AN ANALYSIS AND OVERVIEW OF THE ECONOMIC RELATIONS BETWEEN TURKEY AND THE EUROPEAN ECONOMIC COMMUNITY

DISSERTATION

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This study analyzes the economic relations between Turkey and the European Economic Community in the transition period of Turkey's membership in the Common Market. Turkey applied for membership in the European Economic Community (EEC) in 1959, and the association agreement was signed in 1963. Under the terms of the agreement Turkey's membership includes three stages; preparatory, transition, and full membership.

This study is divided into three parts: one dealing with the foreign trade between Turkey and the Common Market; the second dealing with labor migration from Turkey to the EEC member countries and its impacts on the development of the Turkish economy; the third dealing with the evaluation of Turkish domestic industry in the transition period and some predictions related to the future of the domestic industries. The data of the study were gathered from primary and secondary sources written on the subject.

The gradual establishment of the EEC-Turkey customs union started in 1976. Turkey started reducing tariffs on industrial imports from the EEC, and will progressively eliminate all other custom duties at the end of the transition period.

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The fundamental causes of emigration from Turkey to the western European countries were purely economic. Total labor surplus of Turkey increased substantially in recent years, reaching 13.3 per cent in 1977. Rapid population growth (highest in Europe), and inability of domestic industries to provide employment for new entries into the labor force were the main reasons for rapid increase in unemployment.

Input prices in Turkey are higher than in the EEC member countries. As a result, productivity is comparatively lower in Turkey than in the Community. Because of availability of cheap labor in Turkey, labor intensive manufacturing industries can compete with the EEC based companies.

Consistent with the objective of the study and based on the description and analysis of the gathered data, it is concluded in this study that (1) there is still a market potential for the traditional Turkish export goods in the EEC, and Turkey would have a competitive advantage in all her agricultural commodities except fresh fruits and vegetables, (2) Turkey will benefit the most from the application of Common Agricultural Policies among the new prospective countries, namely, Greece, Spain, and Portugal, (3) if Turkey joins the EEC as a full member, income distribution in Turkey would change in favor of wage earners, because availability of cheap labor was the main factor for attracting the foreign capital investments during the early stage of the transition period.

Based on the analysis of available data and review of the findings, several recommendations are made to alleviate some of the problems that exist in the transition period of Turkey's membership in the EEC. The suggested recommendations are: (1) the remittances of Turkish emigrant workers should be encouraged to move into investments in manufacturing industries other than traditional housing and land acquisition, (2) during the coming Fourth or Fifth Five Year plan periods, the choice of the areas of public and private investments have to be made more selectively; considering the competition between domestic and the EEC based companies when all tariff restrictions are abolished, (3) in order to increase productivity in agricultural sector, efforts to expand cooperative forming--mostly large scale--should be encourage through government support and other incentives.

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CHAPTER I

INTRODUCTION

The world wars provided ample warning of danger of conflicts to the western European nations. At the end of World War II, some small European nations decided to cooperate and to seek some form of united action in both the economic and political problems. The European movement passed through its most idealistic phase, and six European nations signed the Treaty of Rome on March 24, 1957, that established the European Economic Community (EEC) and Euratom. Turkey applied for EEC membership on July 31, 1959, and the membership agreement was signed in Ankara on September 12, 1963.

As in every developing country, the key to success of economic growth and social progress in Turkey lies in the full utilization and coordination of both human and physical resources. In present day, Turkey is passing through a critical stage of development. It represents a typical economy in transition, both in terms of economic thinking and of actual economic progress.

Political instability starting from 1971 has exerted a marked impact on the ups and downs of economic development.

The main problems which Turkey will be dealing with in the next decade are growing population, high unemployment, and political instability.

Statement of the Problem

This study was designed to determine and analyze Turkey's relations with the European Economic Community, and the effects of these relations on her economy. The research findings of this study can help Turkey in managing the EEC relationships, and provide alternative courses of action before she seeks full membership in the Community.

In this study, the economic environment of Turkey with its side effects on political and social lives of the country is examined briefly.

Purposes of the Study

The main purposes of this study are

1. To evaluate and analyze the economic relationship between the European Economic Community and Turkey;

2. To determine Turkey's economic problems in its transition period from associated membership to full membership in the European Economic Community; and

3. To make recommendations for the solutions of these transition problems and to suggest improvements in the future economic and political relationship between Turkey and the European Economic Community.

Hypotheses

The basic hypotheses of this study were the following.

1. Hypothesis 1.--Reduction in custom tariffs by the European Economic Community for Turkey's major export items will have a negative effect on the prices and quantity of Turkish agricultural goods.

2. Hypothesis 2.--Presence of Turkish workers in the European Economic Community member countries is considered very important for Turkey's economic development by Turkish labor and public sector representatives.

3. Hypothesis 3.--Representatives of the Turkish private sector will object to joining the European Economic Community as a full member at the end of the normal transition period.

Limitations in Scope

The relationships between the European Economic Community and Turkey cover many areas beyond the scope of this study. Many topics are not directly related to the objectives of this research. Therefore, the following delimitations are presented to clarify the purpose of this research.

1. The legal part of the relationship was not studied.

2. An evaluation and/or a criticism of previous agreements was not made.

3. The individual characteristics of all member countries were not studied, e. g., the EEC will be considered as a whole and analysis will be made from that standpoint.

Research Limitations

The limitations to this research are as follows.

1. The mail questionnaire sample for the EEC member countries was limited to the members of the European Parliamentary Assembly.

2. Questionnaires were prepared in English and Turkish and responses of interviewees and returned mail questionnaires in Turkish were translated back into English. During this process some statements lost their original meanings.

3. Due to the time and financial restrictions, the information from private sectors of member countries and Turkey were limited to available individuals during a two month visit to the selected Common Market countries and Turkey.

Definition of Terms

The following is a list of definitions of unfamiliar terms as used in this study.

Common External Tariff (CET). Common Market member nations are not only eliminating trade restrictions between them, but are also forming a common external tariff barrier. The CET nominally equals the arithmetic average of the 1957 duties of the four customs areas, with Benelux counting as one. CET has already been reduced substantially and is subject to further reduction in trade negotiations within the framework of the General Agreement on Tariffs and Trade (GATT).

Commission. The European Economic Community Commission is composed of nine members appointed by the national member governments by mutual agreement. Each commissioner has special responsibility for an area of Community affairs and the Commission president functions essentially as the chief executive of the EEC. It is the Commission that proposes Community policies and is responsible for the day to day administration of the EEC affairs.

European Development Fund. The Development Fund is an outgrowth of the EEC, created primarily for the purpose of joint administration of economic aid to less developed countries and territories presently or formerly associated with the EEC member countries. Development Fund investments are primarily directed toward social and economic overhead capital projects.

European Parliamentary Assembly. The parliament serves the EEC, the European Coal and Steel Community (ECSC), and Euratom. With 198 members selected by the nine national parliaments, it serves mainly as a forum for discussion and debate.

International Labor Organization (ILO). The improvement of working conditions throughout the world is the main purpose of the ILO. To this end, it collects and publishes valuable statistics pertaining to labor and wages and undertakes studies on specific labor problems. Now closely affiliated with the United Nations, the ILO membership includes most U. N. nations plus Germany and Switzerland.

Union of Chambers of Commerce and Industry. A semi-official body to which all private sector firms with ten or more employees belong, the union bore a major responsibility for allocating imports among private sector firms, and has represented the interests of the private sector in government deliberations on many subjects.

General Agreement on Tariffs and Trade (GATT). Formed in 1948 to reduce trade barriers on a broad scale by means of intergovernmental negotiations, applying to all signatories on a most-favored-nation basis, GATT provides a common code and a permanent forum for discussion and multilateral trade negotiations. All Western European countries, except Iceland and Ireland, are members, as are Canada and the United States, Czechoslovakia, Poland, Yugoslavia, most important Asian, African, and South American trading nations and Australia and New Zealand. In all, forty-nine countries are presently signatories of the GATT.

European Investment Bank (EIB). The Investment Bank functions under the auspices of the EEC to facilitate the financing of capital formation in the less developed regions of the Community. It also helps to finance projects that are of value to the Community at large but are beyond the means of the individual nations. Its capital is raised by the member countries.

North Atlantic Treaty Organization (NATO). An alliance of mutual defense established in 1949, NATO operates primarily in the military sphere but also fosters economic cooperation among its members, which include the United States, the Benelux countries, Canada, Denmark, France, Germany, the United Kingdom, Greece, Iceland, Italy, Norway, Portugal, and Turkey.

Free Trade Area. All restrictions to the free movement of goods are abolished between the participating countries. That is, all internal tariffs and quantitative restrictions are eliminated, although each member nation retains its own tariffs and quotas regulating trade with countries outside the free trade zone.

Customs Union. All tariffs and other trade restrictions among member countries are abolished, and a common tariff is applied to imports from nonmember countries.

Common Market. In addition to eliminating internal trade restrictions and imposing a common external tariff, the constituent countries provide for the free mobility of the factors of production. Thus labor and capital can move freely between member countries throughout the area.

Less developed, underdeveloped, developing country. These terms referred mostly to nonindustrialized countries in Africa, Asia, and South America which are basically agricultural, yet which are gradually improving their industrial and export economies.

Economic development. The process of growth in total and per capita income of developing countries, accompanied by fundamental changes in the structure of their economies, it seeks to increase the productive capacity of the economy and thereby increase national income.[1]

Research Methodology

Both primary and secondary sources of data were used in this research. Secondary information was gathered through a review of the periodicals and publications of the following organizations and institutions: The European Economic Community (EEC), United Nations (UN), U. S. Department of Commerce, Organization for Economic Cooperation and Development (OECD), General Agreements on Tariffs and Trade (GATT), International Labor Office (ILO), State Institute of Statistics (DIE), State Planning Organization (SPO), and Union of Chamber of Commerce, Industry and Commodity Exchange (Odalar Birligi) of Turkey.

Additional secondary data were obtained from the literature in international business, manpower planning and development, labor economics, and international economics.

Primary information was gather through mail questionnaires and personal interviews.

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[1] R. Ross, _A Dictionary of Economics_ (New York, 1972), p. 130.

Three mail questionaires were utilized. One (Appendix A) was sent to 50 per cent of the 198 members of the European Parliamentary Assembly. Each member country was represented in the sample on the basis of the number of assemblymen they have at the European Parliament. For instance, France has thirty-six members at the Assembly, so eighteen questionnaires were mailed to randomly selected French assemblymen.

The adopted Turkish version of this questionnaire (Appendix B) was distributed to carefully selected members of Turkish private and public sector representatives. At the time of contact, the opinion of respondents on important issues such as joining the EEC as a full member and restrictions on skilled labor migration were asked.

The second mail questionnaire (Appendix C) was administered to fifty randomly selected representatives of two (twenty-five for each) major labor unions of Turkey: The Confederation of Turkish Labor Unions (TURK-IS), and the Confederation of Progressive Labor Unions (DISK).

The third questionnaire (Appendix D) was used for personal interviews. This questionnaire consists of a limited number of open end questions. Only a few number of interviews were completed because of the limited time to research. Most of the public sector representatives were on leave because of a new minority government formation by the Republican People's Party (CHP). Only the head of the Common Market Coordination Department of Ministry of Industry and the general director of Foreign Relations Department of Ministry of Agriculture and Technology were available for interviews among proposed government officials.

General Secretary of Chamber of Commodity Exchange of Izmir, heads of research departments of Chamber of Industries of Izmir and Ankara, head of information Department of Chamber of Commerce of Izmir, and General Secretary of Economic Development Foundation of Turkey were interviewed in July, 1977.

The data collected through mail questionnaires were tabulated and integrated into the analysis and recommendations. The results of the personal interviews were not tabulated but referred to several times throughout the final report.

Organization of the Study

This study is organized into five chapters. The first chapter has been an introduction to the study. The second chapter covers the economic relations between Turkey and the European Economic Community. The third chapter describes and analyzes the labor emigration from Turkey to the western European countries, and also the effects of the migratory movements on Turkish economy. The fourth chapter describes and analyzes Turkey's membership in the European Economic Community. The fifth chapter includes the summary, conclusions, and recommendations of the study.

Background of the Study

The two world wars and the widespread economic crises that intervened gave the major impetus to the integration movements now taking place in western Europe. During the First World War, the economic policy of most European nations was geared toward the maintenance of the lengthy and often stagnant war effort. After the war, the struggle for economic revival was hindered by the inflation of the early twenties, and not until 1928 did relative normalcy return to international trade and finance. At that time, no thought was given to the possibility of intra-European economic integration, but at least a workable system of multilateral trade and payments had been restored.

Today it is generally recognized that the importance of foreign trade in a given economy, everything else being equal, varies inversely with the absolute size of that economy. For this reason, the disintegration of international trade and payments especially affected the relatively small European nations. These countries were in many instances obliged to gear their economic policies toward ever greater degrees of economic self-sufficiency. Government restrictions on trade to encourage autarchy invariably provoked restrictive retaliation of equal or greater magnitude on the part of other nations. In short, there followed a series of retaliations and counter-retaliations leading to a high degree of European economic fragmentation by the mid-thirties. By 1936 the political frontiers of the European nations had become their economic boundaries as well, as the prestige of the international gold standard, and of multilateral international trade and payments, had vanished.[2]

The purely national approach to economic problems prevailed from this time until the beginning of the Second World War. Individual European countries strove to achieve a greater degree of self-sufficiency and less dependence on international trade and foreign exchange. The primacy of political and military considerations during the closing years of the 1930's precluded serious efforts to restore general multilateral trade and payments. A few regional attempts to restore a semblance of free trade had only a limited success, and most of these attempts were frustrated by the rapid course of events leading to the Second World War.

The damage inflicted by the Second World War was imense, and in no way limited to the battlefield. The economic life of Europe, and especially of Germany and some of the countries which had been occupied by the German army during the war, had virtually to begin anew. An

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[2]Finn B. Jensen and Ingo Walter, The Common Market, Economic Integration in Europe (Philadelphia, 1965), p. 4.

added problem was the great Russian expansion in the East, which eliminated an important geographical area, including half of Germany, from Western plans for postwar reconstruction.

