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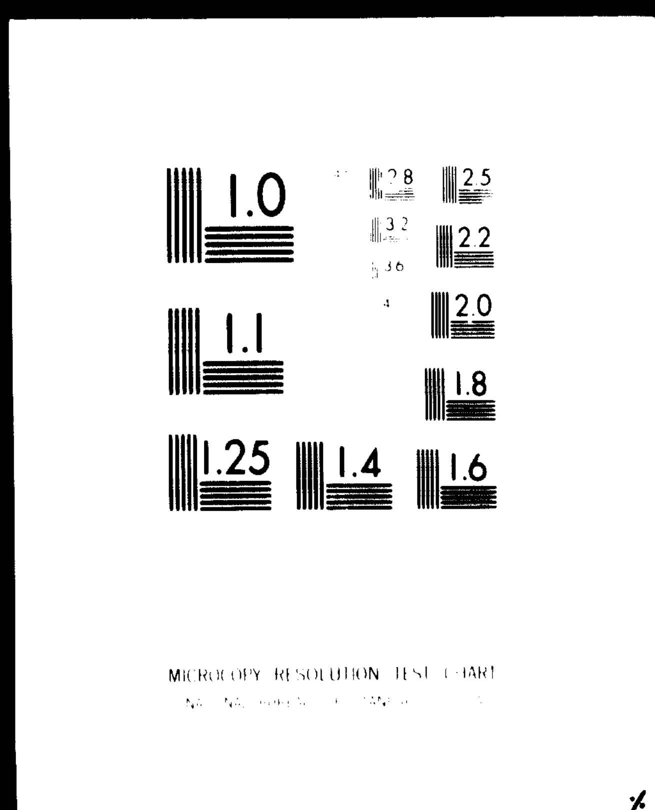
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PROMOTION OF EXPORTS OF INDUSTRIAL GOODS BY DEVELOPING COUNTRIES *

by

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Industrialisation has been a key issue for the developing countries since the end of the Second World War. Developing countries came to identify industrialization with development more forcefully in the 1950's and 1960's. Manufacturing industries with their sophisticated technologies and high levels of productivity were recognised as the source of rapidly rising living standards. In this century, the world has witnessed the role of manufacturing in the spectacular growth of Japan.

In the late 1940's and early 1950's, when the developing countries began to formulate their economic strategies, they placed heavy emphasis on the closing of the gap between their own living standards and those of the industrialised countries. Manufacturing industries promised a much more rapid increase in productivity and capital formation in the pursuit of this target.

The 1930 Great World Depression became a major factor in formulating industrialisation policies for a large number of countries (Hughes.1). Because the depression brought about a sharp fall in the prices of primary products and a shortage of capital goods from overseas. During the following war years, import goods continued to be in short supply. These factors encouraged policies of self-sufficiency, i.e. policies aimed at reducing dependence on external sources. Import-substitution provided a ready industrialization strategy for a number of countries.

Import-Substitution Policies

Import substitution strategy of development has many attractions for the developing countries. It is expected to increase manufacturing income and employment, and result in the saving of foreign exchange reserves. Moreover it provides an opportunity to acquire the necessary skills and experience in the fields of production and marketing.

Import substitution is basically an inward looking orientation of the industry. It is strongly interwoven with protectionist policies. Since the "infant" import-substituting industries are unable to compete with well developed foreign competitors, they have to be protected by restrictive measures, like customs duties, quotas, exchange controls or absolute prohibitions.

These policies encouraged the establishment of publicly owned manufacturing industries. In many developing countries some key industries, such as metal production, petrochemicals and petroleum refining were established under public ownership. These are the industries in which the private sector was not willing to invest either because of lack of financial capacity or non-profitability but were deemed essential for economic development.

On the other hand, import substitution policies attracted considerable foreign capital investments in some developing countries. Thus foreign investment came early to play a significant role in many of the developing countries that pursued import substitution policies.

It is a fact that some countries obtained a rapid progress in industrialization by means of import substitution. But in many others the result of these policies has become very disappointing.

Import substitution is not a policy to be continued indefinitely. It requires protective measures to shelter domestic industries. But these measures have to be narrowed and completely removed as these industries reach a competitive basis. Many developing countries have never come to reach the stage of competition. Therefore these policies led to inefficiency in production, waste of resources and a narrow domestic market persistently protected with high tariff walls.

More specifically the unfavourable results of these policies may be explained as follows:

1. <u>Balance of payments difficulties:</u> import substitution policies have tended to aggravate the balance of payments deficit, in contrast to what has been expected. The balance of payments difficulties did not prove

to be a temporary one. The adoption of these policies brought about a direct and indirect increase in the imports of capital goods and equipment as well as raw and intermediate goods. To meet these import requirements, the developing countries were obliged to be dependent on the export of their traditional agricultural products.

