, financing issues, and industrialization were expected to prevent steps that would lead to appreciation of the Turkish Lira.

with the liberalization of capital movements, the composition of imports changed and the share of intermediate and capital goods import in total import declined while the share of consumer goods increased. This consumption glut coming exist with expansion in credit pool following the capital inflows caused also change in the composition of the investments. The investment of the private sector in the domestic market started to be made for meeting the housing and luxury goods demand in which consumers increased due to expanding credit facilities. While the share of private tradable investment in total private sector investments was 30,9 % in 1990, this ratio decreased to 27,5 % in 1994. All these facts show us that capital account liberalization posed consequences undermining industrialization. Although warnings of the bureaucrats about these potential consequences of capital account liberalization in Turkey's economic conditions of that day, the reason of why Turkey liberalized capital account is commitment of the state due to agreements with international organizations about making also adjustment in this field as in banking and foreign exchange regime liberalization. The fact that these agreements obliged Turkey to follow these liberalization steps necessitated governments to implement these policies even they had industrialization undermining effects.

Turkey which, was exposed to high capital inflows after liberalization of capital account due to high interest rates of that period, this time had to increase interest rates permanently in 1990s in order not to the fact that sudden outflows of capital inflows cause a financial crisis (Sakallıoğlu, Yeldan, 2000). However, high interest rates led to increase in import by appreciating the exchange rate and serious deterioration in the foreign trade balance occurred. Capital inflows began to reverse when the negative developments in foreign trade and budget deficits between 1990 and 1994 combined with the government's reduction in interest rates and low exchange rate policies (Coşar, ibid, 438). In January 1994, when the government wanted to apply low interest rates to the banks participating in the treasury bond auction (Boratav, Yeldan, 2001, 15), foreign capital went abroad (capital flight) and financial crisis occurred. As can be seen, in the 1990s, the government became unable to use interest policy. At the beginning of 1994, the government wanted to lower interest rates but the interest rates did not even converge pre-1993 level. Increasing interest rates led to high interest-capital inflow cycle in the post-1994 period. Due to the need for financing of increasing public debts, interest rates were

increased further and this incidence triggered capital inflows. Since capital inflows were not used in productive areas, they caused inflation and budget deficit. International capital that winced from financial crises in Asia and Russia in 1997 and 1998 abandoned Turkey in 1988 (Yeldan, 2006, 199) but it came back when investors were attracted by 100-120 % interest rated government debt security (Coşar, *ibid*, 439). High inflation and high interest rates made industrial investments costly and unpredictable returned. This situation was one of the reasons of decreasing industrial investments in the 1990s.

Financial liberalization that posed consequences undermining investments and industrialization in Turkey did not pose same consequences in South Korea and Taiwan due to financial liberalization under the control of the governments. Unlike Turkey, the dominance of governments of both countries in policy making mechanism and the capacities to use financial instruments in the direction of industrialization in their the EOI periods enabled these countries to not experience financial liberalization process that undermined their development processes. The most significant feature of a series of financial liberalization steps in Korea in the 1980s was their slowness and becoming under control (Chang, Park, Yoo, 1998, 736). We understand from the objectives of the five years financial liberalization plan launched in 1993 that despite a series of financial liberalization steps in the 1980s, the deregulation of interest rates, the termination of specific loans, the excellent autonomy of banks on their financial activities and the liberalization of capital account were not completed in the 15-year period (*ibid*). For example, the liberalization of interest rates took place in 1997. While foreign borrowers attained right to buy domestic debt securities in January 1997, domestic borrowers attained right to borrow from abroad under certain conditions again in 1997 (*ibid*, 737). The scope of state control in financial markets in Taiwan before 1980 was as follows:

“The financial repression consisted of: ceilings on deposit and lending rates and negative real interest rates; credit rationing and subsidized credits to priority sectors; excessive taxation of financial incomes and transactions; high liquidity and reserve requirements and intermediation costs; a high degree of interlocking ownership between banks and non-financial corporations; excessive reliance of corporations on credits rather than equity finance and direct security issues, and low-quality bank portfolios; undeveloped capital

markets; excessive reliance of the public sector on Central Bank for deficit financing; entry barriers to foreign banks; restrictions on external financial operations, foreign asset holdings and so on” (Cheng, Haggard, Kang, *ibid*, 98).

When the Taiwan development could not be maintained with foreign aids in the late-1970s, the function of the Bank of Communication was organized as a development bank and the lending required for credit supports and sectoral targets were realized through this bank (*ibid*; p.92). During the 1980s, all banking sector was under the control of the government. The state determined the interest rates and set limits for collateral requirements (Wade, *ibid*, 133).

This interventionist and selective policy emerged in the financial sector in Taiwan and Korea is also the answer of why financial liberalization in Indonesia did not undermine the industrialization process. In 1966 and 1967, with the devaluation of the currency and the abandonment of multiple exchange rate systems, it was taken steps to liberalize financial market. In 1971, the full convertibility of money was realized. During the 1968-1971 period, the barriers to entry of foreign banks to the market were reduced. However, these steps towards liberalization did not cause the governments to lose control in financial markets. Strict controls on the distribution of credits continued. The government prevented foreign banks to open branches in rural areas as this could destroy the credit distribution mechanism in rural areas through non-competitive state banks. The activities of national banks in international markets were restricted. The controls on credit ceilings and interest rates were applied until the first half of the 1980s. The significant deregulation of financial markets did not occur until the balance of payments in the late 1980s (Haggard, Maxfield, 1996, 46-50).