First Regional Economic Integration in Europe: Benelux

The Belguim-Luxembourg Economic Union, which went into effect in 1922, was the most thorough attempt at economic integration in the interwar period. Luxembourg found that it was too small to stand on its own when its link with the German Zollverein was broken as a result of the war. The feeling was that its economy must be linked with either Belgium or France. The link with Belgium followed a series of diplomatic negotiations.

In 1944, an agreement was readied in London for the establishment of a customs union between Belgium, Luxembourg, and the Netherlands. Postwar recovery, it was thought, could best be hastened for these small countries if their economies were joined to form an integrated, economically significant unit.[3]

In 1948, the customs union went into effect with the abolition of all customs duties between the members and the establishment of a common external tariff. In the following year, quota restrictions were abolished on trade in industrial commodities between the member countries,

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[3] *Ibid.*, p. 12.

and the severe national agricultural protection was liberalized.

The Benelux integration plan involved not only the establishment of a customs union but also the eventual development of a economic union. Labor was to move freely across Benelux frontiers, and full inter-country capital mobility was also to be assured. Economic tensions and dislocations were to be mitigated by the effective coordination of the economic policies of the member countries.

In the early fifties the Benelux showed signs of advance toward economic integration. The "Agreement on the Status of Pre-economic Union" of 1949 instituted a system of cooperation between interest groups of the commercial, agricultural, and industrial sectors of the three economies for the purpose of preparing the way for more binding action.[4] Although the desirability of an economic union was agreed upon, it was thought that the coordination of economic, fiscal, and social policies of the three countries would have to be achieved before full economic union would be possible.

In 1950, consumption taxes were harmonized, and customs duties were coordinated. Conventions on harmonizing social security legislation and on free labor mobility were promulgated a short time later. Protocols in 1953 established a program of concerted action on external trade policy and

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[4]Ibid., p. 13.

coordinated relations with various international economic organizations.

Considerable success was achieved in reducing internal trade barriers, and by 1953 most quantitative restrictions had been eliminated. Close consultation was finally attained in such technical matters as the use of port facilities, the lowering of freight costs, and the intergration and standardization of national statistical methods.

Although the Benelux integration had achieved considerable success by the second half of the 1950's, the primary significance of this union lies in the fact that it provided a concrete example of economic integration on a limited, regional scale. The unwillingness of the member states, however, to commit themselves to complete economic integration at the outset and to surrender certain national economic powers for the good of the union precluded the early success of Benelux as a fully integrated economic region. To be sure, numerous ad hoc solutions had been devised and implemented, but an overall, comprehensive plan or commitment to total integration was not wholeheartedly accepted. As late as 1958, the Treaty of Economic Union drew together all of the protocols, conventions, and agreements which had been implemented over the years. When it took effect in 1960, the ultimate creation of a fully integrated Benelux was formalized.

The European Coal and Steel Community

During the years in which the Benelux countries were forming their regional union, considerable sentiment was developing in other European countries in favor of economic integration.

The Hague Congress of 1948 brought together such leading European Federalists as Spaak, Monnet, de Gasperi, and Bidault, each lending his influential voice to the call for both economic and political unification. Partly as a result of the Congress, the Council of Europe was instituted at Strasbourg the following year. Although without legislative power as such, the Council did serve as a valuable meeting place where the advocates of a united Europe could get together, debate future strategy, and thrash out their many differences. No federal authority was ever granted to the Council. This was due partly to British opposition to any loss of national sovereignty, either economic or political, to a supranational body of this sort. Both Britain and the Scandinavian nations advocated a plan for functional, governmental cooperation, and mutual consultation much along the lines of the Organization for European Economic Cooperation (OEEC).[5]

Understandably, French concern over the economic revival of Germany had been acute. In the early years after the

[5]Halil Seyitoglu, Uluslararasi Iktisat: Teori ve Politika (Ankara, 1975), p. 157.

Second World War, France attempted to impose restrictive controls on German growth. Such measures had, however, proved to be less and less succesful. A close economic alliance between France and Germany, although involving a virtual about-face in French foreign policy, now appeared to be the best means of gradually eliminating the basic causes for the historical strife between these two nations. Schuman's proposal seemed to promise greater security for France, since war between France and Germany would become "not merely unthinkable, but also materially impossible." Allied control of German steel production, in force during the early postwar years, could not logically be maintained for an extended period of time, and other economic restrictions which had been imposed on Germany were not fulfilling their original purposes.

The plan, put forward by Schuman on May 9, 1950, required that France and Germany subject their entire coal and steel production to a single, supranational authority. Membership was to remain open to all other European countries which might wish to participate and would be willing to meet the terms of the agreement. On June 20 of the same year, the negotiation of a treaty for the establishment of the European Coal and Steel Community (ECSC) began, with Franch (including the coal-rich Saar region), West Germany, Italy, Luxembourg, Belguim, and the Netherlands participating.

On April 18, 1951, the final draft of the Treaty was signed by the six foreign ministers, and on August 10, 1952, the Treaty took effect.[6]

According to the Treaty, "The mission of the Coal and Steel Community is to contribute to economic expansion, the development of employment and the improvement of the standard of living in the participating countries through the institution, in harmony with the general economy of the member states of a common market" (Article II).

Specifically, the ECSC, also commonly known as the Schuman Plan, was to eliminate internal trade restrictions for coal and steel products and encourage the free movement of productive resources across the members' national frontiers. The concentration of coal and steel production in the hands of the most efficient firms would thus be assured.

As a first step toward this goal, all quantitative restrictions on intra-ECSC coal and steel movements, such as quotas and licenses, were abolished. Discriminatory policies and practices regarding transport rates, prices, selling terms, and restrictive measures tending toward "the division of markets or the exploitation of the consumer" (Article IV) were outlawed. Subsidies or special governmental charges and other protective measures tending toward the distortion of competition were progressively reduced.

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[6]Ibid., p. 158.

In February of 1953, an ECSC free-trade zone for iron ore, coal, and scrap was established through the elimination of all intra-Community tariffs on these commodities. In addition to the abolition of internal quantitative restrictions on trade, certain forms of currency controls between the member nations were also eliminated. During August of 1954, free trade was extended to include all special steels. Between 1952 and 1957, ECSC steel production rose by 50 per cent,[7] and part of this rise may be attributed to the formation of the Coal and Steel Community. However, productivity growth due to technological developments and the somewhat depressed, reconstruction state of the European coal and steel industries in 1952 probably accounts for a considerable portion of this increase.

The sectoral approach embodied in the European Coal and Steel Community clearly was the logical choice as an initial step toward more general economic integration. From the beginning, it promised substantial, tangible economic advantages to the participating nations. Partially, these advantages result from the fact that coal and iron resources are widely dispersed throughout the ECSC region, and it makes good economic sense to permit the free flow of raw material and final steel products between countries which possess the basic resources in varying degrees of abundance.

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[7]Jensen and Walter, _op_. _cit_., p. 16.

Consequently, the general nationalistic arguments for protection proved to be far less troublesome, since the member nations' coal and iron resources were potentially complementary in nature.

The original objectives of the ECSC were threefold.[8] First, internal trade barriers were to be abolished, and a "common market" was to be set up for an economic sector. Second, machinery was to be provided for eliminating restrictions to competition. Finally, the increased mobility of productive resources was to be assured through the gradual reduction of intra-ECSC barriers. The attainment of these objectives may be perceived at least partially in the substantial growth of production of ferrous metals and coal within the Community. Internal trade was expanded rapidly, and the ECSC coal and steel industries are today generally characterized by lower costs and prices than at the outset of the Community. Traditional wide cyclical fluctuations in production levels and prices in these industries have also been reduced since the institution of the ECSC. Dynamic shifts in geographical deliveries of coal and steel have signified increased efficiencies through the elimination of trade barriers.

Perhaps the most important lesson to be drawn from the success of the ECSC is that it proved, on a limited scale, that supranational economic integration is not only practicable,

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[8] Seyitoglu, op. cit., p. 158.

but also beneficial in the long run for the economic welfare of the participating countries.

Britain, although invited to join in the negotiations leading to the formation of the ECSC, declined on the grounds that any supranational control over its mines and steel mills would be incompatible with national welfare. Thus began the shift from integration attempts on a "European scale" to those founded on a concept of integration between nations that substantially agree on what such an economic union should encompass.

The European Defense Community and the Western European Union

A short interlude in the process of European integration came at the start of the Korean conflict. The United States, bearing the brunt of the war effort, advocated the admission of Germany to the North Atlantic Treaty Organization (NATO) and the establishment of twelve German army divisions to help secure the European front. The French, still leery of German rearmment, refused to accept either of these proposals. The only solution appeared to be an integrated European army under centralized command and combining, on an equal basis, contingents of all Western European national armies, including the projected German force. Pleven, then French Prime Minister, had proposed such a European military force as a prerequisite to French agreement on German rearmament. His proposal involved the formation of a European Defense Community (EDC). All through 1951 and 1952 discussions proceeded on the EDC, and on May 27, 1953, a treaty establishing the joint defense force was signed by the foreign ministers of France, Belgium, Italy, Luxembourg, the Netherlands, and Germany.

The military and political integration of Europe was perhaps attempted somewhat prematurely. Long after the French veto, many factors still prevented the satisfactory solution to this problem. German rearmament, however, was effected through the establishment of the more limited Western European Union (WEU), formalized in Paris, in December, 1954. At the same time, Germany was admitted to NATO and made a sovereign state. With the creation of the Federal Republic of Germany, the postwar period of Allied occupation came to an end.

By the end of 1954, it had become clear that progress toward European union could best be made through the practical and desirable medium of economic integration.

The ECSC was proving successful beyond expectation. It was therefore decided to build on the tested framework of the Coal and Steel Community.

Liberalization of trade on a worldwide basis did not seem to be the answer to economic integration. The General Agreement on Tariffs and Trade (GATT), signed by twenty-three nations in 1947, had provided the machinery for the reduction of trade barriers on a multilateral and nondiscriminatory basis.[9] If the European nations were to lower their tariffs under the provisions of GATT, however, such low duties would by agreement have to be extended to all other signatory nations as well. In effect, it would have meant a unilateral liberalization of trade on the part of Europe, a step which was clearly undesirable, if not impossible, during the reconstruction period. Under Article XXIV of GATT, tariffs could be lowered regionally only if total abolition would be effected within a reasonable length of time. This provision pointed the way for subsequent attempts at integration.

The regional, or "little European," approach, begun with the establishment of the ECSC, was perpetuated and extended on the continent as the most promising and practical means of achieving European economic union. On June 2, 1955, the six ECSC countries met at Messina, Italy, and organized a committee of experts from all participating nations under the able chairmanship of Paul-Henri Spaak of Belgium.[10] The committee was to formulate proposals for the establishment of an atomic energy pool and an economic union. The group deliberated for nine months and in April of the

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[9]John M. Hess and Philip R. Cateora, International Marketing (Homewood, Illinois, 1975), p. 29.

[10]Jensen and Walter, op. cit., p. 21.

following year presented their report for intergovernmental negotiations.

The Messina meeting, resulting in the presentation of the Spaak report in 1956, took the question of the economic integration of the participating states out of the discussion stage and placed it on a practical basis before the individual governments. This accelerated the pace of integration markedly, and negotiations based upon these proposals were undertaken in 1956 and early 1957.

Less than a year was necessary to draft the Treaty of the six nation European Economic Community (EEC), or Common Market. Although dealing primarily with economics, the provisions of the Treaty mirrored the strong influence of political factors. The ultimate purpose of the EEC was not limited to economic integration but included the increasing convergence of the member nations in political, social, and military matters as well. At the very least, it was realized that without the political will there could not be a high degree of economic integration.

On March 24, 1957, representatives of France, Belgium, the Netherlands, Luxembourg, Italy, and the Federal Republic of Germany signed the Treaty of Rome that officially established the EEC and the European Atomic Energy Community, commonly known as Euratom. All signatory nations ratified the Treaty within several months, generally with enthusiasm, and on January 1, 1958, Euratom and the EEC came into being.

By 1958 there had developed three distinct attempts at supranational economic integration in Western Europe, all on a regional basis: the Benelux Union, the ECSC, and the EEC. The inability or reluctance of the remaining European states to accept control over domestic matters by a supranational authority precluded all-European integration at that time. The threat of renewed European fragmentation in the form of large economic "blocs" clearly existed. This threat was reinforced by the subsequent formation of the European Free Trade Association (EFTA), or "Outer Seven," sponsored by Britain and Sweden and organized along functionalist lines.[11]

Nevertheless, the economic integration of Europe had come a long way since the disintegration of the thirties and the chaos of the war. The formation of the EEC, although regional in nature, provided the possible nucleus for an economic union that may some day, through negotiation, include all of Europe. A positive program of action had been initiated that, while imperfect in many ways, was the first in a series of steps which today holds some promise of eventually achieving the economic integration of most Western European nations.

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[11] Seyitoglu, _op_. _cit_., p. 165.

Turkey-European Economic Community Relations

Turkey had already decided to realize its economic development within the western world since 1925. As a result, Turkey closely followed the new developments toward economic integration in Europe and channeled its efforts toward the establishment of closer ties (1963) with the EEC which accounted for a large share of Turkey's foreign trade.

Characteristics of Turkey's Membership

Turkey applied for EEC membership on July 31, 1959, when the EEC Ministerial Council approved the application, and began negotiations, which continued for four years. The membership agreeement between Turkey and EEC was signed in Ankara on September 12, 1963.

The aim of the agreement was defined as being "to promote the continuous and balanced strengthening of commercial and economic relations between the parties, taking fully into account the need to ensure accelerated development of the Turkish economy and the raising of the level of employment and living conditions of Turkish people."[12]

The Ankara Agreement established an association between Turkey and the European Economic Community. Turkey's membership involved three stages:

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[12] Turkiye-AET Iliskileri, Aurupa Topluluzu Yayinlare (undated), p. 19.

1. Preparatory period
2. The transition period and
3. Full membership.

Turkey completed the preparatory period at the end of 1970. During this period, various unilateral aids were made by the community. However, during this period Turkey did not undertake any obligations.

The main characteristics of the preparatory period were establishing the commercial priorities and the financial aid made to Turkey by the EEC.