2. Narrow domestic market: Since the domestic market is usually too small, excess capacity tends to develop and economies of scale cannot be fully exploited. This raises costs and prices well above the world market. Hence, the widening of the internal market is one major benefit that accrues from regional integration among developing countries.

3. Overvaluation of national currency: By restricting the demand for imports, the exchange value of the national currency is artificially valued upward. An overvalued currency, in turn makes it more difficult to export primary or manufactured goods.

4. High costs and lack of competitiveness: Import substitution policies with a high degree of protectionism lead to monopolies, high costs and waste of resources.

5. Foreign capital investments: Foreign capital investments are induced, largely because to evade high tariff walls. In many developing countries foreign capital investments turned out to be assembly-type enterprises, hence increased the country's dependence on imports.

6. Discouragement of exports: Import substitution discourages exports by creating an industrial structure that is not conducive to a successful export drive. Import substitution depends on an inward-looking policy, i.e. production is bound to meet the requirements of the internal market. It provides shelter to small firms, domestic monopolies and inefficient entrepreneurs. The resulting high cost, low quality goods are mostly unable to compete at overseas markets.

As a consequence of these considerations, in the early 1960's some countries began to abandon the idea of "import substitution at all costs" (Hughes, 3). A decade later, export of manufactures had become an important component in industrialization strategies of many developing countries (Mexico, Taiwan, South Korea, Singapore and Brazil should be noted in particular).

Industrialization for Export Markets

The immediate target of import substitution policies is to meet the requirements of the domestic market. But at the same time it was presumed that when a level of industrialization was reached, the surplus production would "spill over" into the export market (UNIDO, Promotion, 7). But as was stated above, the "spill over" was not realized in a large number of industries. Experience shows that import substitution does not form a firm basis for an eventual manufacturing export drive in the case of many developing countries. Thus, export expansion should be taken as a separate policy objective and be incorporated into overall industrial planning.

The strategy of export oriented industrialization, essentially depends on the lines of the Theory of Comparative Advantages. It involves the promotion of industries, the production of which fits the country's factor endowment the best. Since labour is the abundant factor in many developing countries, these are generally labour-intensive industries. But some developing countries have also been successful in the export of advanced technology products of various types.

In pursuing export oriented policies the emphasis between home and foreign markets may change according to the stage of industrial development (UNIDO, Promotion, 8). In the early period of industrialisation the emphasis may be placed on domestic market. But even at this stage it is necessary to incorporate the basis for an export expansion in the industrial structure. As industrialization develops the basis can be expanded and the manufacturing sector can assume an increasing responsibility to meet foreign exchange reserves of the country. But in the long run export-oriented industries must form an integral part of a development programme.

The major effects of export oriented industrialization are to improve balance of payments, introduce competition in the economy and increase productivity by bringing out an efficient allocation of productive resources. It has the additional advantages of imposing international standards of quality and performance on local manufactures in the developing countries. Competition with foreign producers at international markets will induce domestic manufactures to seek ways and means for the development of management and technical skills and thus reduce prices and increase quality.

But there are some serious handicaps in pursuing export oriented policies. The success of such policies depends for the large part on the overcoming of these obstacles.

1. Cheap labour: Although labour is the abundant factor of production in developing countries, it is not necessarily cheap in economic terms (Kreinin, 237). To make it economically cheap requires to raise it to a minimum level of economic efficiency. The creation of an industrial labour force may not be an easy job. Because it requires a lot of social overhead investment in education and health, apart from public utilities.

2. High costs: Industrialization for export markets may encounter numerous problems on the supply side. One of them is the high costs of production. To make high cost manufacturing more competitive in world markets, the Government must provide financial incentives in the form of export subsidies and tax rebates for their export industries. Of course, it increases the burden on the Government budget, which has a limited income capacity in most developing countries.

3. Lack of skill and marketing experience: Developing countries are expected to enter markets in which their competitors are firmly established and have substantial experience. But developing countries suffer from the lack of technical know-how and marketing experience. Insufficient attention to international standards of quality, design and packaging is a major handicap to the export efforts of many developing countries. Therefore governments of these countries must

assume considerable responsibility in marketing of industrial products and establishing international networks of marketing outlets, in addition to the promotion of export-oriented industries.

4. Overvaluation of national currency: In most developing countries exchange rates are held constant in spite of the high inflation rates. This implies an overvalued national currency and discourages exports. Therefore, exchange rates should be adjusted as domestic prices increase, so that inflation will not reduce the ability of competition of manufactured goods in overseas markets.

