Turkey Moves East In The Face Of Economic Collapse

TURKEY

Turkish Foreign Minister Ihsan Sabri Caglayangil is scheduled to visit Moscow this month to conclude a Friendship and Cooperation Agreement with the Soviet Union — a step short of a non-aggression pact. At the same time the Soviets are reportedly studying a list of basic industrial projects totaling $7 billion for which Turkey seeks foreign financing.

In early December 1976, Turkey and the Soviet Union signed an economic cooperation agreement in which the Soviets agreed to extend $1.2 billion to Turkey for six major industrial and power projects. There have been also a series of substantial economic and technical cooperation agreements with other socialist countries such as Iraq, Rumania, Bulgaria as well as Yugoslavia and the German Democratic Republic (DDR), during the past six months.

Turkey's turn to the East for economic aid to meet its development needs has been prompted by an economic collapse which has reached its worst dimensions in the past six months. Viewed in light of newly emerging active cooperation among socialist sector, Third World, and Western European countries towards a new monetary system, Turkey's reorientation gains more significance.

Economy Is Threatened With Collapse

According to the latest reports in the Turkish press, massive cutbacks on imports have now forced production in many vital sectors of the economy to a point of total shut down. Because of the severe foreign currency shortage the government simply is not able to make necessary imports of raw materials and goods that are crucial for the maintenance of production. It is also reported that during the last couple of months even the imports for defense needs have been cut except those considered an emergency.

This situation has been the result of a contradictory economic and foreign policy on the part of the Turkish government, which, while trying to keep up with an ambitious development program and unwilling to impose genocidal austerity on the population, has been reluctant to make necessary political decisions to reduce its vulnerability to economic pressures of the International Monetary Fund and Wall Street banks which have cut all credit to Turkey for over a year now, demanding intolerable austerity measures on the population of Turkey.

A study, released in November, by the Organization for Economic Cooperation and Development (OECD), the economic organization of the Western industrialized nations, calls for austerity measures which if carried out would lead to a concentration camp economy. The study states that Turks should abandon their goal of accelerated industrial and agricultural growth and should instead devote themselves to "reorientation of the growth process" toward labor-intensive industrial projects. The OECD is also demanding that Turkey cut its "excess imports" and implement "firm measures . . . to restrict the further growth of domestic demand for consumption-type expenditures." Such "firm measures," says the report, include across-the-board wage restrictions, introduction of income ceilings, and dismantling the "unprofitable" state sector enterprises.

Thus, Turkey has lived over a year now on a day to day basis, and while resisting the imposition of "official" austerity, the government's provisional defensive measures have created conditions that are almost as devastating as the International Monetary Fund (IMF) would like to impose.

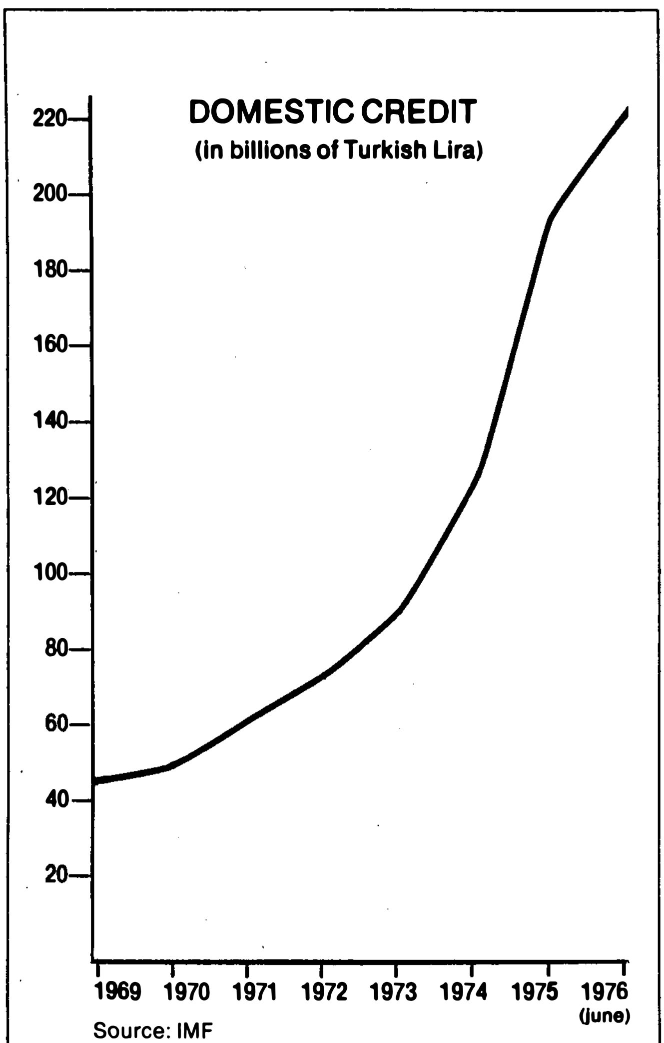
One of these measures, the so-called Convertible Turkish Lira deposit accounts, has been solely responsible for much of the chaos. Opened in May 1975, these deposits allowed foreigners inside and outside Turkey to deposit foreign currency at a commercial bank, reclaimable after a fixed term, mostly between six months to a year, at extremely favorable rates of interest — officially 1.75 percent above the market rate, going as high as 8-9 percent above. Then the Central Bank buys the foreign currency from the commercial banks in return for Turkish Lira. Through this system, the Central Bank essentially borrows foreign currency for a short term at extremely high interest rates, also guaranteeing to make good any devaluation in the Turkish currency.