The commercial priorities were mainly "tariff quotas" which were either no tariff charges or reductions on the customs tariffs of the EEC. This concession obviously increased the possibility of exportation to the EEC. To begin with, these tariff quotas were confined to the traditional Turkish export items including tobacco, raisins, dried figs, and hazelnuts and later were applied to other items such as wine, grapes, and sea food.

At the beginning of the preparatory period, quotas were not fully used, but by the fifth year they were completely utilized.

The Transition Period

Because the preparatory phase had made a substantial contribution towards strengthening economic relations in general and towards expanding trade in particular, between the European Economic Community (EEC) and Turkey, and because the conditions were satisfied to the transitional phase, Turkey and the Community signed an additional protocol on November 23, 1970, specifying the conditions, procedure, and timetable for this transitional phase. The additional protocol regulates the establishment of a customs union and closer economic cooperation with the EEC over the transitory period of twenty-two years prior to full membership.[13]

The transition period will be characterized by three main features which are:

1. customs union,
2. unification of agricultural policies, and
3. social rights and financial aid.

The main trade advantages to Turkey from the treaty lie in the provisions which give unrestricted access to the Common Market area for most of Turkey's industrial products, with the exception of products of the textile industry for which quotas have been agreed upon, while Turkey retains protective trade barriers for varying lengths of time in order to permit her industry to adapt gradually to the conditions existing in western European markets. Similar concessions were made for some of Turkey's agricultural exports, but in view of the Common Market's general agricultural policy these tend to be less generous and apply mainly

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[13] OECD, _Economic Surveys_: _Turkey_ (Paris, 1972), p. 34.

products in which there is no longer over-production. Furthermore, although the protocol is not specific as to modalities and the time of their application, Turkey will be expected to liberalize gradually the entry of foreign risk capital in the not too distant future.

Customs Union

Within the customs union, which did not exist in the preparatory period, the EEC will request certain priorities from Turkey during the transition period. This will mean increased imports from the EEC, but every consideration will be made to realize this moderately and through a gradual and balanced process so that the imports will not be harmful to the Turkish economy. The following provisions are made for the elimination of customs duties between the Community and Turkey: The Community will abolish, from the date when the protocol comes into effect, ". . . customs duties and taxes of equivalent effect applicable to imports from Turkey."[14] Turkey for its part, will make successive reductions; the first will be made when the protocol comes into effect, the second three years, and the third five years after the protocol comes into effect. The fourth and subsequent reductions will be made each year so that the last reduction is made at the end of the transitional period, or, theoretically, about 1985. Each reduction takes the

[14] _Ibid._, p. 33.

form of a 10 per cent in the duty actually charged by Turkey as of November 23, 1970.[15]

The Community, however, has a period of twelve years to abolish duties under the Common External Tariff on imports of cotton, yarn, fabrics, and woolen carpets. Cotton fabrics and woolen carpets, however, benefit from a 75 per cent reduction of duties immediately when the protocol comes into effect, but with the limits of annual tariff quotas.

For most manufactured products, Turkey has a period of twenty-two years to abolish its duties, on the following timetable: a 5 per cent reduction of each duty when the protocol comes into force; three further reductions of 5 per cent three years, six years, and ten years later, respectively; eight other reductions of 10 per cent, twelve, thirteen, fifteen, seventeen, eighteen, twenty, twenty-one, and twenty-two years after the protocol comes into effect.[16] Furthermore, Turkey can, under certain conditions, modify the above list of products during the first eight years and can reintroduce, increase, or establish customs duties on the import of products covered by Article X with a view of protecting the rise of a new processing industry or ensuring the expansion of an existing processing industry.

The establishment of a customs union presupposes the adoption by Turkey of the Common External Tariff. The relevant provisions specify that the existing margin between

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[15] _Turkiye-AET Iliskileri_, _op. cit._, p. 80.

[16] OECD, _Economic Surveys_: _Turkey_, _op. cit._, p. 34.

the duties applied by Turkey and those of the Common External Tariff shall be progressively reduced over a period of twelve years in general and twenty-two years for manufactured products subject to special treatment. On the completion of these periods Turkey will apply the Common External Tariff in full.

Finally, Article XX specifies that, in order to facilitate the import of certain products coming from countries to which Turkey is bound by bilateral trade agreements, if the functioning of those agreements is appreciably affected by the provisions of the protocol or by measures taken to implement it, Turkey has the right to grant tariff quotas at reduced or nil duties with the prior authorization of the Council of Association.

Elimination of Quantitative Restrictions

Turkey and the Community will not introduce new quantitative restrictions against each other, but Turkey is committed, when the protocol comes into effect, to 35 per cent only of its imports from the Community in 1967,[17] this percentage rising progressively over the succeeding eighteen years.

The Community will, as soon as the protocol comes into effect, eliminate all quanitative restrictions on imports from Turkey, except for the textile products already referred to because, as is common in most countries, the EEC

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[17] Turkey-EEC Relations (Ankara, 1977), p. 20.

has bottlenecks in the textile industry, and the textile plants in underdeveloped regions are subject to possible shut-downs.

In view of this situation, the EEC proposes to implement an 85 per cent tariff cut on the textile products and to realize this within a specific tariff quota. In determining this quota, the amount of Turkish textile products exported to the Community at the present time will be taken into consideration. It is thought that textile exports will consequently increase. Obviously, if Turkey exports textile products to the Community without any tariff quotas, she will export more under better conditions.

The textile industry is often confronted with difficulties, and the EEC's proposed plan will give Turkey the opportunity of increasing her exports and the idea of reviewing the system every three years will enable the partners to make any necessary amendments to cope with possible increases.[18] For other products, Turkey will progressively eliminate restrictions on imports from the Community. Quotas based on the most recent trade relations will be opened in favor of the Community one year after signature. They will be increased every two years "so as to achieve, in comparison with the previous year, an increase of not less than 10 per cent in total value and not less than 5 per cent of

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[18]Emile Noel, "Turkey's Relations with EEC," Turkish Economic Review (November-December, 1969), p. 26.

the quota value for each product." After the thirteenth year the increase provided for each quota is 20 per cent over the previous period every two years. All restrictions are to be removed not later than twenty-five years after the protocol comes into effect.

Among the supplementary provisions, it may be noted that Turkey undertakes pregressively to abolish the security which importers must furnish on imports from the Community according to the timetable laid down for customs duties. Furthermore, "the Contracting Parties shall successively modify national monopolies of a trade character so that at the end of twenty-five years there shall be no discrimination in conditions of supply or markets between nationals of Member countries of the Community and of Turkey."[19] This article applies to any agency by means of which a member country or Turkey controls, or appreciably influences, imports or exports between the Community and Turkey.

Agricultural Products

The provisions of the protocol apply in principle to agricultural products. A period of twenty-five years is, however, allowed for the adaptation of Turkey's agricultural policy to the common agricultural policy, during which period Turkey and the Community grant each other preferential treatment for their trade in agricultural products. Turkey imports almost no agricultural product from the EEC, and

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[19]OECD, Economic Surveys: Turkey, op. cit., p. 35.

consequently Turkey should not be obligated to offer tariff reductions on agricultural products. However, in the future, if Turkey is compelled to import agricultural products according to the provisions of the Agreement, she will undoubtedly import from the EEC. The EEC's present exports to Turkey are confined to aid in the form of foodstuffs, whereas, Turkey's demand in this field is much broader.

The agricultural priorities offered to Turkey are in the form of commercial credits and they cover almost 70 per cent of Turkey's total exports.[20] During the transition period, the number of agricultural items to be exported, will be increased, to extend to all commodities; commercial preferences can also be made on new export items of the present preferences can be extended. Those preferences will be emphasized on the four main products: tobacco, raisins, dried figs, and hazelnuts, which Turkey exports in large quantities. The import into the Community of dried raisins and tobacco is custom-free. Import of hazelnuts is subject to an annual tariff quota. The system will be periodically reviewed, entitling the Community to maintain customs at rates going up to 50 or 60 per cent of the common external tariff (olives, grapes, fresh figs, certain dried fruits, and, on certain price conditions, citrus fruit) or ad valorem duties (dry fruit) which will be progressively abolished. The ultimate aim is to harmonize the agricultural policies of both parties.

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[20] Odalar Birligi, Iktisodi Rapor-1977, p. 497.

Movement of Individuals and Performance of Services

The provisions under this heading specify that the free movement of workers between member countries of the Community and Turkey will be introduced gradually between the end of the twelfth and the twenty-second year after the coming into effect of the Agreement signed in 1963. In the meantime (Article XXXVII), each member country of the Community will treat Turkish workers employed in the Community without any discrimination as to conditions of work or remuneration. Movements of the Turkish workers in the Community and problems related to Article XXXVII will be discussed in Chapter III.

In the matter of freedom of establishing business and freedom to render services, the Council of Association will fix, for each category of activities, the procedure and timetable for the removal of existing restriction (Article XXXXI). Priority will be given to activities which make a special contribution to the development of production and trade.

Approximation of Economic Policies

In the matter of competition and taxation and the harmonization of legislation, arrangements of principle similar to those made between the six Community countries, have been or will be made (Articles XXXXIII to XXXXVIII). Regular consultations within the Council of Association will also enable Turkey and the Community to coordinate their economic policies. In this spirit, it is specified that "Turkey will endeavour, as soon as the present protocol takes effect, to improve the treatment accorded to private capital coming from the Community which is likely to contribute to its economic development."[21]

The same concerted action is planned with a view of coordinating trade policies towards third countries. Consultations are provided for in the event of agreements signed by one of the Contracting Parties having a direct and special effect on the functioning of the Association, and, in particular, in the event of the accession of a third country to the Community, so that the reciprocal interests of the Community and Turkey can be taken into consideration (Article XXXXI).

Among the general and final provisions of the protocol, it is specified that "if serious disturbances arise in a sectory of the economic activity" of Turkey or of a Community country, "or compromise its external financial stability, or if difficulties arise reflected in a deterioration in the economic situation" of one of its regions, the country in question "may take the necessary safeguarding measures."[22]

Financial Relations

Articles pertaining to the financial relations were included in a supplementary protocol in the membership

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[21] OECD, Economic Surveys: Turkey, op. cit., p. 36.

[22] Ibid.

Agreement. By this protocol, the Community has committed itself to extend a loan of $175 million during the five-year preparatory stage. This loan is extended in five equal terms by the European Investment Bank.

According to the Agreement, this amount is given as a project credit for both the public and private sectors. The term for the infrastructure credits are a thirty-year payment period with a seven-year grace period and an interest rate of 3 per cent. Turkey has withdrawn and used all of this amount during the preparatory period.

A different system was accepted for industrial projects by a general agreement signed between Turkey and the European Investment Bank (EIB) on December 8, 1964. According to this agreement, the EIB opens industrial credit account to the Turkish government with a payment period of thirty years and the interest rate of 4.5 per cent. The Turkish government transfers these funds to the public sector through the State Investment Bank and to the private investors through the Industrial Development Bank. Also, within the context of November 23, 1970, agreement the European Investment Bank (EIB) has extended credit to several public and private projects.

The financial protocol also permitted Turkey to continue to obtain preferential development loans from the EIB up to an amount of 195 million units of account until May 23, 1976.[23]

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[23] *Ibid.*, p. 30.

CHAPTER II

ECONOMIC RELATIONS BETWEEN TURKEY AND THE EUROPEAN ECONOMIC COMMUNITY

Although the political unity of Europe remains to be seen it seems that the members of the European Economic Community have been successful so far in keeping the union together and developing a degree of economic unity on most issues. The Common Market countries, starting from 1957, gradually abolished all restrictions on intra-Community trade. By July 1968, customs duties within the EEC were completely abolished, while each member country's tariffs on imports from nonmember countries were gradually aligned with the uniform Common External Tariff (CET) set by the Community.[1]

The Common Market countries have also worked toward a common tax policy and Common Agricultural Policy (CAP). The Community was successful in establishing the Common Agricultural Policy which is highly protective in nature against agricultural imports from nonmember countries (except for cotton and tropical products). The main purpose

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[1]Tezcan Baysan, "Economic Implications of Turkey's Entry into the Common Market," unpublished dissertation, University of Minnesota, Minneapolis, Minnesota, 1974, p. 7.

of CAP has been to establish a "single unified market" for each agricultural product in the EEC. Such a unified market implies a uniform price for the same agricultural product for the entire Community, with differences resulting only from differences in transportation costs. Fixed uniform prices have been in force for most agricultural products, and Community members have been able to move these products freely within the Community since July, 1968.[2]

Turkish export goods enjoyed preferential treatment during the preparatory period, which was ended in the second half of 1970. Tobacco, raisins, dried figs, and hazelnuts, which made up approximately 40 per cent of Turkish exports to the EEC in the mid 1960's were accorded tariff quotas. Duty rates on these commodities were lower than the common external tariffs, and tobacco and raisins were subject to intro-Community rates.

In December, 1967, the Community granted tariff quotas for additional exports from Turkey. These products included sea fish and other sea products, quality wine, table grapes, citrus fruits, some household items from the textile industries, and hand made carpets and rugs.

Foreign Trade Regulations of Turkey and Required Changes in Transition Period

Turkey's foreign trade policy is directed toward conserving foreign exchange to the extent possible while

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[2] Ibid., p. 8.

promoting economic development and was carried out through a highly restrictive system of controls.

Imports are regulated through a complex system of tariffs, licenses, and exchange controls. Licenses are required for all imports. Lists of the items which may be imported are issued annually.

Imports are generally limited to items required to utilize more fully existing industrial capacity and to control goods, raw materials, and spare parts for industries producing for export or for import substitution. Less essential goods, including consumer items, commodities in adequate supply and goods which are produced domestically, may not be imported or importation is limited.

Import Tariff System

Tariff Structure

Turkey uses the Brussels Tariff Nomenclature (BTN) in the classification and description of items. Duties generally range from free to 150 per cent and up to 200 per cent on cigarettes and other manufactured tobacco. Typical duty rates are as follows: cereals (except rice), 15 per cent; chemicals, free to 50 per cent; apparel and knitted goods, 100 per cent; steel mill products, 5 to 30 per cent; industrial machinery, 5 to 40 per cent; most electrical machinery, 20 to 50 per cent; automobiles (except sport models), 75 per cent; other road motor vehicles, 15 to 25 per cent; scientific instruments and apparatus, free to 50 per cent.[3] Personal effects, household articles, goods for certain investment projects and goods imported for the national defense are generally exempt.