5. Low external demand: An export-oriented policy may encounter equally serious problems on the side of the external demand. It should not be ignored that this pattern of development depends for its success on the external demand conditions and commercial policies in the older industrialized countries. Empirical studies show that demand elasticity of manufactures is greater than that of the primary products (Nurkse, 37). But within the group of manufactures, demand is not expanding so rapidly for the labour-intensive manufacturing goods as it is for the sophisticated heavy industry products. Thus, industrial development plans should depend on diversification and a shift should be envisaged from lighter to heavy industries in the long run.

6. Protectionist policies in industrialized countries: The present tariff and non-tariff barriers imposed by the industrialized countries on the manufacturing exports of the developing countries present a great obstacle for the expansion of the latter's export-oriented industries. These are generally labour-intensive industries in which the developing countries have comparative advantages. In industrialized countries production factors in these fields of production are comparatively less efficient. Thus from the economical point of view, government inducement of the transfer of these factors to the more competitive industries will increase the overall welfare of the industrialized countries (Kreinin, 304). But at the present time the prospects for elimination of "voluntary" and other tariff and non-tariff restrictions on the products of the developing countries do not seem high. While multinational concessions granted in

GATT negotiations are often extended to the developing countries without reciprocity, these concessions usually apply to commodities that are too sophisticated for them to manufacture. Indeed, when tariff rates on goods produced in the developed countries were lowered, labour-intensive goods, such as textiles were placed under strict quantitative restrictions. The Generalized System of Preferences, depending on the free entry of manufacturing exports into the markets of the industrialized countries came to provide very limited help, due to the protectional attitudes of the industrialized countries.

7. Discriminatory tariff structure in the industrialized countries: Tariff structure of the developed countries is discriminatory against the developing countries. As will be seen in table 1, tariff rates increase with the degree of product processing.

Table 1

Average Nominal and Effective Tariff Rates
in the Industrialized Countries

Stages of fabrication	Weighed Averages of Duties		Imports from Developing Countries	
	Nominal	Effective		
1	4.6 %	4.6	5,663.3 million $	71.2 %
2	7.9	22.6	1,896.8	23.8
3	16.2	29.7	231.4	2.9
4	22.2	38.4	169.0	2.1

Source: Bela Balassa, "Tariff Protection in Industrial Nations and Its Effect on the Exports of Processed Goods from Developing Countries", Canadian Journal of Economics.

In many cases, rates are low or non-existent on raw materials but rise gradually with the degree of processing or fabrication. For example, duties on iron ore are generally negligible, but rates on ingots and other primary steel products are quite high. Similarly, hides and skins are admitted duty free into developed countries, but tariffs imposed on leather imports are high. Such a tariff structure means that effective rates of protection on the finished products are much higher than the nominal rates. The tariff structure certainly discourages local processing of the products which the developing countries export. In other words, it reinforces the incentives of the non-industrial countries to export goods in their raw form (Todaro, 325). To reverse this structure, the industrialized countries should extend the tariff concessions on the manufacturing exports of the developing countries in the context of the Generalized System of Preferences.

Regional Trade Organisations among Developing Countries

Since it is difficult to gain access to the vast markets of the industrialized countries, as discussed above, the developing countries may expand their markets through regional integration. Integration provides the opportunity for industries to take advantage of the economies of large-scale production. An export industry can only be successful in world markets if it makes use of economies of scale.

In the absence of integration, each separate country may not provide a big enough domestic market to enable local industries to lower their production costs through economies of scale. Under these conditions, import-substituting industrialisation will typically result in the establishment of high-cost, inefficient local industries. Alternatively, elimination of trade barriers among a group of countries and forming an economic integration, such as a free trade area or a customs union, will enlarge the size of the market, induce more technologically sophisticated production methods and increase the efficiency in the allocation of resources. By removing trade barriers the member countries may enter into co-ordinated planning of industrial expansion. It requires the pooling of resources of the member countries. Building the same industry in two or more adjoining nations and protecting them against the imports of each other may typically lead to undercapacity production and hence the waste of scarce resources. In the case of a co-ordinated industrial planning each industry may be established at the most suitable location in the region and may attain benefits of a unified large market. It is especially suitable in those industries where economies of scale are more significant, e.g. fertilizer and petrochemical industries, iron and steel industry, machine tools and mechanical industries.

At present, only some 27 % of developing countries's exports of manufactures go to other developing countries. A rapid growth of trade between developing countries could have a marked impact on their growth through gains in efficiency. However, such trade is not easy to achieve. The developing countries will require a patient and protracted negotiation effort to achieve substantial increases in trade with each other.

Trade between developing countries is not, of course, a substitute for trade with high income countries, but rather should be a complement to it. Only in such circumstances can there be a progress in world economy.