## **6. CONCLUDING REMARKS**

In this study, we have examined the industrialization move of Turkey predominately between 1960 and 2000 period in the context of state autonomy in which we have defined as the capacity of governments to implement policies without considering interests of any class and following findings have been reached.

During the 1923-1939 period, due to its state autonomy, the government was able to formulate economic policies in accordance with its development aim. It was thought until 1932 that the private sector would provide the development and the policies focused on creating a capitalist class. With 1932, public led development policy was adopted and the direction of policies was turned to this purpose. By this means, Turkey achieved significant industry breakthrough in the 1932-1939 period.

It emerges that following the 1939-1945 war period the government lost its capacity to carry out land reform by eliminating agriculture bourgeoisie and to implement industrialization led Ivedili Industry Plan by eliminating lobby activities of the U.S. based on agriculture led development plan. Under these conditions, a rapid growth was achieved through favorable weather conditions and mechanization in agriculture between 1950 and 1954 but, with 1954, the country entered into a chronic foreign exchange shortages, budget deficits and increasing debt cycle.

This process in the 1950s resulted in the 1960 military coup and the country entered a period of planned development. A planning organization was established and an industrialization led development plan was prepared. Tax reform was identified as the financing of the plan and it was stated that the future of the plan depends obtaining of financing. The planning organization focused mainly on the taxation of agriculture but did not neglect the taxation of trade and industry sectors. However, the government could not be able to eliminate the resistance of agriculture, commercial and industrial bourgeoisie against tax reform. This fact led industrialization into a dead end due to the failure in fulfillment of financing requirement. Important developments in industry indicators took place until the late 1960s but the fact that the import substitution industrialization got stuck in this

period posed a financing bottleneck because the development plans envisaged that protectionism period will not be long, export capacity of the production will be improved, and industry will concentrate on intermediate and capital goods production after completion of the import substitution<sup>21</sup>. However, the government this time could not eliminate the resistance of the industrial bourgeoisie on the protectionism and could not direct this sector in line with the industrial strategy planned by the planning organization. In 1970, tax reform became again a current issue but it could not be achieved due to the resistance of the agricultural and industrial bourgeoisie and the process moved towards a financing and debt crises that began in 1977.

The crises at the end of the 1970s were overcome with the new debts and restructuring of existing debts aid of international organizations but this aid was subject to condition of the structural adjustment and stabilization program. This program brought about a decline in real wages, a high devaluation, an increase in interest rates, an export-oriented industrialization policy as well as the liberalization of the banking sector, the foreign exchange regime, trade and capital account. In the same period, the fourth development plan prepared by the planning organization was also in force and while this plan did not envisage any of these practices, it did not form a frame for industrial strategy entirely opposite to the previous three plans. In the last part of the study, we have determined establishment of economic policies by the governments intended for implementing the structural program formulated by international organizations as the loss of state autonomy against an external factor and we have attributed the cornerstone of the deterioration in industrialization in the post-1980 period to this factor because despite the fact that this strategy would undermine industrialization, the agreements signed with international organizations obliged Turkey to follow these policy package.

If international organizations or states as factors undermining development are left aside, the question that would Turkey maintain an industrialization move successfully or not is a separate topic of discussion. It has examined throughout the study that governments could not realize tax reform in agriculture due to opposition of the agricultural bourgeoisie until 1980. It is understood that this power of the

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<sup>21</sup> see: I. FYDP, 206, 330, 522. II. FYDP, 91, 119, 370. III. FYDP, 120, 137, 900. IV. FYDP, 15, 236.

agricultural bourgeoisie continued by 1980. After January 1980, it was planned to increase agricultural taxes by changing the coefficients of agricultural production and income in the Income Tax Law but, aside increase in taxes, new regulations were introduced to increase the tax exemption due to opposition and resistance of the agricultural bourgeoisie (Türel, 1987, 109-111). The power of the industrial bourgeoisie as far as the commercial bourgeoisie cannot be overlooked. We have seen that the industrial bourgeoisie opposed the government's idea of increasing the weight of public in economic activity in the early 1970s. This group established Turkish Industrialists' and Businessmen's Association in 1973 and joined their forces to affect not only the economic life but political life. This group exacerbated chaos environment triggering military government by carrying out practices that strand the government (Boratav, 2015, 3). In addition, during the military government period, they were effective in being made decisions such as the decline in real wages and the destruction of the constitutional rights of the working class (ibid). At the same time, they hold an important place in economic activity in this period. In leather goods, pharmaceutical, main metal industry, motor land vehicles, electrical industry machinery and equipment sectors, a very large number of production was carried out by companies with very few numbers (Sonmez, ibid, 62-63). It is questionable that, under these circumstances, the government would be able to implement policies that were necessary for development but were contrary to the interests of the industrial, commercial or agricultural bourgeoisie.

Consequently, in this study, it has been reached that the lack of state autonomy prevented further industrialization in the 1960-1980 period and constituted the cornerstone of the de-dustrialization in the 1980-2000 period. It has been pointed out the importance of political mechanism, which is able to implement the policies that are formed considering welfare of all of the society.



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