Internal Taxes

Most imported commodities are subject to a stamp tax of either 9 per cent or 9.5 per cent of the C.I.F. value. A port tax is assessed on all goods coming into Turkey by land or sea. The port tax is 5 per cent of the sum of the C.I.F. value, custom duty, custom surtax, and custom clearing expenses.[4]

The Output Tax Law provides for two levies: a production tax on most domestically-produced and imported items and a service tax on banking, insurance, transportation, and communications. The tax base for domestically produced goods in the producers' selling price less certain expenses. The base for imported goods is the C.I.F. value plus the customs duty and surtax, customs clearing expenses, and port tax. The production tax on imported industrial raw materials, chemicals and pharmaceutical products, textile products, machinery, and vehicles generally ranges from 10 per cent to 25 per cent.

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[3] Foreign Trade Regulations of Turkey, U. S. Department of Commerce, (September, 1973), p. 2.

[4] *Ibid.*, p. 3.

An imported item which is a C.I.F. value of $1,000 subject to a 30 per cent duty, a 9 per cent stamp tax, and a 10 per cent production tax would have a total landed cost of $1,707 calculated as follows:

1.	C.I.F. Value	$1,000.00
2.	Custom Duty, 30% of (1)	300.00
3.	Stamp Tax, 9% of (1)	90.00
4.	Customs Surtax, 15% of (2)	45.00
5.	Custom Clearing Expenses	55.00
6.	Port Tax, 5% of (1), (2), (4), (5) .	70.00
7.	Production Tax, 10% of (1), (2), (4), (5) and (6)	147.00
	Total Landed Cost	$1,707.00

Imports which are exempt from custom duty are also exempt from other custom taxes.

Non-Tariff Import Controls

Import Licensing and Exchange Controls

Imports into Turkey are regulated by an import program prepared by the Ministry of Commerce. All authorized imports require a license and are classified into two principle lists; the Quota List and the Free List. Goods for export-oriented industries appear on the Free List. The list is further subdivided into List I and II. Licenses are issued automatically for imports under List I. License applications for goods on List II are subject to prior review by designated government ministries.

A list of commodities which may be imported from the EEC without quantitative restrictions has been established. It will be expanded at intervals and cover all commodities by 1995. Separate quotas are established for commodities imported under the bilateral payments agreements. These commodities appear on one of the import lists described above. Generally, items not appearing on either the Free Lists or the Quota List may not be imported. Exceptions may be made under a plan for the development of export industries which came into effect in September, 1968.

Export Controls

The Ministry of Commerce regulates Turkey's exports for the purpose of obtaining the maximum amount of foreign exchange and assuring an adequate supply of goods to maintain the domestic economy. All commercial exports are subject to price controls. A minimum price is determined by the Ministry of Commerce after a consideration of prices on the local and foreign markets. A registration declaration, certified by a chamber of commerce or an exporters' union and approved by the Ministry, must be presented to the Customs authorities before exportation of most commodities.

In addition, the following goods must be licensed for export by the Ministry of Commerce: grain and flour; opium, molybdenum, tungsten, meerschaum, and iron ore; scrap, clippings, and shavings of metals; article of precious metals and stones; margarine; oils of sunflower, hemp, and sesame seeds, soybeans; olives; hazelnuts; animal feed; logs and lumber; livestock; meat and cheese; fertilizers; exports to bilateral trade and payments agreement countries; re-exports and temporary exports. Exports to the EEC are regulated by special provisions.

Foreign exchange proceeds from exported goods must be sold to a bank in Turkey within three months from the date of export or within ten days from the date of export or within ten days from the date on which the foreign exchange was placed at the exporter's disposal.

Changes Required by Additional Protocol

Tariff Reductions

The gradual establishment of the EEC-Turkey custom union started at the beginning of the transitional period. The additional protocol provided that both Turkey and the Nine should refrain from introducing new import duties (or charges having equivalent effect) on their trade with each other.[5]

Also it laid down the timetable for Turkey to abolish her existing tariffs on industrial imports from the Nine. By Articles X and XI of the Protocol two different lists of goods were established. For industrial sectors in which

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[5]Commission of the European Communities, Turkey-EEC Relations, 1963-1977 (Ankara, 1977), p. 55.

Turkey was more competitive, tariffs were to be eliminated over twelve years. For other goods the tariff reductions were to be spread over twenty-two years. The division was broadly as follows: fertilizers; lead, zinc, tin, and their products; together with products of the rubber and electronics industries fell exclusively under the twelve year list. Those of the paper, plastics, and petroleum industries fell exclusively under the twenty-two year list. Copper, nickel, and their products together with products of the chemical industries were mainly allocated to the twelve year list. Man-made fibers, mechanical engineering products, agricultural and electrical machinery, and vehicles were mainly allocated to the twenty-two year list (passenger cars, refrigerators, and other household appliances were exceptions). Metal goods were divided almost equally between the two lists. The timetables for tariff reductions for the two lists are shown on Chart I.

Abolition of Quantitative Restrictions

To remove quantitative restrictions Turkey accepted provisions dealing with both liberalized and non-liberalized goods. For a certain number of liberalized goods, Turkey would not re-introduce any quantitative restrictions, i.e., those goods will freely continue to flow from Community to Turkey. Goods covered by this undertaking are on what is known as "The EC Consolidated Liberation List."[6] Starting

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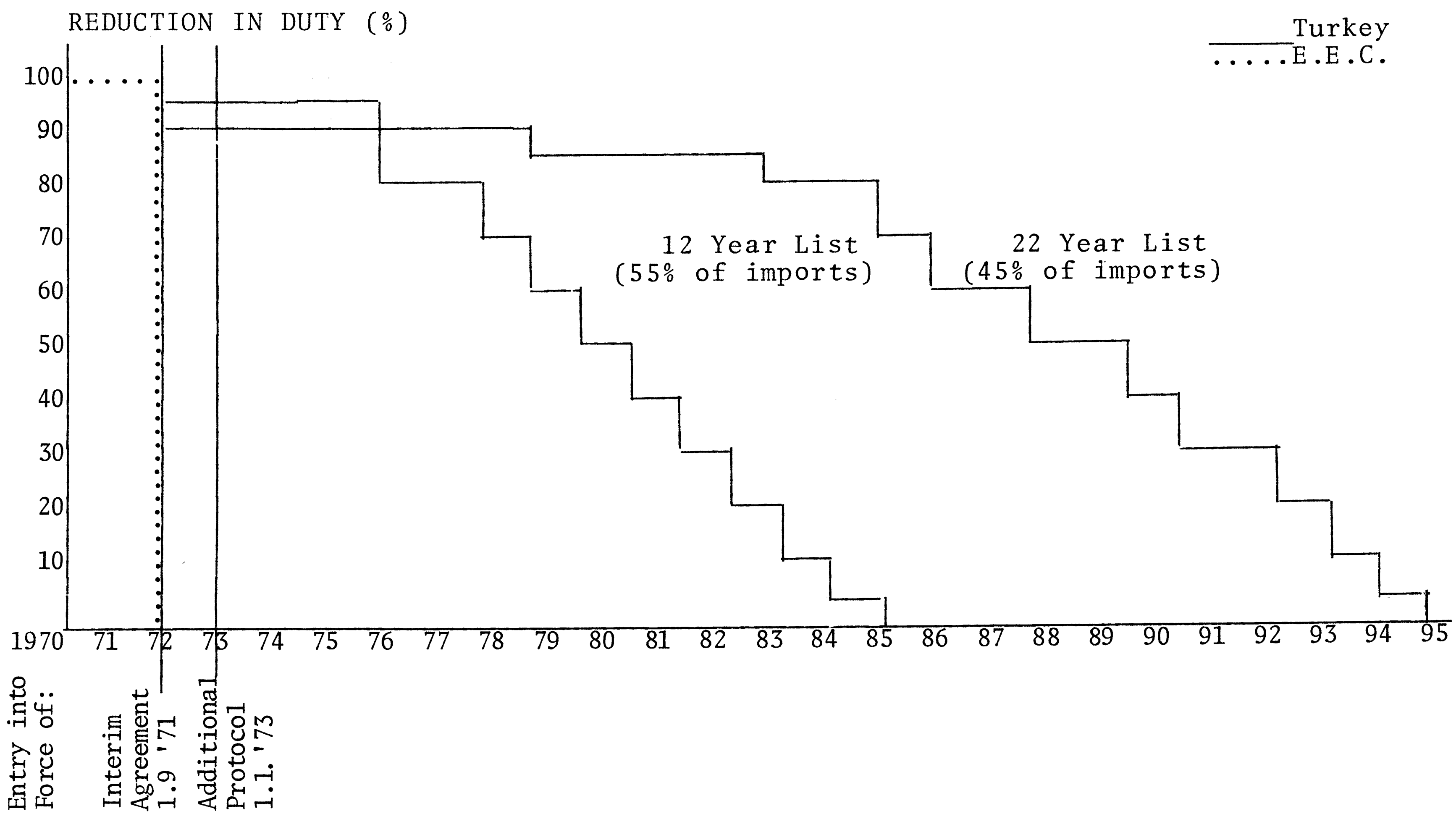
[6] *Ibid.*, p. 56.

CHART I

Timetable for Tariff Reductions on Industrial Trade



Source: Turkey - EEC Relations, 1963-1977, p. 54.

from September 1, 1971, 35 per cent of the total 1967 imports from the Six was included on this list. This proportion will be increased in stages to 80 per cent in 1991. Turkey retained the right to re-introduce quantitative restrictions for other liberalized imports which are not covered by Consolidated Liberation List, but she should open quotas in favor of the Community. Such quotas should be equal to at least 75 per cent of the average imports from the Community during the last three years prior to the re-introduction.

Turkey would open quotas in favor of the Community for non-liberalized goods one year after the agreement came into force. A timetable was prepared for the gradual extension of these quotas.

As can be seen from Chart I, Turkey is to abolish all quantitative restrictions on imports from the Community within twenty-two years.

Adaptation of the Common Custom Tariffs

The reduction of her tariff to the level of the Common Custom Tariffs (CCT) will require a considerable effort for Turkey since the CCT is one of the lowest tariffs in the world,[7] 7 per cent for industrial goods.

In order to coordinate their commercial policies against the third world countries during the transitional period,

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[7] *Ibid.*, p. 57.

Turkey and the Community should also consult each other in the Association Council.

Progress Made in the Early Stage of the Transitional Period

Turkey has made the first two tariff reductions since the Interim Agreement took effect on September 1, 1971. Tariffs were reduced by 10 per cent for products on the twelve year list and by 5 per cent for products on the twenty-two year list. The second reductions (again 10 and 5 per cent, respectively) were made in January, 1976.[8] According to the Special Commission's Report on EEC-Turkey Relations, the following additional tariff reductions have been made in favor of the Community in 1975 and the first half of 1976.[9]

1. A 10 per cent tariff reduction has been made for those products which are listed on List I.

2. An additional 5 per cent tariff reduction has been made for those products on the twenty-two year list.

3. Import quotas for those products which are listed on the EC Consolidated Liberation List has been increased to 40 per cent from 35 per cent because of entry of new members. For the products on the twelve year list the next 10 per cent reduction was due in January, 1978, but the Turkish government has delayed the action because of serious economic

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[8] Ibid.

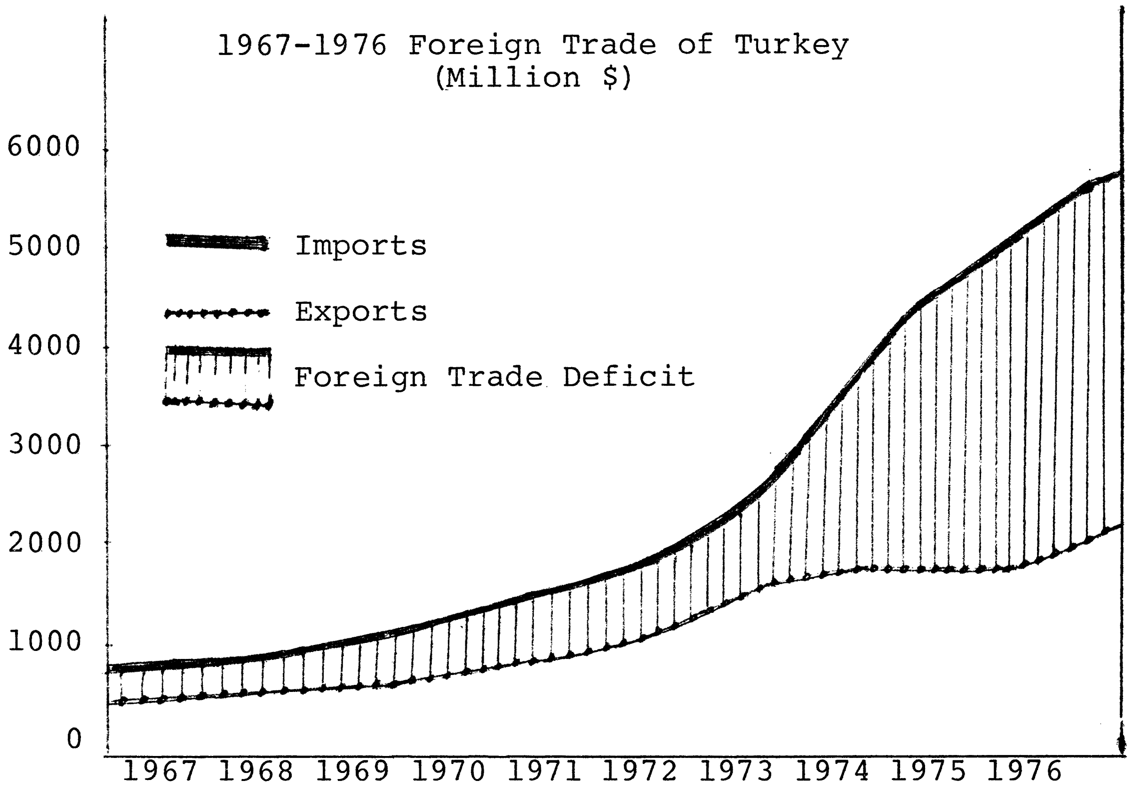
[9] Avrupa Ekonomik Toplulugu Ozel Ihtisas Komisyonu Raporu (Ankara, Mayis 1976), p. 31.

list was due in January, 1977, and for those goods on the twenty-two year list is due in 1983.[12]

Turkey's Foreign Trade

Turkey's foreign trade in 1975 was marked by a growing imbalance between the trends of exports and imports; exports which had for several years been constantly growing slackened off, while imports, although increasing with a decreasing rate compared to previous years, were still up considerably. The total foreign trade deficit was increased 43 per cent in 1975.