At the beginning of 1976 some $1 billion had been deposited in these accounts. But the critical point came during April 1976, when foreign currency reserves stood at around $1 billion, just about equal to the amount of foreign currency deposited in the Convertible Lira accounts. At that point there was a risk that all the money in these accounts would be reclaimed overnight. Taking into account this possibility, the Central Bank began, even at the beginning of 1976, to drastically slow down the transfer of foreign currency by the bank to pay for imports. The Central Bank drew up a list of priority imports including defense needs, crude oil, raw materials and industrial machinery, and the imports of everything else were then delayed between four and six months. The government also started an "export mobilization" in the first part of 1976, by exporting all the stocks of agricultural products from the previous years. This alone caused a considerable rise in food prices in the country.

All this was done in order to secure enough foreign currency reserves against a possible risk of default over these deposits. The measures have stayed in effect and continue to be extended into many other areas.

The Central Bank also attempted to establish another scheme with the collaboration of the West German Dresdner Bank to funnel savings of Turkish gastarbeiter from Germany to Turkey. But the scheme failed. Despite favorable conditions the workers still felt that their money was safer in German banks. The government also fixed a special exchange rate for workers living abroad, but this measure too did not solve the problem; instead it brought the Lira to a step short of actual devaluation.

Despite all the restrictions on imports, at the end of 1976 Turkey's trade deficit was $3.1 billion, and the foreign currency reserves were under $900 million. The official unemployment rate is about 13 percent, but in actuality it is recognized to be over 20 percent. Inflation has been rising at an annual rate of between 20-30 percent, with the government printing press working overtime. It is reported that the government has printed more money in less than two years than all the money printed in the last 12 years.

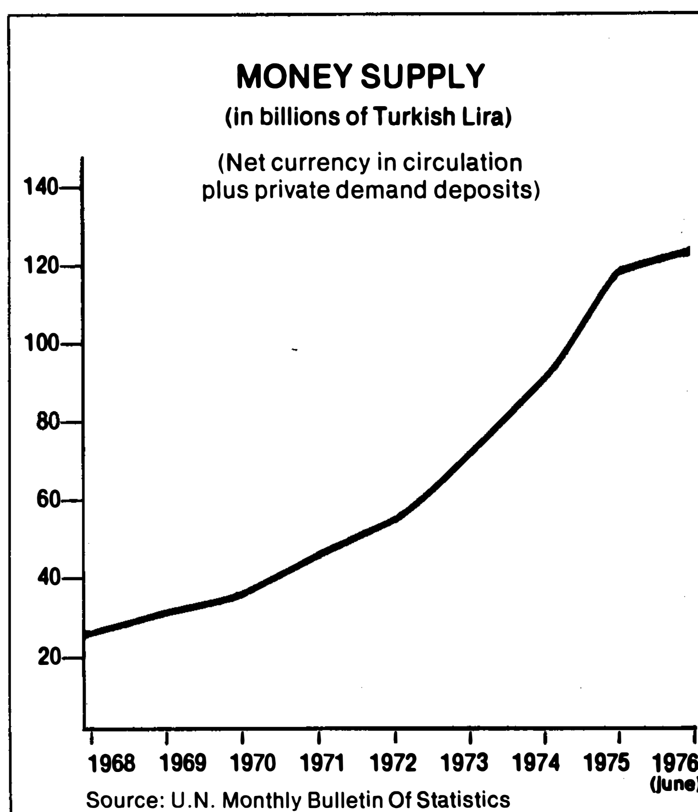


Turkey: Total Reserves

(END OF PERIOD)