<u>The Current Overlook</u>

The effort of industrialization in the developing countries on the international economy began to be important in the late 1960's. At that time, their exports of manufactures reached a sufficient level that caused concern to competing domestic manufactures and trade unions in industrialized countries (Hughes,21). The subsequent failure to lower tariffs on labour-extensive products have limited the growth of manufactured exports of developing countries. But supply constraints have also been as important as demand constraints. Furthermore, developments in world affected the developing countries very unfavourably. The 1974 - 1975 world energy crisis and the resulting high inflation with unemployment (stagflation) constrained high income country markets. And the steep rises in the prices of petroleum products increased the burden on the balance of payments of non-oil-producing countries substantially.

Although developing countries constitute more than 70 % of the world population, they generate less than 7 % of the world industrial production. It is a fact that, in spite of their serious efforts, the developing countries have not achieved significant advances in the export of manufactured goods. The world trade of manufactures is still dominated by high income countries. As will be observed in table 2, the share of developing countries in the world export of manufactures was slightly higher than 13 % during the period of 1973 and 1975. The table also shows that, roughly a quarter of their manufacturing exports goes to other developing countries. These figures are far behind what was envisaged by the Lima Declaration.

The present skewness in the structure of world trade is an important factor contributing unfavourably to the gap between the developed and the developing countries. The world oil crisis on the other hand has aggravated the industrialization problems of many developing countries and resulted in the underutilization of resources and constrained planning efforts.

Table 2

Network of Exports of Manufactured Goods (Excluding Iron, Steel and Nonferrous Metals, SITC (6+8)-(67-68)
(in $ million)

Destination / Origin	Years	World	%	Developed Market Economy Countries	%	Developing Countries and Territories	%	Socialist Countries	%
World	1973	113,740		86,850		17,990		8,655	
	1974	141,920		105,260		25,500		10,780	
	1975	149,010		106,360		29,230		13,110	
Developed Market economy Countries	1973	88,700	86,3	72,380	82,2	12,380	14,5	2,800	3,2
	1974	111,590	86,6	88,850	79,6	18,230	16,4	4,285	3,8
	1975	116,430	86,6	89,580	79,9	21,640	18,6	5,075	4,4
Developing Countries and Territories	1973	15,580	13,7	11,280	72,4	3,630	23,3	619	4,0
	1974	19,060	13,4	13,020	68,3	5,[illegible]0	27,4	779	4,1
	1975	19,920	13,4	13,550	68,0	5,4[illegible]	27,3	898	4,5
Developing Countries other than OPEC	1973	15,250	13,4	11,120	72,9	3,5[illegible]	23.0	587	3,8
	1974	18,690	13,2	12,830	68,6	5,070	27,1	745	4,0
	1975	19,570	13,1	13,360	68,3	5,290	27,0	875	4,5

Source: UNCTAD, Handbook of International Trade and Development Statistics, Supplement 1977, pp. 364 - 365

Thus, for the establishment of a new international economic order based on sovereign equality, interdependence and co-operation, the present structure of world economic relations should be changed. This objective was also emphasized in the "Lima Declaration on Industrial Development and Co-operation" which was adopted by the Second General Conference of the United Nations Industrial

Development Organization. As was recommended in the Lima Declaration, to facilitate the establishment of a new international economic order the developing countries should take the following measures:

1. Promotion of trade between themselves.
2. The harmonization and co-ordination of economic policies in the field of industry.
3. Creating an institutional mechanism, enabling consultation on common economic problems.
4. Co-ordination of policies with respect to the acquisition of technology, expertise, licences, equipment, etc. from the developed countries.
5. Support the present processes of economic integration and search for new forms of economic co-operation.
6. Establishment of producers' associations with a view to stabilizing the prices of their exports and prevent the decline in their terms of trade.
7. Countries with sufficient financial resources accept to share in the economic development efforts of the least advanced countries.
8. The sharing of experience in industrialization and technology by those who have already acquired this know-how. This knowledge may be of greater relevance than that acquired from highly developed countries.

Industrial Development and Manufacturing Exports in Turkey

Efforts of industrialization have a long history in Turkey. When the Turkish Republic was established in 1923 the country was devastated by continuing wars, and the nation was in a serious poverty. According to a study, per capita income was between $ 240 - 260 (1975 prices) in the early years of the Republic. (Hatipoğlu, 1)

The social and economic structure was very primitive. The economy was comprised of small communities, mostly small villages, and economic interaction between them was minimal due to lack of transportation facilities. A high majority of the population was illiterate. Agriculture and industry reflected poor economic and social conditions of the country.

The economic structure was an extension of the Ottoman era and it is a fact that the Empire had never been able to set up a domestic economy, largely due to the pressure of the external powers.

There were so many factors to obstruct the accumulation of capital and industrialization in the country. First of all, the level of savings did not reach a reasonable level, because of the low per capita income. The infrastructure of the country was insufficient for the setting up of a co-ordinated industry. Disintegration and small size of the markets, reflecting low purchasing power of the people, would not allow for the industrial enterprises using modern technology. Under these conditions the nation had to import all its necessities from abroad, almost from needle to thread.