CHART II



[12] *Ibid.*, p. 60.

crises mainly caused by the large amount of foreign trade deficits between Turkey and the EEC. As can be seen from Chart I, for these products which are listed on the twenty-two year list, the next reduction is due in January, 1979.

Elimination of Quantitative Restrictions

Starting from September 1, 1971, Turkey introduced the "EC Consolidated Liberation List," in favor of the Six. As was mentioned before, this covered 35 per cent of Turkish imports from the Six in 1967. When Three[10] joined the Community in 1973, a problem arose because of the somewhat different composition of Turkey's imports from the new members. It was agreed that the existing EC Consolidated Liberation List should apply to Nine but would not be enlarged. Instead, when the first increase on the list applied in January, 1976, this increase would extend the list to cover 40 per cent of the imports from Nine in the base year.[11]

The Adoption of Common Custom Tariffs

Turkey has yet to begin to move its custom duties towards those of the Common Custom Tariffs. Under the terms of Additional Protocol, the first step towards aligning Turkey's duties with those of the CCT for goods on the twelve year

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[10] Great Britain, Denmark, and Ireland

[11] _Turkey-EEC Relations_, _op_. _cit_., p. 59.

As can been seen from Table I, the foreign trade deficit became even worse in 1976. The gap between export revenues and import spending widened in spite of total revenue increases from exports. This trend brought a record foreign trade deficit amounting to more than $3.3 billion in 1975 and more than $3.2 billion in 1976.

Exports and imports followed almost the same pattern; increasing steadily over the years, until 1974. But in the year of 1974, total imports increased 81 per cent in terms of dollar value. This development was simply because of sharp increases in oil prices and the large amount of investment goods imported from the Common Market countries.

TABLE I

TURKEY'S FOREIGN TRADE: 1968-1976
(Million $)

	Imports		Exports	
Years	Total	EEC's Share	Total	EEC's Share
1968	736.6	281.9	496.4	164.1
1969	801.2	284.4	536.8	214.8
1970	947.6	325.2	588.4	239.1
1971	1,170.8	455.6	676.6	239.1
1972	1,562.5	625.5	884.9	347.0
1973	2.086.2	1,142.3	1,317.0	611.5
1974	3,777.5	1,708.1	1,532.2	717.2
1975	4,738.5	2,338.2	1,401.0	615.1
1976	5,128.6	2,342.0	1,960.2	958.9

Source: OB, Iktisadi Rapor, 1977, pp. 481, 493, and 503.

Total imports increased 650 per cent in the last decade while exports increased only 275 per cent in the same time period. As examined in Chapter III, workers' remittances helped to reduce the foreign trade deficits by reaching almost export revenue levels in recent years.

The Structure of Turkish Exports

Agricultural products still dominate Turkey's foreign trade. However, exports of manufactured goods showed substantial increases in the last four years. Their average share in total export revenue was less than 15 per cent until 1971. Starting from 1971, the revenues from exportation of manufactured goods increased steadily and reached 36.5 per cent, the highest in the history, and started declining in 1975 and continued that decline also in 1976, losing 6 per cent in total export revenues in two years. Most of the exported manufactured goods were both durable and non-durable consumer goods such as canned food items, liquors, textile products, and leather goods.

Most of the agricultural products are traditional export items such as cotton, tobacco, hazelnuts, dried figs, and raisins, and in the second half of the last decade fresh fruit and vegetables made noticable contributions to the export earnings of the country. The share of agricultural goods in total export revenue decreased from 80.6 per cent in 1967, to 64.0 per cent in 1976.

There was no significant change in mining products. The major item in this category was chrome with an average of 50 per cent share in the total mining products in 1975 and 1976.[13]

Although it is difficult to derive any conclusion as to whether or not the latest trend in the share of a particular category of exports will continue in the years ahead, it is certain that exports of manufactured goods is increasing steadily while the other two categories are decreasing in the total export earnings.

TABLE II

DISTRIBUTION OF TURKEY'S EXPORTS
IN TOTAL EXPORT EARNINGS

Years	Agricultural Products		Industrial Products		Mining Products	
	$ Million	%	$ Million	%	$ Million	%
1967	426.6	80.6	74.9	14.0	20.7	3.8
1968	405.0	80.7	65.2	12.4	26.0	5.0
1969	403.3	74.7	98.5	16.6	34.9	6.3
1970	442.5	74.1	103.2	15.5	42.6	7.4
1971	491.1	70.7	145.3	18.0	40.0	6.4
1972	607.4	66.4	242.5	22.2	35.0	4.4
1973	832.0	63.1	416.0	32.9	56.0	3.4
1974	852.0	58.1	568.0	36.5	88.0	4.8
1975	792.6	56.6	502.9	35.9	105.5	7.5
1976	1,254.4	64.0	595.8	30.4	110.0	5.6

Source: Turkiye Ticaret Odalari, Iktisadi Rapor, 1977, p. 497.

[13] Iktisadi Rapor, 1977, op. cit., p. 496.

Exports of Agricultural Products

During the Third Five Year Development Plan (TFYP), the 1973-1977 period, total agricultural production was envisaged to grow at an average rate of 4.5 per cent per year.

For increase in crop production, irrigation, use of fertilizers and chemicals are assumed to be the most effective factors. The annual growth rates envisaged form some of the agricultural products are as follows:

Cereals, 3.4 per cent; 5.5 per cent for pulses; 4.3 per cent for cotton; 5.5 per cent for oil seeds; 3.9 per cent for fruits, and 3.8 per cent for vegetables.[14] In order to meet the rapidly growing demand for meat, production of poultry products should be increased to 8.7 per cent per year, but production in the animal husbandry and fishery subsectors during the first and second Five Year Plan Period (1962-1972) was far below the planned targets. Production and consumption of the livestock feeds was one of the major bottlenecks in the livestock production.

The overall progress in agricultural production during the two plan periods (1962-1972) has in general been considerable as far as investment, production, supply of modern inputs, and organizational setup are concerned. However, the realization rates have been somewhat below the planned targets because of adverse weather conditions and of problems associated with technology and marketing.

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[14]Summary of the Third Five Year Development Plan, 1973-1977, p. 102.

Production of cereals and oilseeds increased to desired levels, but because of the unexpectedly high demand for edible oils, these have been imported to a moderate extent. Similarly, limited quantities of wheat had to be imported because of unfavorable weather conditions during same years.

In summary, gains in production during the plan period have demonstrated that the agricultural sector is capable of further growth given appropriate policies and programs. This does not mean, however, that some problems do not remain for this sector. Adequate financial and institutional measures are needed to provide inputs for incrases in the yields. These include fertilizers, improved seeds, better breeds, insecticides, and crop protecting chemicals.

Domestic Demand

Demand projections for the Third Five Year Plan period are made on the basis of such factors as population and income growth rates, likely consumption patterns, changes in relative prices, and requirement for balanced diet.

It is expected that the demand for agricultural products in general will be met through domestic supplies during the Third Plan period. However, some problems may exist in meeting the demand for meat.

During the TFYP, domestic demand for crops is expected to grow at an average rate of 4.1 per cent per year. Per capita cereal consumption has been projected to decrease from

246 kg. in 1972 to 242 kg. in 1977. Some increases is expected in the per capita consumption of pulses, potatoes, and fruits. Domestic demand for livestock products is estimated to increase by 5.0 per cent per year. Although difficulties are expected in meeting the demand for cattle and mutton meat, the overall per capita consumption of meat will still grow by 3.8 per cent annually, raising the level of per capita consumption from 17.8 kg. in 1972 to 21.4 kg. in 1977. A high growth rate of about 5.6 per cent annual demand for milk products is expected to be met from domestic supplies. Demand for fishery and forestry products is estimated to increase as planned by 8.4 and 8.9 per cent per year, respectively.[15]

Suggested Measurements

In order to meet growing domestic demand and increase export revenue from agricultural commodities, the State Planning Organization (SPO) has recommended the following policies and guidelines.[16]

1. Agricultural production has to be increased by emphasizing,

    a. modern technology which would increase productivity, and

    b. by adopting suitable crop patterns and compositions which would maximize their contribution to the

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[15] Third Five Year Development Plan, 1973-1977, p. 232.

[16] *Ibid.*, p. 231.

GNP. A necessary step in this direction would be to allocate land by types of soils most suitable to various uses.

2. In order to create a more market-oriented agricultural sector, better transportation and packaging and storage facilities, stable market prices, effective credit systems, and an organization should be established as soon as possible.

3. Credits to be used for investment and input-financing must be made available to farmers within the framework of projects prepared in accordance with the production targets of the TFYP. Efforts should be made to enlarge the scope of credit to small farmers through the cooperatives.

In credit extension, priorities should be given to livestock feeds, oil-seeds, fishery production, crops with export potentials, and inputs which would improve the existing technology. Consistency between credit systems and the government's price support programs must be secured.

4. In order to maintain reasonable income for farmers along with low prices to consumers and to improve the competitive position of export products, government's agricultural price intervention programs should be selective and purposeful both in respect to the kind and coverage.

Trends of the internal and foreign markets will be studied continuously.

5. If intervention is considered unavoidable, prices should be announced before planting or harvesting time. This

would depend on the nature of the commodity and the objectives to be pursued by such interventions. The main purpose would be to minimize inflationary pressures on prices, financial resources and to avoid carryover of stocks. Intervention prices should be pegged at levels with economic and social aims in mind so that regional aspects quality differences and the quantities to be purchased are all taken into consideration. Because of the importance given to the livestock subsector, floor prices are to be practiced for livestock instead of ceiling prices for finished meat. Export commodities displaying high prices elasticity must be given priority in export-oriented programs.

6. Public agricultural services must be provided to farmers from villages selected as "central units."

7. Measures should be taken to increase the production and improve the quality of the fruits and vegetables for export markets according with preferences of foreign consumers. Close cooperation must be established among the farmers, marketing organizations, and processing industries.

Agricultural Export Items

Tobacco and cotton have been the largest foreign exchange commodities in Turkey's total export earnings in the last decade. They jointly accounted for about 40 per cent of the total foreign exchange earnings from exports. Cotton exports increased markedly both in relative and in absolute importance, whereas, tobacco exports delined relatively as a source of foreign exchange.

The analysis of Table III shows that exports of major agricultural commodities increased steadily over the years. The main reasons for these increases are varied, but the most important one was the devaluation of Turkish currency in August, 1970. The Turkish lira was devalued from TL 9 = $1 to TL 15 to $1, a 66.7 per cent devaluation from its nominal value.

Several exchange rates were set for exports. For the traditional exports such as cotton, tobacco, hazelnuts, raisins, figs, and olive oil, a lower exchange rate of TL12 = $1 was realized, but in July, 1971, the exchange rate for these exports was increased to TL13 = $1. The exchange rate for hazelnuts was increased to TL14 = $1 in March, 1972. The exchange rate TL14 = $1 applied to non-traditional exports. Additional incentives for non-traditional exports were simultaneously established through changes in the rebate system and export credits.[17]

Krueger has made a comparison between pre- and post-devaluation effective exchange rates for different export and import items and calculated the following effective devaluation rates:[18] for traditional export goods exchange rates increased from

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[17] Anne O. Krueger, *Foreign Trade Regimes and Economic Development: Turkey* (New York, 1974), p. 312.

[18] *Ibid.*, p. 313.

TABLE III

EXPORTS OF AGRICULTURAL PRODUCTS AND THE EEC'S SHARE
($ Million)

Product	1971		1972		1973		1974		1975	
	Total	EEC	Total	EEC	Total	EEC	Total	EEC	Total	EEC
Cotton	193.1	80.0	191.3	67.6	305.8	126.2	244.0	101.3	230.3	98.3
Tobacco	85.9	23.2	130.9	27.2	132.9	29.6	204.5	66.0	183.2	34.5
Hazelnuts	84.2	55.4	116.5	82.2	121.7	80.0	173.2	122.6	154.1	99.7
Raisins	22.1	11.5	31.1	15.8	58.2	48.6	53.9	48.2	45.5	37.8
Dried Figs	8.6	5.4	9.9	5.9	16.1	10.4	17.2	10.7	18.9	11.3
Citrus Fruit	15.6	4.6	17.6	5.7	25.5	7.9	26.3	6.2	28.4	6.9
Total	491.3	180.1	607.3	204.4	832.0	302.7	851.9	355.0	792.6	288.5
EEC %		36.6		33.6		36.2		41.6		36.3

Source: Turkey-EEC Relations, 1963-1977, pp. 130-132.

TL 9.38 to TL = 12, a 28 per cent increase; for non-traditional exports it was 57 per cent. For imports the effective devaluations were the following: capital goods 49.6 per cent; consumer goods 52.3 per cent; intermediate goods 40.3 per cent; and 55.2 per cent for import substitute goods.

Agricultural exports rose from $402.7 million in 1969 to $491.3 million in 1971 for a 22 per cent increase in two years. The bulk of the increase was from cotton exports. Exports earning from cotton rose from $113.6 million in 1969 to $193.1 million in 1971, for a 59 per cent increase in the same period. The sharpest increase in agricultural exports after devaluation of Turkish currency happened in 1972 with a 20 per cent increase over 1971 and with a 37 per cent in 1973 over 1972 export earnings. But this trend slowed down in 1974 and increased only 2.5 per cent over the previous year.

The share of agricultural exports in total Turkish export earnings reached the lowest point in the history with a 56.6 per cent share. In the same year, export of agricultural commodities declined 7.5 per cent compared to 1974 earnings. But 1976 export earnings from the same group rose from $792.6 million in 1975 to $1,254.4 million in 1976 for a 58 per cent increase in a year, increasing the share of the agricultural exports to 64 per cent in total export earnings.[19] In terms of percentages the European Economic Community's agricultural imports from Turkey stayed almost at the same level between

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[19] OB, Iktisadi Rapor, 1977, op. cit., p. 492.