1970		431
1971		701
1972		1,290
1973		1,757
1974		1,520
1975		909
1976	OCT	736
	NOV	739
	DEC	967
1977	JAN.	857
	FEB	944

(17.5 TURKISH LIRA= $1.00)



The rate of increase in consumer prices in Turkey is the third highest among the OECD countries. It is reported that during the months of July and August inflation of retail food prices was 35 percent. Just as an example, an average worker must spend a day's salary to purchase 1 kilogram of meat. All other animal products are virtually inaccessible for most of the population. Waiting lines stretching many blocks to purchase such products as meat, gas, margarine, butane gas, rice, coal for home heating and so on, have not been uncommon throughout the year 1976.

The deteriorating conditions of the urban centers is another alarming threat. In the largest cities the social services are completely eliminated, with garbage piling up on the streets, and the municipalities are not even able to pay the salaries of their employees before at least a three months delay. One of the main factors responsible for this situation is the inability of the government to aid cities. While unemployment is increasing rapidly, internal migration from the countryside to the urban centers has begun to pose a threat of serious social explosion. It is a dangerous fact that 60 percent of the population of Turkey's largest city and industrial center, Istanbul, are squatters.

To summarize the situation, the Turkish economy and national development have been dependent on heavy borrowing and foreign investments, and on remittances from the Turkish workers in Europe from about 1973. As a result of the economic crisis in Europe, the workers' remittances began to drop in 1976. This had a multiple effect on Turkey. Prospects for sending additional workers outside were shattered, and with it a major source of foreign currency. Large numbers of workers have begun to return to Turkey, adding to the soaring unemployment. With the cut off of credits from the New York banks, Turkey had no choice, after a certain point, but to turn somewhere else for assistance in its indispensible development drive.

Worker Remittances

Millions of Dollars

1971	471.4
1972	740.2
1973	1,183.3
1974	1,426.3
1975	1,312.3
1976	1,110.0

Turkey's Turn To The East

The assistance of the socialist sector in the development of Turkey has been primarily in the heavy industry and energy sectors. The expansion of cooperation with the Arab sector, particularly in providing Turkey's oil supply, is viewed as being closely related and complementary to this assistance.

Last December, the Soviet Union agreed to extend a $1.2 billion credit to Turkey for six major projects. This agreement has been a landmark in the growing economic cooperation between the two countries. According to the agreement the Soviet Union provides credit for the expansion of the gigantic steel plant in Iskenderun, on the southern coast of Turkey. The plant was initially built by Soviet financing. In addition Turkey will get credit for two major thermal power plants, and two plants for manufacturing turbines, generators, and heavy duty electric engines.

The Soviets are also assisting in doubling the production of a Soviet-built aluminum plant and are studying 20 more projects whose combined cost is $7 billion. The projects include refinery building and expansion, dams and hydroelectricity plants, coal and ore mining and processing. A dam has already been completed at the Turkish-Soviet border with Soviet financing. The Soviets are also lending Turkey electric power across the border.

Turkey buys electricity from Bulgaria, and similar deals are underway with Iraq, Syria, and Iran to fill the power shortage in the industrialization drive. Talks are also in progress for construction of 7 other power projects — including one to be built by Czechoslovakia, one by Poland, and 3 by Japan.

One of the most significant projects has been the 981 kilometer pipeline stretching from Iraq's Kirkuk oil fields to Iskenderun. Inaugurated last month, the pipeline will pump 35 million tons of crude annually to the Mediterranean. Built by German-Italian cooperation at a total cost of $600 million, the pipeline will provide Turkey up to $110 million in transport fees annually. Turkey also will be able to buy 35 percent of the oil pumped, meeting a large portion of its crude consumption need. During the visit of Iraqi Prime Minister Saddam Hussein to Turkey, the construction of a large-capacity refinery in Iskenderun, and another pipeline from Kirkuk to Iskenderun to transfer natural gas were discussed.