Kemal Atatürk and his friends had the belief that economic development was the prime condition for the establishment of a politically independent modern country. Hence, the founders of modern Turkey were determined to further economic development by using all possible means. Vast natural resources and the strategical position of the country together with the enthusiasm of the people resulted from the Independence War, and all this led to the creation of an atmosphere favourable for the development of the country (Hatipoglu 4).

Thus, Turkey has pursued a consistent development strategy since the early days of the Republic. This strategy has been aimed at modernizing the country in a system of mixed economy. In the economic field, the main emphasis was placed on industrialization and self-sufficiency. In the 1920's reliance on private enterprise to carry on the burden of economic development was the driving force of the economic policy. But after the 1929 Great World Depression, liberal economic policy gave over to state interference and a policy called "étatism", which depends on the direct involvement of the state in the establishment of industry, was adopted.

In this era some industrialization plans were prepared and put into implementation to speed up the development of the country. These plans were not economic development plans in its technical sense, as used today, but rather were lists of industrial investments to be carried out by the Government.

The first Industrialization Plan was executed between 1931 and 1934. It was a programme according to which the Government should take measures to build and operate some factories in the branches, like iron, ceramics, pulp, chemistry, textiles, etc. This plan was carried out successfully and increased industrial production significantly.

The first industrialization plan aimed at producing domestically some of the goods that were used to be imported from abroad and this was import-substituting in nature. After the success of the first industrialization plan a more comprehensive second five-year plan was prepared in 1937. But projects of this plan were not realized due to the constraints of the Second World War.

Although Turkey did not enter the Second World War the mobilization of a large army in preparation of a probable entry affected the development of the country. Therefore, state interference in the economy increased considerably during the war years.

After the War, a period of economic expansion was opened. In 1950 the first multiparty general elections were held and a liberal party came into power. More liberal economic policies were adapted. During the period of 1950 - 1960 large public investments were made, especially in the fields of agricultural mechanization and irrigation (35 % of the total public investments), and in the development of a large highway network (about 35 % of the total investments); the share of industry was 18 % of the total public investments at that period.

At the beginning of the fifties the Turkish industrial sector was relatively small, though the policy of "étatism" in the previous two decades had led to reasonable growth. During the period of 1950 - 1962 the tendency was heavily towards import-substitution with a strong protectionism to complement it.

The expansionist policies in the 1950's produced serious bottlenecks in the economy. Following the trade boom of the early fifties, imports and exports dropped and great difficulties started to arise. A high inflation developed, because an increasing share of public expenditure was met through deficit financing. Trade and foreign exchange restrictions were tightened to maintain the value of the Lira. High inflation and serious balance of payments difficulties finally compelled the Government to adopt the Stabilization Programme of August 1958 and the Lira was "de facto" devalued. Foreign trade difficulties were eased with the help of substantial foreign aid and a credit squeeze was put into implementation.

The Turkish Economy in the Planned Period

After the military coup in 1960, a new Constitution was adopted. The idea of economic planning was integrated into the Constitution as a reflection of great emphasis attached to planning. In fact, at that time the intellectuals of the country had the belief that economic development of the country could only be achieved by an overall economic development plan. Thus, the first Five-Year Development Plan came into implementation during the period of 1963 - 1967 and was followed by the second (1968 - 1972), the third (1973 - 1977) and lastly by the fourth Five-Year Development Plan.

During the planned period rapid industrialization has been the main goal. The target rates of development were 7.0 % during the first and second, 7.4 % during the third and 8.0 % during the fourth Five-Year Plan. Faster transformation of the economic structure from a traditional agricultural community to a modern industrial state has been a prominent feature of the development plans. Among other goals, elimination of unemployment, more equitable distribution of income should also be noted.

The growth and pattern of output during the three-plan-periods went indeed a long way towards the achievement of the main objectives of the plans. The Turkish economy attained a fairly high rate of growth in real terms. As will be seen in table 3, the actual rates of growth have been slightly below the target rates. In fact, during the first three Five Year Development Plans the average rate of growth has been 6.7, a figure which compares favourably with many of the OECD countries. In terms of sectors, as will be observed in the table, industry has grown at a considerably higher rate than agriculture.

Table 3

The Average Growth Rates (%)

Sectors	First Plan A	First Plan T	Second Plan A	Second Plan T	Third Plan A	Third Plan T	Fourth Plan T
Agriculture	3.2	4.2	3.1	4.1	3.3	3.7	5.3
Industry	9.7	12.3	7.6	12.0	9.9	11.4	9.9
Services	7.8	9.3	7.6	6.5	7.9	6.8	8.5
Overall rate of development	6.7	7.0	6.9	7.0	6.5	7.4	8.0

A: Actual

T: Target

Source: Five-Year Development Plans

The share of fixed investments in the Gross National Product was increased from 16.0 % in the first plan period to 20.2 % in the third plan period, of which 14.2 % and 16.0 % were met by domestic resources respectively, as will be observed in table 4.