1971 and 1975; 36.6, 33.6, 36.2, 41.6, and 36.3 per cent, respectively.

Competition in Agricultural Goods' Market and Future of Turkish Products

The major competitor of Turkey in dried figs and raisins markets is Greece, and she will be more competitive if she becomes a full member of the Community in the near future. As a full member, Greek goods would receive preferential treatment over Turkish goods from the European Economic Community. Since the supply would appear to pose no problem for this, currently one of the largest sources of exchange earnings from commodity trade, a search for other large markets elsewhere would be unavoidable for Turkey. As seen in Table IV, the EEC countries are the major importers of Turkey's dried raisins and figs. In the last four years, an average of 85 per cent of the total raisin exports consumed in EEC countries came from Turkey.

Since 1964, export prices for raisins have been set on the basis of a trade agreement between Turkey, Greece, and Australia, with cooperation from California growers. But this agreement did not work effectively in the past because each exporting country offered rebates to the importers in order to stimulate the demand for their products. In the dried figs market, the EEC's share was over 60 per cent in the last three years. Dried figs production decreased substantially because of cheaper prices and so did the exports.

TABLE IV

EXPORTS TO THE EEC AND THE REST OF THE WORLD OF TURKEY'S FOUR MAIN AGRICULTURAL EXPORT PRODUCTS

Product	Year	World		EEC		EEC's Share in Total Exports (as %)
		Tons	1,000	Tons	1,000	
Tobacco	1973	108,499	132,959	30,061	20,951	15.8
	1974	112,371	204,475	37,898	66,017	32.8
	1975	65,638	183,213	13,051	34,506	18.8
Raisins	1973	89,803	58,026	66,108	43,768	74.9
	1974	67,266	55,026	58,694	49,058	89.0
	1975	76,393	46,676	63,914	38,709	82.9
Dried Figs	1973	33,773	16,252	20,395	10,470	64.4
	1974	24,588	17,244	14,682	10,746	62.3
	1975	26,906	18,919	15,281	11,289	59.6
Hazelnuts	1973	94,445	121,685	61,148	80,380	66.1
	1974	120,184	182,049	80,894	124,579	68.3
	1975	97,824	165,174	60,930	101,297	61.3

Source: Association Between the European Economic Community and Turkey, Eleventh Annual Report of the Association Council, (Brussels, 1975), p. 52.

For instance, total dried figs exports of Turkey declined from 33.7 thousand tons in 1973 to 26.9 thousand tons in 1975 for a 25 per cent decrease in two years.

Tobacco

Domestic agricultural price policies are an important determinant of Turkish tobacco exports. For domestic production of manufactured tobacco products, there is a state monopoly. The state monopoly inspects the tobacco crop each year and makes "support purchases" to determine the local selling price, taking into account the quality and the condition of the harvest. Private merchants can buy tobacco only for export trade.

The domestic price support for tobacco and the behavior of state monopoly have been the key determinants of the quantity and value of Turkish tobacco exports. Given the ability of the state monopoly to sustain losses, it is hardly surprising that tobacco exports appear to have been little affected by fluctuations in the real exchange rate or by the 1970 devaluation.[20]

This entire commodity group consists of simply unmanufactured goods and is Turkey's second most important item. Here again, Greece is an important net exporter with volume running as high as Turkey's total tobacco exports.[21]

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[20] Krueger, _op_. _cit_., p. 197.

[21] Seymour S. Goodman, _Turkey's Trade Prospects in the Common Market: An Explanatory Study_ (Istanbul, 1969), p. 30.

Further, a commodity that is undoubtedly price-inelastic in demand and probably income inelastic as well is likely to be more dependent on market growth (cigarette smoking population) for an increase in volume and the value, so the rate of market expansion may be the principle factor affection long-run prospects for exports of this commodity.[22]

Hazelnuts

Turkey does not have strong competitors in this field. But there is considerable evidence that the demand for hazelnuts is price elastic. In other words, they are close substitute for other nuts and are purchased primarily for baked goods, where substitution possibilities as well as changes in ingredient proportions are sensitive to relative changes in input prices.

As can be seen from Table V, hazelnut exports have increased 27 per cent in 1974. The hazelnut imports of EEC countries also increased at the same rate in the same period. But hazelnut imports decreased 25 per cent in 1975.

While hazelnut production is increasing at a more rapid rate, the world's hazelnut consumption increased with a decreasing rate. For this reason, Turkey's hazelnut stocks increased year after year. According to the latest estimations, at the end of 1980, total stocks will reach 100,500 metric tons.

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[22] *Ibid.*, p. 31.

TABLE V

HAZELNUT PRODUCTION, DOMESTIC CONSUMPTION, AND EXPORT ESTIMATIONS (METRIC TONS)

Years	Production	Domestic Consumption	Exports	Unsold Stocks
1976	117,200	10,800	92,000	15,000
1977	126,000	10,500	100,000	15,500
1978	135,000	11,400	102,000	21,600
1979	148,000	12,800	112,000	23,200
1980	162,000	14,200	122,000	25,200
		Total Unsold Stocks		100,500

Source: M. Naci Pamuk, Cumhuriyet, January 16, 1976, p. 2.

Because of support buying, most of these stocks will be held by government and be used for hazelnut-oil production. The uses of stocks for oil producing purposes will result in TL 2 billion (approximately $150 million) losses for the national economy in the next five years. What can be done in order to solve the problems related to hazelnut production? M. Naci Pamuk in his article which appeared in a daily newspaper has suggested the following.[23]

[23] M. Naci Pamuk, "Findik Uretiminin Yarattigi Sorunlar," Cumhuriyet, September 11, 1976, p. 2.

1. Hazelnut growing areas should be limited, especially in irrigatable areas.

2. All necessary measurements should be taken in order to raise quality of the present production.

3. Promotional activities in domestic markets must be increased in order to stimulate domestic consumption.

4. Advertising and other promotional campaigns must be analyzed carefully in all importing countries. Advertising budgets of both private and public corporations should be increased.

5. Instead of a "tax rebate," a "premium system" should be used to encourage the export of hazelnuts.

Common Agricultural Policy (CAP)

From the very outset, agricultural integration within the European Economic Community has been difficult and controversial, both economically and politically. In some member countries such as France, the Netherlands, and Italy, the agricultural sector has traditionally been of great importance to the economy. Ismail Bulmus, in his book, has examined the agricultural production potentials of the EEC member countries. According to Bulmas:

> France is an exporter of grain and is almost self-sufficient, except in tropical and subtropical products. Prices on the whole have been maintained above world prices through subsidies. Grain has been purchased at fixed prices by an official board, and exports have often been subsidized. The Netherlands has an interest in exporting fruit, vegetables, and dairy products.

> Government intervention in agriculture has taken the form of a complicated support system. Italy is a major exporter of fruits and vegetables, but its grain production is inefficient and has been product.
>
> The negotiators of the Rome Treaty refrained from tackling specifically the differences between France and the Netherlands, which wanted to increase exports, and Germany and Belgium, which were reluctant to accept increased imports. Moreover, Germany and Belgium wanted to continue to protect their farmers by maintaining high prices. Italy was torn between the need to protect its grain farmers and the desire for free trade in fruit.
>
> The Common Market agricultural program is based on five main objectives, as outlined in Article 39 of the Rome Treaty. First, agricultural productivity is to be increased through . . . technical progress and by ensuring the rational development of agricultural production and optimum utilization of the factors of production, particularly labor. Second, the agricultural population is to be assured a fair standard of living, so that per capita incomes attain a level comparable to that of the nonfarm population. Third, the agricultural markets are to be stabilized. Fourth, regular and sufficient supplies to farm produce are to be guaranteed. Finally, these supplies are to reach the consumers at reasonable prices.[24]

Clearly, efforts to stabilize agricultural markets and encourage the growth of agricultural productivity are compatible with the assurance of a "fair" standard of living for the farm population, although price support programs will play a leading role in fulfilling the objectives. The EEC countries will permit highly competitive agricultural imports

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[24] Ismail Bulmus, Avrupa Toplulugunun Tarim Politikasi, translated by Mustafa Aksoy (Ankara, 1977), p. 9.

from nonmember countries only if EEC farm price levels are not significantly affected by them.

Security for the farmers in the member countries is provided by Article XXXXIV, which gives each country the right to apply " . . . a system of minimum prices below which imports may be temporarily suspended or reduced: or made conditional on their price being above the minimum price fixed for the product concerned." In effect, this Article guarantees the agricultural price levels against all pressure applied by imports from the remaining EEC partner countries. The minimum price system is designed to be based on a set of objective criteria, proposed by the Commission and approved by the Council of Ministers. Average national production costs figure most prominently in the formation and revision of these criteria. Each country may fix its own minimum prices until the Council's decision takes effect, but only after notifying the Commission and the remaining member countries. Ultimately, a common agricultural policy is to supercede the minimum price system.

The Mansholt Plan

Perhaps the most serious challenge faced by the Common Market in its history came as the result of the Commission proposals debated in the closing weeks of 1963. Called the Mansholt Plan after Sicco M. Mansholt, a former Dutch farmer who served as Vice President of the Common Market Commission in charge of agriculture. This set of proposals represented problems facing the Community, but also an effort to satisfy the conflicting desires of the various national agricultural interest.

Essentially, the Mansholt Plan called for the quick adoption of a true common agricultural policy, including common EEC grain prices. This was to be taken in one step, to be completed before July 1, 1964, by lowering relatively high grain prices in Germany and raising the relatively low prices in France. The German farmer would suffer price cuts from 11 to 15 per cent, with a provision for long-term subsidies to ease the burden while grain prices would be raised by 5 to 8 per cent in France and Italy.[25] These prices would be changed each year to take into account changes in agricultural incomes, in consumer prices, and in general condition of supply and demand in farm products. At the same time, the plan provided for a common stand on agriculture by the six member countries during the 1964 GATT tariff negotiations.

Early in December, 1963, during the marathon negotiations of the EEC ministers of agriculture on the Mansholt Plan, the French delegate staged a dramatic walk-out, delivering a "serious and solemn" warning to his fellow ministers, and returned to Paris for consultations. He had warned that France would be forced to revise its entire policy on the Common Market and European political integration unless the de Gaulle year-end deadline of 1965 for Common Agricultural Policy were met. In many quarters, this ultimatum was held to mean an eventual breakup of the Common Market, and the whole western world felt the tension of the negotiations in Brussels.

The solution of the deadlock came December 23, 1963, with the broad compromise agreement both on the Mansholt proposals and on the EEC agriculture position in the 1964 GATT tariff negotiations. Common prices were negotiated for dairy produce, beef, and rice, and Germany retained the right to subsidize her dairy farmers for a reasonable period of time and purchase Danish beef until 1965. The question of fixing grain prices, which formed the crux of the Mansholt Plan and the French demands, was postponed until after the German election in 1965.

In the end, each of the opposing member governments had compromised on one or more of its demands, and each was apparently satisfied with the result.

The CAP and Potential Members

All the potential new member countries now knocking at the Community's door (Greece, Turkey, Spain, and Portugal) depend more heavily on agriculture and trade in farm goods than present members of the EEC. But the Common Agricultural Policy (CAP) will not necessarily prove an unmixed blessing to them if they become members, and for the present Nine a heavier agricultural bias in an enlarged community may well increase the burdens imposed by the policy.

The CAP's main task is to regulate prices and to control the flow of goods onto the Community market, both from inside and outside the EEC, to keep these prices steady. In the 1960's CAP prices were well above world market prices. After the explosion of internaional cereal prices in 1973 and 1974 some Community prices ended up below world levels, and were kept there by taxes imposed by EEC exports[26]--a bonus for consumers. But this could not last. As a general rule, the CAP aims to keep prices of Community produced farm goods slightly higher than those from outside.

This means that Community members who are net importers of food tend to lose out on the CAP, paying more to other Community producers or in taxes to Community funds than they would if they bought food from the least expensive source in the world market. Members who are net exporters should be gaining, to the extend of the difference between the price they might get in the world market and what they are paid in the Community market (minus their contribution to Community budget spending on maintaining prices)--though in a less immediate sense, all members are losing by the CAP because its artificially high prices encourage more resources to be used in each country's farming than economically justified.

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[26]The Economist, September 11, 1976, p. 64.

TABLE VI

AGRICULTURAL POTENTIALS OF ASSOCIATE MEMBERS AND NEW APPLICANTS

	Greece	Portugal	Spain	Turkey
Farm area (million ha)	9.1	4.9	37.4	48.7
Farm labor force (million	1.4*	0.8	3.5	8.7
as % of total labor force)	4.1*	30.0	27.0	65.0
% of GNP derived from agriculture	19.0	13.0	13.0	29.0
Agricultural exports (U. S. $m)	310.0	273.0	936.0	695.0
of which fruit & veg. (%)	43.0	36.0	63.0	53.0*
of which drink (%)	6.0	46.0	20.0	N/A
of which tobacco (%)	28.0	N/A	N/A	19.0
Agricultural imports (U. S. $m)	255.0	443.0	1,061.0	47.0
of which meat & animal products (%)	52.0	9.0	16.0	N/A
of which cereals (%)	14.0	32.0	15.0	N/A
of which oils & fats (%)	6.0	17.0	24.0	N/A
Agricultura trade balance (U. S. $m)	+55.0	-170.0	-125.0	+643.0

Source: OECD. Figures are for the early 1970's.

*These figures may overstate the numbers depending on farming as a main source of income, including cereals, pulses, cotton, tobacco, hazelnuts, sultanas, citrus fruit, and other crops.

The Most Beneficiaries from CAP

Of the new applicants for EEC membership, Spain and Portugal, despite the importance of agriculture in their economies, are net importers of farm products. Greece has a small farm export surplus. Turkey has a large one, and farm exports make up three-quarters of its total export earnings. So convention wisdom suggests that as EEC members Spain and Portugal would lose by the CAP while Greece would come out with a small gain and Turkey with a large one.