The importance of the Iraqi-Turkish pipeline became even more obvious when in October Turkish Prime Minister Suleyman Demirel presided at the groundbreaking ceremony for the construction of a large-capacity refinery near the capital, Ankara. The refinery, called the Central Anatolian Project, is being built by Rumania, and it will receive its crude through a pipeline from the Kirkuk-Iskenderun line.

In the context of the recently signed Economic and Technical Cooperation Agreement between Turkey and Rumania, Rumania will also conduct coal surveys in several parts of Turkey. Technical assistance will be given to determine the exact potential of Ankara coal beds and the Ankara and Thracian lignite reserves. Rumania will supply Turkey with drilling machinery for coal as well as oil.

There are studies for the construction of a refinery at the Black Sea coast of Turkey with Soviet aid, and this is believed to be closely connected to the off-shore oil surveys conducted jointly by the Soviet Union and Rumania in the Black Sea.

During recent months, there has also been a rapid improvement of relations over economic cooperation with the other socialist countries.

At the end of last year, a delegation headed by Deputy Prime Minister Necmettin Erbakan visited the German Democratic Republic to work out the details of a Technical and economic cooperation agreement. A DDR trade delegation has also been to Turkey. Trade between Turkey and Poland has increased 85 percent in 1976, and an agricultural cooperation agreement has been signed with Yugoslavia.

Turkey has been simultaneously engaged in negotiations for a series of deals with Japan and Italy. This, too, has a definite relationship to the other engagements with the socialist and Arab countries. For example, it has been rumored in Ankara that Soviet Premier Kosygin encouraged Demirel to contract with Japan for a steel plant project. In fact, a consortium led by Japan's Nippon Kokan and Nippon Steel has been contracted recently for the steel complex in eastern Anatolia. Two other Japanese companies, Mitsubishi and Mitsui, have also made deals to handle units of a petrochemical complex of the Turkish State Petrochemical Corporation.

In December, another delegation led by Erbakan visited Italy and an economic cooperation agreement was signed. The Italians have agreed to extend assistance to Turkey for its fourth Five Year Plan, including coooperation in chemical, machinery, and electronics industries.

Turkish Oil Supplies Set

The supply of oil is not a major problem for Turkey. Most of its oil is imported from the Arab countries through bilateral deals. Turkey's own crude production totalled 3 million tons last year, and it imported an additional 11 million tons. Libya has a standing agreement with Turkey to supply 3 million tons annually. With the opening of the Iraqi-Turkish pipeline, Turkey has solved a substantial portion of its crude consumption needs, since it will be able to buy over 11 million tons crude annually from the pipeline.

Greece: Military Budget, Political Pressure Hamper Greek Drive For Expanded Trade

GREECE

At the present time, the quite considerable industrial and agricultural development potentials of Greece are not yet certain to be realized. Greek Premier Constantine Karmanlis has devised the appropriate development policies, and Greece's Comecon and Third World trading partners have offered all the opportunities needed for their fruition. But Greek development hinges on the settlement of political questions inside the nation as much as on the campaign for a new world economic order.

Since Karamanlis came to power in the summer of 1974, he has sought to foster and expand state-owned industrial enterprises, spread mechanization in the country's dominant agricultural sector, exert government influence and, on occasion, outright control over private-sector investment and employment decisions, and generally undo the work of the 1967-74 military junta which subjected Greece to the effects of enormous profit repatriation by monetarist raw-material multinationals who continue to account for over 40 percent of investment in the country. In an economy largely dependent on agricultural exports but rich in mineral resources, Karamanlis has strengthened development ties to both Third World and socialist bloc nations, on whose trade and cooperation the actual development of the country's resources will most immediately depend.

In pursuing such policies, however, he has faced both heavy-handed foreign manipulation and a powerful opposition among right-wing business factions and their allies within his own government. These elements worked closely with the former military junta in auctioning off the country's productive capacities to foreign raw materials' interests with no objective of national development. Karamanlis, while committed to that objective, has actually strengthened his opponents in bloated military expenditure and in a quest for full membership in the European Economic Community rather than forthrightly aligning his nation with the policies of the developing sector.

Trade and Cooperation

Since 1975, Karamanlis has been actively seeking to expand trade ties to the neighboring Balkan socialist countries. It was Karamanlis who initiated the first Balkan Conference on Economic Cooperation and Security, in which Bulgaria, Rumania and Yugoslavia participated. A second Balkan Conference, after extensive diplomatic efforts by Yugoslavian President Tito, will be convened this year in Istanbul with Turkey a significant new participant.