Table 4

Sources of Capital Accumulation as percentages of GNP

	First Plan		Second Plan		Third Plan	
	Target	Realized	Target	Realized	Target	Realized
The share of fixed investments in GNP	18.3	16.0	21.3	16.1	21.9	20.2
- Domestic resources	14.8	14.2	19.4	15.5	21.1	16.0
- Foreign resources	3.5	1.8	1.9	0.6	0.8	4.2

Source: The Third Five-Year Development Plan

Table 5 shows the sectoral distribution of investments in the development plans. It will be understood from the table that a higher proportion of investments was made in industry, particularly in the manufacturing industry, as compared to the agricultural sector.

Table 5

Sectoral Distribution of Investments
(as percentages of total fixed investment)

Sectors	First Plan		Second Plan		Third Plan		Fourth Plan
	Target	Realized	Target	Realized	Target	Realized	Target
Agriculture	17.7	13.9	15.2	11.1	11.7	11.8	12.2
Mining	5.4	5.6	3.7	3.3	5.8	3.7	6.1
Manufacturing	16.9	20.4	22.4	26.8	31.1	28.2	27.4
Energy	8.6	6.5	8.0	9.0	8.5	7.4	10.6
Others	51.4	53.6	50.7	49.8	42.9	48.9	43.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: The Fourth Five-Year Development Plan

The above referred figures imply that in the planned period Turkey has become more modern and more industrialized. The economy underwent a considerable change in its traditional structure. The contribution of the industrial sector to the Gross Domestic Product increased from 14.3 % in 1958 to 22.0 % in 1978, while that of agriculture declined from 45.1 % to 25.2 % during the same years (Table 6). As industry absorbed a growing share of the nation's resources, its contribution to the Gross Domestic Product increased accordingly, but it is still outranked by agriculture.

Table 6

Sectoral Contributions to GDP
(%)

Years	Agriculture	Industry	Manufacturing
1958	45.1	14.3	12.5
1960	40.9	15.3	12.6
1962	39.4	16.1	13.6
1963	39.3	16.0	13.9
1964	36.8	16.9	14.2
1966	34.5	18.5	15.9
1968	30.7	20.1	17.1
1970	30.3	19.6	16.7
1972	28.7	21.1	18.1
1974	28.5	20.7	17.9
1976	28.3	19.6	16.6
1978	25.2	22.0	19.2

Source: State Institute of Statistics and State Planning Organization

In 1977 the share of manufacturing in industrial production was 94.0 %. Mining and energy constituted 3.9 % and 2.1 % respectively. As table 7 reveals, in the planned period the proportion of consumer goods in manufacturing industry decreased while that of the intermediate and investment goods increased. This implies the realization of a diversification of the industrial sector, as was envisaged by the Plans.

Table 7

Composition of Manufacturing Industry
(%)

Subsectors	1962	1967	1972	1977
Consumer Goods	62.3	52.9	46.6	38.3
Intermediate Goods	27.8	35.4	39.4	44.2
Investment Goods	9.9	11.7	14.0	17.5
Total	100.0	100.0	100.0	100.0

Source: Third Five-Year Development Plan

However, the growth of output and investments in industry did not produce a significant increase in employment, as was expected in the Development Plans. Table 8 indicates that employment in the industrial sector reached 14.2 % in 1977 from 8.4 % in the year before the Planned Period. The slow rate of increase in industrial employment may be attributed to a large extent to the adoption of labour-saving techniques. Thus, unemployment continued to be one of Turkey's major problems during the Planned Period.

Table 8

Employment in the Industrial Sector
(as percentage of total employment)

Years	Industrial Employment
1950	6.9
1955	7.0
1960	7.9
1962	8.4
1967	9.5
1971	11.0
1972	11.4
1977	14.2

Source: E. Han, Türkiye'de Sanayileşme Süreci ve Stratejisi, İTİA, Eskişehir, 1978, p. 85

In the process of industrialization economic relations with other countries became of great importance to the Turkish economy. To achieve a reasonable rate of growth Turkey had to import a large part of capital goods and equipment from abroad. Therefore, it is extremely important for the industrialization to expand export earnings to a level sufficient to foster a reasonable rate of development. The composition of Turkish exports is similar to that of a typical developing country, i. e. a large proportion of export earnings is derived from a few agricultural staples. For example, five products, such as cotton, tobacco, hazelnuts, raisins and chromium used to provide more than 60 % of the Turkish export earnings. However, in the Development Plans diversification in the export structure and expansion of industrial exports were recognised as necessary conditions for a healthy development.