But things are not that simple. The Community does not protect all farm products to the same degree. The gap between internal and external prices has usually been the largest on cereals, milk and dairy products, and meat (though the relationship is variable), and smallest on fruit and vegetables. tobacco, and wine. All the candidate countries except Turkey are net importers of cereal and meat and major exporters of fruit and vegetables, especially citrus fruit, wine, and tobacco. Therefore, the only prospective new member who is likely to have a net benefit from the CAP's farm export protection is Turkey.[27]

If the candidate countries join the EEC, their output of fruit and vegetables would more than meet their needs. As long as those candidate countries are basically agricultural producers and they have cheaper labor supplies, their production costs for these goods would be lower than the Nine's. So a price high enough to keep existing members happy might encourage new members to increase their production. But this

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[27] Ibid., p. 65.

might result in vast new piles of unsaleable EEC farm products joining the beef and butter and the wine stocks which has caused much bitterness between France and Italy. The Community has already suffered from occasional gluts of apples, pears, tomatoes, peaches, and some citrus fruits. The new members could make these surpluses even more severe. Some of the products in question are so perishable that storage would be impractical. To cope with the surpluses, either prices would have to fall by a large margin or the Community budget would have to be expanded to meet a large new open-ended commitment.

A larger output of Mediterranean products could also create problems for the Community because of its promises made to third world countries. Agreements with most Mediterranean states commit the Nine to taking some of these countries' exports of the same farm goods of which the four new members would be tempted to produce more. The Rome agreement also binds the Community to reserving a share of its market for certain farm products for the club of African, Caribbean, and Pacific countries. And in the United States a vigilant citrus lobby would fight strenuously to retain its market share in Europe.

None of this augurs well for Greece, Spain, and Portugal to sell significantly more farm products to the existing Nine to offset the CAP-induced higher cost of their meet and cereal imports. Turkey may be better placed. If its enormous potential for agricultural expansion could be mobilized, extra production of oilseeds and feed grains, of which the Community as a whole is a net importer, could significantly increase its export earnings.

Italy's Position as a Major Producer

Extra protection for Mediterranean products through the CAP might benefit Italy to an embarrassing degree. The Community has already tried to limit the damage caused by the CAP to the Italian economy by building especially high protection walls for olive oil and durum wheat and by handing out a large share of the Community's farm modernization funds to Italy. The Italians, themselves, have sometimes argued that the accession of new Mediterranean members would strengthen the voice of the south in the Community and provide more protection for its products. But Italy is far less needy than the potential new member countries, and the more northerly countries would object to blanket increases in CAP spending which would help the poor and the relatively rich alike.

Chapter Summary

In summary, after Turkey committed herself to join the European Economic Community, private and public sectors started to analyze their present and future situations considering the association agreements. In the preparatory period which ended in the second half of 1970, Turkey assumed the responsibilities of preparing herself for the obligations involved in the gradual establishment of a customs union with the EEC. During the preparatory period Turkey enjoyed preferential treatment granted by the terms of the Ankara Agreement.

The gradual establishment of the EEC-Turkey customs union started with the beginning of the transitional period. Turkey started reducing tariffs on industrial imports from the Community, and will progressively eliminate all other custom duties on imports from the Community. Turkey was granted an intra-Community status for her exports of industrial products except for some textile items. Most of the Turkish agricultural exports were granted favorable terms; tobacco started to enter into the EEC duty-free, and most other agricultural products were accorded tariff reductions ranging from 50 to 75 per cent.

Turkey's foreign trade deficits increased substantially in the last four years, exceeding $3 billion in 1976. The share of agricultural products in export earnings declined over the years while the share of industrial goods increased. Turkey's main agricultural goods are cotton, tobacco, hazelnuts, dried figs, and raisins and, in recent years, citrus fruit. The major competitors in the agricultural goods' market are Italy, Greece, Portugal, and Spain, but Turkey has a better chance to effectively compete with them. Also, she is the only prospective member likely to realize some net benefits from the application of Common Agricultural policies.

Chapter III includes labor migration from Turkey to the Western European countries. Special emphasis is given to the economic effects of labor migration on the Turkish economy. A survey result is also tabulated and analyzed in the next chapter.

CHAPTER III

LABOR MIGRATION AND ITS EFFECTS ON TURKEY'S ECONOMY

Introduction

Large-scale international movements of European nationals are not new. Prior to 1918 all labor movements were unrestricted by governments. Between 1860 and 1914, for example, the number of foreigners in Switzerland quintupled, reaching 600,000 or 15 per cent of the population. These foreigners were spread more evenly over Switzerland than the present foreign workers; they traveled as individuals and were accompanied by their families. Foreigners in Germany amounted to 950,000 in 1907 or the same order of magnitude as that reached in 1964, 3.4 per cent of all employees, as contrasted with 4.4 per cent later; but the 1907 group generally came from Austria-Hungary (43 per cent) and Russia and Poland (25 per cent, collectively) instead of from the Mediterranean countries.[1] France had 1,160,000 foreigners in 1911 and 1,500,000 in 1921 and 2,700,000 in 1931. Immigration was sought to make up the humanpower losses of World War I.

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[1]Charles P. Kindleberger, Europe's Postwar Growth (Cambridge, Massachusetts, 1967), p. 177.

Immediately after World War II, there were problems of meeting particular needs for workers and findings jobs for people unwilling to be repatriated. In 1953, the Organization for European Economic Cooperation (OEEC) adopted its first rule to restore wider freedom of movement.

The Rome Treaty of March 25, 1957, provided for the creation of a Common Market not only in goods, but in capital and labor. The European Economic Community's social policies are aimed at improving wages and working conditions and at maintaining a high level of employment. The Treaty of Rome which created the EEC provides a basis of equal pay for men and women, overtime pay, paid vacations, and social services. High employment is ensured through the free movement of labor, investment in retraining and relocating workers, and aids to economic development.

In January of 1959, the Community established the first regulations providing for the conditions under which social security benefits are provided to non-nationals and the kind of benefits given. Articles XXXXVIII and XXXXIX of the Treaty of Rome deal with the free movement of labor within the Community. Article XXXXVIII provides that the free movement must be ensured not later than the end date of the transition period, " . . .discrimination based on nationality between workers of the member states in regards to employment, renumeration, and other working conditions" was prohibited.

These regulations have helped the Community to meet its labor shortages, by permitting more than 700,000 Italian workers to find jobs in other Community countries[2] prior to 1966, and, in later years, by opening the way for increasingly large numbers of non-Community workers to migrate to labor-shortage countries.

Causes of Labor Shortage in Europe

Viewed demographically, the labor shortage in Western Europe, which first became acute in the early 1960's, stems from multiple factors. Among the more predominant of these are as follows:

1. Depressed birth rates during the war years (1939 to 1945);
2. Casualties suffered in the war;
3. Birth rates which again fell appreciatively after a relatively brief post-war rise;
4. The consequent aging of the population which is the inevitable consequence of the foregoing variables;[3] and
5. The postwar recovery and dramatic economic growth in the 1960's.

Because of these reasons, several European Economic Community (EEC) member countries, especially the Federal

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[2]Gordon L. Weil, _A Handbook on the European Economic Community_ (New York, 1965), p. 257.

[3]R. E. Krane, "Effects of Cyclical International Composition Migration Upon Socio-Economic Mobility," _International Migration Review_, VII (Winter, 1973), 428.

Republic of Germany, were forced to seek alternative labor suppliers from nonmember countries. In a short period of time Spain, Greece (1960), Turkey (1961), Yugoslavia (1962), Portugal (1964), and more recently Morocco and Tunisia (1971) became major labor supplying countries for the EEC countries.

The Importance of Foreign Labor for the EEC Countries

The primary economic factor in the immigration of foreign workers was the inability of national labor to satisfy the quantitative requirements of growth. This deficiency took several forms:[4]

1. A general shortage in all jobs in all sectors and branches of activity or in nearly all of them;
2. Shortages in certain sectors or branches;
3. Shortages only in certain jobs or certain social or occupational categories.

The diversity of forms under which deficiencies took place was reflected in the frequently large degrees of diversity of foreign manpower requirements. In the various cases the needs were for

1. Immigrants who are capable of filling a very large range of vacancies in a very wide variety of branches: the laborer alongside the highly skilled workers, the machine operators and the "white collar workers," etc.;

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[4]Robert Descloitres, The Foreign Worker: Adaptation to Industrial Work and Urban Life (Paris, 1965), p. 32.

2. Immigrants who are relatively specialized or are prepared to confine themselves to a small number of activities;

3. Unskilled immigrants who are willing to engage in work refused by national workers on the grounds that it is poorly paid, dangerous, dirty, and/or degrading.

European Migratory Movements

The fundamental causes of immigration movements in Europe are mainly economic. In the countries of departure, emigration movements stem mainly from economic factors.

Once there are no obstacles of a geographical, political, legal, or cultural nature, it may be assumed that the lower the level of economic and social development in a country, the higher will be the number of candidates leaving to find work elsewhere. Emigration is favored by many factors, including an excess of population in relation to resources and technology; the low productivity of agriculture; a small, weak industrial sector; and, as a result, considerable under-employment, the lack or scarcity of a qualified and specialized manpower, slender prospects of vertical social mobility, and lack of productive investment.[5]

It would, however, be premature to disregard the other factors which still help to determine the characteristics of the migratory movement direction, volume, and duration, and the sex, age, marital, and family status of migrants.

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[5] Ibid., p. 35.

One cannot examine the different factors of immigration, political as well as economical, legal, social, and cultural, without showing how they are affected by corresponding factors in the emigrating countries. Obviously, if as a general rule, the same factors, either opposing or concordant, were to be found in the departure and receiving countries, there would in the first event be no migratory movement between them and, in the second, no problems would arise. In fact, there is a highly complex mechanism of multiple factors combining together in different ways and in many different parameters, and not always running smoothly.

Migration Trends

As the movement from South to North developed after the war, the beginning of a predictive model of migration emerged. The first wave of migrants usually consisted of unskilled rural workers. After a short period of time, immigration countries started recruiting selected engineers, technicians, and skilled workers. Then they accepted a limited number of unskilled workers to fill vacancies in less prestigious and dirty jobs. This pattern repeated itself as old sources of mass migration deteriorated and new ones developed.

The trend in the number of work permits granted to non-national workers by the member states of the European Economic Community between 1958 and 1964 was marked by an almost constant growth with the exception of 1959. The number of such permits rose from 241,379 in 1958 and 827,646 in 1964, as the economic development of all members except Italy led to labor shortages, and demand for non-national workers increased.

Table VII shows the emigration trends of Turkish workers to the western European countries. The third column of the table shows the cumulative number of Turkish workers, and the last column includes their yearly official remittances in millions of U. S. dollars.

TABLE VII

TURKISH EMIGRANT WORKERS IN WESTERN EUROPEAN COUNTRIES

Year	Number of Workers	Cumulative	Remittances (in million $)
1961-1966	195,095	195,095	192,200
1967	8,947	204,122	93,029
1968	43,204	247,326	107,318
1969	103,975	351,291	140,636
1970	129,575	480,866	273,020
1971	88,442	569,308	471,000
1972	85,229	654,537	740,106
1973	135,820	790,357	1,183,255
1974	20,211	810,568	1,426,307
1975	4,439	815,007	1,299,648
1976	10,739	825,746	982,700

*Source: Iktisadi Rapor, Turkiye Ticaret Odalari, Sanayi Odalari, ve Ticaret Borsalari Birligi (Ankara, 1977), pp. 70-72; Turkey-EEC Relations 1963-1977 (Ankara, 1977), p. 136.

Turkish workers entering western European countries became significant in 1961 with 1,477 entries with the cumulative number of workers rising spectacularly to 160,685 in 1965, almost a half million in 1970, and 825,746 in 1976. The main reason why the EEC countries with manpower shortages have had to turn more and more to non-Community countries for help was because of the continued decline in Italian emigration, caused by industrialization in that country and rising wages.

Europe's greatest labor migration lost steam in the first half of 1966; Common Market countries hired only 339,000 foreign workers, compared to 390,000 in 1965.[6] Labor migration continued to decline in 1966. Turkey, like other Mediterranean countries, showed substantial emigration declines, from 51,520 in 1965 to 8,947 in 1967, and rising again in 1968, with this trend continuing until 1973. Starting from 1974, Common Market countries stopped accepting large numbers of foreign workers from nonmember countries because of higher unemployment rates among their own nationals. As can be seen from Table VII, only 4,439 Turkish workers emigrated to the European countries in 1975. Most of them were relatives of present workers who were in demand by German manufacturers. In 1976, 73 per cent of the migrants were highly skilled workers.

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[6] Anthony T. Bouscaren, European Economic Community Migration (Netherlands, 1969), p. 21.

Short Review of the Theory of Migration

Labor or manpower flows between nations are largely a consequence of imbalances in the development of nations. The causes of migratory movements which have taken place since the late 1950's are far too varied and complex to examine adequately here. But certain general features which apply in nearly all cases will be examined shortly.

The Push Factors

The principle push factors which encourage people to leave their country of origin are unemployment, poverty, and underdevelopment. The slow rate of economic growth in some countries has meant that their capacity to absorb educated manpower into the economy is less than their capacity to produce such people in their educational system. This generates an "over-flow" which contributes to migration.[7] It has been estimated that between 1965 and 1970 approximately 80,000 skilled persons left Turkey to work in the EEC countries.[8]

The situation in the unskilled labor market is not much different than that in skilled labor employment. Job opportunities have not expanded rapidly enough to absorb the

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[7]The Ditchley Foundation, International Migration of Talent from and to the Less-Developed Countries, A Report of a Conference at Ditchley Park XVI-XIX (February, 1968), p. 14.

[8]Third Five Year Development Plan (Ankara, 1973), p. 775.

massive flow of unskilled workers. Over the decade ending in 1972, only 524,000 workers in Turkey were able to find jobs in industry.[9]

As can be seen from the analysis of Table VIII, the active population in the agricultural sector in 1973 accounts for more than 60 per cent of the total employed population. Because of seasonal characteristics of agricultural activities, most of the workers in this sector may be considered part-time workers. But they actually desire full-time employment in industrial positions.

The total labor surplus was 10.6 per cent in 1973 and increased steadily over the years. It has been estimated that total labor surplus was 13.3 per cent in 1977.