The composition of Turkish exports during the planned period is indicated in table 9. As will be understood from the table, although there has been an increase in the share of industrial goods, it is still agriculture that meets a very high proportion of the Turkish export earnings.

Table 9

Percentage Shares of Major Commodity Groups in Turkish Exports

Years	Agricultural products	Industrial goods	Mining
1963	79.5	17.6	3.0
1964	77.8	18.5	3.7
1965	72.8	17.7	4.5
1966	79.2	16.1	4.7
1967	81.6	14.4	4.0
1968	81.5	13.3	5.2
1969	75.0	18.5	6.9
1970	75.2	17.2	7.6
1971	72.7	21.4	5.9
1972	68.6	25.0	5.7
1973	63.2	31.6	4.2
1974	55.6	37.1	5.7
1975	56.6	35.9	7.5
1976	62.2	34.6	3.2
1977	58.6	38.4	3.0
1978	66.9	32.0	1.1

Source: Ministry of Finance,
Aylik Ekonomik Bülten

In fact, the proportion of industrial exports in the total industrial production was only 14 , % in 1978. The low increase in Turkish industrial exports can be explained by import-substitution policies, as will be discussed below. The efforts to expand the export of manufactured goods are handicaped by high costs, low quality, poor packaging, lack of marketing experience and an intensified bureaucracy. At present, the main industrial export commodities are food and beverages, textiles, hides and leather products. There has also been a notable progress in the exports of chemicals, petroleum products, glass and ceramics. Industrial exports of Turkey, namely commodities, are presented in table 10.

Table 10

Industrial Exports - Commodities
(in US $ million)

	1970	1971	1972	1973	1974	1975
Food and beverages	41.3	53.1	87.4	149.1	146.1	128.6
Olive oil	0.2	0.9	2.9	47.8	15.1	17.7
Sugar	4.0	3.1	23.5	1.0	-	-
Oilcake	20.8	22.1	28.0	40.4	39.8	29.4
Others	16.3	27.0	33.0	59.9	91.2	81.5
Textiles	25.9	37.5	54.8	105.6	149.4	127.5
Cotton textiles	12.5	7.7	11.4	14.0	11.3	11.4
Wood and Printing products	2.7	4.9	4.9	8.0	2.0	2.1
Hides and leather products	4.6	10.6	21.5	45.3	72.3	64.9
Chemicals	8.7	9.5	10.7	19.3	29.3	32.8
Petroleum products	0.6	2.5	22.7	49.3	85.9	36.1
Cement	-	-	-	-	8.0	24.2
Glass and ceramics	1.0	2.7	3.7	6.6	12.9	17.9
Non-ferrous metals	11.4	5.7	11.2	22.3	34.0	12.7
Copper (blister)	6.1	1.9	-	5.0	21.6	5.4
Metal products and machines	1.8	2.7	4.1	8.6	16.1	13.9
Electrical machines	0.3	0.6	0.9	1.5	1.0	0.8
Others	2.1	15.4	15.3	5.8	44.3	41.4
Total	100.3	145.2	237.2	430.4	601.3	502.9

Source: Ministry of Finance, Aylık Ekonomik Göstergeler

Outward Orientation of the Turkish Economy

Turkey has followed a system of mixed economy since the 1930's. As a general rule, the public sector enters into fields considered to be of vital importance or where the private sector is unwilling to invest either because of shortage of financing capacity of because of low financial return. In 1936 Turkey entered the 'planned period'. The Development Plans are imperative for the Government sector and indicative for the private sector. According to the Development Plans industrialization is the only way of sustained economic growth. Besides, it is a means of absorbing surplus manpower from agriculture and reducing dependence on foreign aid. In the pursuit of these objectives the policy of import-substitution was officially adopted. In fact, the first Five-Year Development Plan emphasized import-substitution, especially in the field of consumer goods, the second in intermediate goods and the third in capital goods industries. The major consequences of this policy have been twofold:

(1) A fast growth of industries catering to the home market, but generally at the expense of high-cost production;

(2) A slow growth of industrial exports.

Inward-looking orientation of industry implied the development of industries in which Turkey has no comparative advantage. The high cost and low quality production which was made possible by means of various restrictions, like customs duties, quotas, exchange controls, absolute prohibitions, etc. was naturally uncompetitive in overseas markets. Fiscal incentives for industrial exports were not sufficient to offset the disadvantages arising from the industrial structure. Moreover, the maintenance of an over-valued Lira at the official exchange rate increased the difficulties encountered at the export of industrial goods.

Eventually, the pursuit of import-substitution policies have made the balance of payments deficit as one of the major problems of the present time. Table 11 shows the amounts and sources of balance of payments deficits between 1971 and 1978.

Table 11

Balance of Payments of Turkey (1971-1978)
(in US $ million)

	1971	1972	1973	1974	1975	1976	1977	1978
Exports	677	885	1.317	1.317	1.401	1.960	1.753	2.288
Imports	-1.171	-1.563	-2.099	-2.086	-4.739	-5.129	-5.796	-4.599
Trade Balance	- 494	- 678	- 782	- 769	-3.337	-3.169	-4.043	-2.311
Invisibles (net)	379	640	1.235	1.235	1.450	853	645	889
Current Accounts Balance	- 109	- 8	471	484	-1.864	-2.301	-3.385	-1.420
Capital Transactions Balance	344	160	433	433	550	535	1.517	1.032
Changes in Reserves (+ dimunition)	- 345	- 564	- 728	- 728	417	112	565	- 45

Source: Ministry of Finance, Aylik Ekonomik Göstergeler

Balance of payments deficit has been a permanent feature of Turkish external economic relations since 1946. In the planned period the failure to increase sufficiently the exports of industrial goods made the country dependent on foreign resources. As an oil importing country the steep rise in oil prices in recent years intensified the balance of payments problem. As will be observed in the table, the deficit in the trade balance rose to $ 3.337 million in 1975 and to $ 4.043 million in 1977 from $ 769 million in 1974. According to the 1978 figures, oil imports were $ 1.297 million, and total export incomes were $ 2.288 million, i.e. oil imports were 56.7 % of the total export earnings. The rising oil prices thus entailed that imports of non-petroleum products had to be curtailed. In the phase of declining foreign aid and the rapid increase in import demand, the economy has been trapped in the current balance of payments crisis.

But it should be noted that the rise in the value of petroleum imports is a problem largely separate from the basic factors affecting the balance of payments deficits in Turkey (Okyar, 13). The main reason is highly related with the development strategy. As a result of import-substitution, economic development remained highly dependent on imports, while exports remained practically stationary.

Moreover, high inflation, especially after the 1970's has aggravated the balance of payments. Indeed, the Turkish economy has never been free of inflationary tendencies since the Second World War. Between 1963 and 1969 the average annual rate of inflation in the Turkish economy was 5 %, a figure distinctly higher than the OECD average, which was 3 % during the same period (Okyar, 19). But after the early 1970's the pace of inflation increased and except in 1975 it became two to three times higher than price rises in the OECD countries. In 1978 the rate of inflation rose to 50.8 % in Turkey, as will be seen in table 12.

Table 12

Rates of Inflation

Years	OECD Countries	Turkey
1970	5.8	6.7
1971	5.6	15.9
1972	5.0	18.0
1973	7.0	20.5
1974	12.0	30.0
1975	11.3	10.1
1976	7.0	15.6
1977	8.2	24.1
1978	-	50.8

The high inflationary tendencies in the economy caused the overvaluation of the Lira at official exchange rates, despite the frequent adjustments in the value of the Lira after 1971. Thus it affected balance of payments unfavourably.

It is an absolute necessity for Turkey, at this stage of development, to move towards an export-oriented economy. The Turkish economy has been geared towards absolute protection and towards bureaucratic interferences of all kinds for a long time. This policy produced serious unfavourable effects on the economy.

Foreign trade should now become an active factor in the development process. The enlargement and diversification of exports must be a key element in economic policies. Deliberate policies are urged to be adopted to lead the economy towards the outward orientation of industry and foreign trade. This involves abandoning of the goal of self-sufficient industrialization under absolute protectionism. Thus, emphasis should be given to selective industrialization in compliance with the rules of comparative advantages. Moreover, means and ways should be sought to increase collaboration with other nations.

To bring about the reorientation of the Turkish economy we may refer to some specific measures with regard to marketing, tax rebates and elimination of bureaucratic formalities.

a) Marketing: Marketing of Turkish industrial products abroad is a major problem. Some industries with export potential are not able to sell their products at foreign markets due to lack of marketing experience or necessary means. The Government should help such industries to gain access to overseas markets. Trade representatives in foreign countries may assume an important function in this respect. Besides, specialized export companies or joint marketing associations may be established by a group of firms.

b) Tax rebates: Tax rebates are necessary to offset the favourable effects of higher domestic costs and raise the ability of competition of national products. Tax rebates may also be used to induce a structural change from the exports of simple technology labour-intensive products to the products of more sophisticated technology.

c) Elimination of bureaucratic formalities:
Export formalities are extremely cumbersome in Turkey. It has been estimated that a single export activity requires the fulfillment of some forty formalities and authorizations (Okyar, 30). Doubtless it is a major obstacle for the achievement of a large-scale growth in exports.

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