These conditions are more or less constantly present in all labor supplying countries. There are several important characteristics. First, there are the high rates of natural increase in population. Algeria is the extreme case with an increase of 3.4 per cent annually. Turkey has the highest rate of increase among European countries with a 2.5 per cent annual increase over the decade ending in 1976. Southern European countries have lower rates of increase: Greece has 0.6 per cent annually, Spain has 1.2 per cent per year, and

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[9]Emin Carikci, "The Economic Impact of Manpower Migration to Western Europe on the Turkish Economy," unpublished doctoral dissertation, New School for Social Research, New York City, New York, 1975, p. 93.

Portugal has 0.6 per cent in the same period of time.[10] But these rates are still higher than those typical for the immigrating countries: Switzerland has 0.4 per cent in the first half of 1976; Germany had 0.5 per cent between 1965 and 1975, but 0.5 in 1976; and Belgium had 0.3 per cent in the same time period. Only France has a higher rate of population increase --0.8 per cent--than two labor supplying countries (Greece and Portugal).

TABLE VIII

EMPLOYMENT AND LABOR SURPLUS IN TURKEY
(in thousands)

	15-64 Age Group				
	1973	1974	1975	1976	1977*
1. Supply of labor	14,670	15,150	15,600	15,990	16,380
2. Demand for labor	13,946	14,088	14,319	14,621	14,897
Agriculture	8,760	8,735	8,705	8,680	8,600
Nonagriculture	4,920	5.203	5,479	5,806	6,162
Unknown	130	130	130	130	130
Emigrated workers	136	20	5	5	50
3. Labor surplus-non-agriculture	724	1,062	1,281	1,369	1,483
4. Labor surplus-agriculture	840	800	750	710	700
5. Total labor surplus	1,564	1,862	2,031	2,070	2,183
Total labor surplus (%)	10.6	12.3	13.0	13.0	13.3

*Temporary estimate

Source: Turkiye Ticaret Odalari, Sanayi Odalari ve Ti aret Borsalari Birligi (OB), Iktisadi Rapor-1977, p. 67.

[10] OECD, Main Economic Indicators (November, 1977), p. 157.

Second, labor supplying countries all have low levels of per capita income. When mass labor migration reached its peak period in 1967, the per capita gross national product at market prices in some labor supplying countries were as follows: Turkey $353 and Spain $822. By comparison, the per capita GNP in immigrating countries ranged between $1,977 (United Kingdom) and $2,324 (France).[11] In labor supplying countries, it is not just the average level of income which is decisive, but rather the inequality of distribution between different regions, between different towns and counties, and between different social classes as well.

Causes of Imigration

To understand fully the causes of emigration would involve studying the cause of underdevelopment in the contemporary world. The disparity between fast demographic growth and comparatively slow development of the resources available to the population is due on the one hand to the uneven development of the capitalist economy within Europe, and on the other to Europe's imperialist exploitation of the third world.[12] In both cases, the industrial revolution has destroyed traditional systems of production, but has at the same time brought about a population explosion by drastically reducing the death rate. The result is a surplus of

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[11] Stephen Castles and Godula Kosack, Immigrant Workers and Class Structure in Western Europe (London, 1973), p. 27.

[12] Ibid., p. 28.

people who cannot find employment in their own countries and who are faced with a choice between poverty and near starvation at home or emigration to the EEC countries where industry urgently needs labor.

Ahmet Aker has done a research study on Turkish labor migration,[13] and listed the primary and secondary reasons for migration (see Table IX). Almost two-thirds of the workers indicated "low income" as a primary reason for migration. Average annual income of an industrial worker in Turkey is above the annual income of 70 per cent of the population. In this case, they are comparing their salaries and standard of living with the same occupational group who are already employed in Germany. The annual income of a Turkish migrant worker in Germany is four times greater than those who are employed in Turkey in some types of industry.[14] The second primary reason was indicated as "to save money." This group is only 13.4 per cent of the sample and most probably their annual income is greater than the average annual income of industrial workers. The main motive for this group might be to buy an apartment, or establish a private business after returning home. Most of the workers (47.5 per cent) in the sample did not give secondary reasons for migration. The only noticeable secondary reason was "to save money." Aker's

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[13] Ahmet Aker, Isci Goeu, Sander Yayinlari (Istanbul, 1972), p. 94.

[14] Ibid., p. 95.

study concluded that the great differences in worker's income in the Federal Republic of Germany and Turkey was the main reason for labor migration.

TABLE IX

CAUSES OF MIGRATION TO THE FEDERAL REPUBLIC OF GERMANY

Causes	No. Workers in Sample	Per Cent
A. Primary causes		
Insufficient income	368	62.4
To save money	79	13.4
Unemployment	67	11.4
Education	6	1.0
Pay the debts	5	.8
Other reasons	33	5.6
No reason given	21	3.6
B. Secondary causes		
Insufficient income	52	8.8
To save money	128	21.6
Unemployment	53	9.0
Education	2	.3
Pay the debts	11	1.9
Other reasons	52	8.8
No reasons given	280	47.5

Source: Ahmet Aker, Isci Gocu, Sander Yayinlari (Istanbul, 1972), p. 94.

The Pull Factor

The pull factors are a combination of economic, demographic, and social developments in Western Europe during the postwar period. There has been very rapid and almost continuous economic growth in most EEC member countries. Postwar recontruction rapidly absorbed the returning soldiers and any existing unemployed population. There was soon a marked shortage of labor.

The demand for highly qualified manpower which was growing faster than the output of the educational system in the EEC countries was an important factor. Another important factor was the increasing length of full-time education, which postpones the entry of young people into the labor force. Special causes can be found in certain EEC countries: for instance, the building of the armed forces in Germany withdrew about half a million young men from the economy.[15]

These resulted in good opportunities for qualified immigrants, especially engineers and technicians. In later years of immigration, unskilled and semi-skilled workers had the same opportunity simply because Common Market native workers have been able to take advantage of opportunities to move into better-paying and more pleasant jobs, usually in the white-collar or skilled sectors. Many workers have been able to obtain vocational training, and young people entering the labor market have had far higher average levels of education than in the past.

Few indigenous workers have been willing to remain in unskilled manual jobs, and often they refused to be employed

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[15]Castles and Kosack, *op. cit.*, p. 28.

in dirty and less prestigious positions. The result has been an increasing need for labor in areas deserted by indigenous workers. The recruitment of unskilled and semi-skilled immigrant workers become unavailable for those countries which experienced this situation.

Turkish workers are motivated by purely economic considerations. They have migrated in response to differences in the private incomes available to them, where "private income" means the sum of net income after taxation and the value to them of the government services they receive in exchange for their taxes.

They are interested in making as much money as quickly as possible, so they can return to their countries after acquiring skills, in the hope of starting their own business or finding jobs in the emerging industries of their home towns. Emin Carikci[16] found out that the principle reason for Turkish emigration was to earn higher wages and in only 11 per cent of those surveyed was unemployment the negative stimulus (see Table X). Although some of the 83 per cent, who gave higher wages as their reason for emigrating, may have been underemployed, a higher percentage of those who migrated were technically qualified workers.

The push and pull theories of migration are flawed because the actual flow of migrants at any time depends essentially on labor demand in receiving countries and not only to

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[16] Emin Carikci, op. cit., p. 96.

a minor degree on the pressure of excess labor supplies in sending countries. For example, almost all of the EEC member countries no longer accept immigrant workers because of their high unemployment rates.

TABLE X

REASONS GIVEN BY TURKISH MIGRANT WORKERS FOR EMIGRATION TO WESTERN EUROPE (in per cents)

Reasons	Per Cent
I was unemployed	11
Due to higher wages	83
Experience	2
Education	1
Other	3
Total	100

Source: Emin Carkici, op. cit., p. 96.

Opinions of Labor Representatives on Workers' Migration and Turkey-EEC Relations

During the period of June 15, 1977, to July 30, 1977, the following data were collected from labor representatives in three large cities--Istanbul, Ankara, and Izmir. Considering the very low return rate common in the mail questionnaire technique, and in most cases the difficulty with interviewing key persons in organized labor organizations, all fifty questionnaires were distributed to carefully selected labor representatives. Personal contact produced better results than questionnaires because there was some confusion and misunderstanding among respondents about some questions. For example, the representatives of DISK in Izmir refused to complete the quetionnaire because they were against joining the Common Market and sending Turkish workers abroad. However, most of the problems were solved during a second personal contact with union leaders. In spite of several attempts to get questionnaires completed and returned, the returns were lower than expected. Seventeen of fifty respondents completed the forms, which was 34 per cent returns against the projected 50 per cent rate of return.

Table XI contains the tabulated responses of Turkish labor representatives. Examination of the table shows that 65 per cent of the respondents were under the age of fifty, and there were only two female representatives among the seventeen respondents. The majority of the union leaders were college graduates with only two of them having attended graduate school.

An analysis of Table XI shows that there is a skilled worker shortage in Turkey. Scarcities of skilled workers and technicians in several branches of manufacturing and construction industries make it increasingly difficult to bring about a further rapid rise in output and especially to carry our planned investment projects. According to the survey results, 90 per cent of labor representatives think that there is a skilled labor and technical personnel shortage in Turkey. They claimed that the scarcity of certain categories of technicians causes delays in the completion of projects and thus reduces the rate of increase in investment.

TABLE XI

DATA COLLECTED FROM TURKISH LABOR REPRESENTATIVES

Categories	Number	Percentage
A. Age		
25-40	11	65.0
40-over	6	35.0
B. Sex		
Male	15	88.0
Female	2	12.0
C. Education		
High School	6	35.0
College	9	53.0
Masters	1	6.0
Ph.D.	1	6.0
D. Union		
Turk-is	15	88.0
Disk	2	12.0

Categories	Number	Percentage
1. Is there any labor shortage in Turkey?		
Yes	8	47.0
No	9	53.0

TABLE XI -- Continued

Categories	Number	Percentage
If yes, areas of shortages		
a. skilled workers	9	43.0
b. technical supervisory personnel	9	43.0
c. construction workers	--	--
d. skilled workers for service industry	3	14.0
2. Major problem(s) of Turkish labor		
a. unemployment	9	29.0
b. underemployment	5	16.0
c. low wages and bad working conditions	12	39.0
d. high turnover	5	16.0
3. Why EEC countries prefer Turkish workers		
a. better qualified compared to other immigrant workers	--	--
b. hard working people	8	25.0
c. accept dirty and less prestigious jobs	12	37.5
d. work for less	12	37.5
4. Should Turkish government put more restrictions on migration of skilled workers?		
Yes	15	89.0
No	2	11.0
If yes, why?		
a. Domestic industries need skilled workers	10	39.0
b. They have to work in Turkey first	5	19.0
c. Country needs them for development	11	42.0
d. Other	--	--

TABLE XI -- Continued

Categories	Number	Percentage
If no, why?		
a. Turkey needs their remittances.	3	60.0
b. Domestic industries cannot absorb them.	--	--
c. Migration reduces the unemployment rate.	2	40.0
d. They will be great assets for Turkey's industrial development	--	--
5. Which of the following occupational groups should be restricted?		
a. technicians	15	41.0
b. engineers	10	27.0
c. experienced line workers	9	24.0
d. mine workers	3	8.0
6. What will happen if the EEC countries layoff large numbers of Turkish workers?		
a. They will open their own businesses in Turkey	3	10.5
b. They will create new economic and social problems	14	50.0
c. Most of them will not be able to find jobs in Turkey	10	36.0
d. Most of them will be hired by domestic industry	1	3.5
e. Other	--	--
7. Major problems of Turkish workers in the EEC countries		
a. poor housing and living conditions	15	39.5
b. low wages compared to EEC nations	11	29.5

TABLE XI -- Continued

	Categories	Number	Percentage
	c. restricted civil rights	7	18.0
	d. inadequate recreational and educational facilities	5	13.0
	e. other	--	--
8.	Reasons for decrease in remittances		
	a. several successive devaluations of Turkish lira in last two years	12	29.0
	b. high inflation rate in Turkey	11	27.0
	c. lack of investment opportunities	7	17.0
	d. a fear of another major devaluation	10	24.0
	e. other	1	2.0
9.	What should be done in order to increase the remittances?		
	a. Interest rates should be raised.	5	17.0
	b. Interest obtained from transferred savings should be tax free.	6	21.0
	c. Prize system in Turkish banking should be re-established.	6	21.0
	d. Investments of the migrant workers should be insured against any fraud.	9	31.0
	e. other	3	10.0
10.	Number of Turkish migrant workers in the EEC countries will		
	a. increase.	2	11.0
	b. be the same.	4	22.0
	c. decrease.	10	56.0
	d. decrease substantially.	--	--
	e. no opinion	2	11.0

The representatives of the Confederation of Progressive Labor Union (DISK) expressed the view that migration was not the answer to the problem of higher unemployment and that jobs should be taken to the workers, rather than the other way around.

The majority of the Confederation of Turkish Labor Unions (TURK-IS) representatives are not convinced that the mobility of labor is more desirable than the mobility of jobs. This trade union attitude emphasizes that any policy of geographic mobility has limits, because the economic costs make such a policy undesirable.

The major problems of Turkish workers in Turkey as indicated by interviewees and from questionnaire results are unemployment (29 per cent) and low wages and bad working conditions (39 per cent). These findings support Aker's study which was done in 1972,[17] and Carikci's findings which were completed in 1975.[18] As can be seen from Table X, 62.4 per cent of emigrants interviewed gave insufficient income as a primary reason for migration. According to Carikci's more recent study, 83 per cent of workers contacted in Germany and Switzerland emigrated because of higher wages in European countries.

The Common Market countries prefer Turkish workers because they accept dirty and less prestigious jobs (37.5 per

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[17] Aker, op. cit., p. 94.

[18] Carikci, op. cit., p. 96.

cent), and they work for smaller salaries (37.5 per cent). Almost all of the migrant workers from nonmember countries have the same problems. But the Turkish workers are highly regarded by German industrialists. Only Yugoslavs and Spaniards are rated better workers among the two dozen nationalities employed in Germany.[19] The main reasons for this rating are they do not refuse to work in dirty jobs, create no conflicts, and are more efficient if communication is effective.

The majority of Turkish labor, private, and public sector representatives think that government should restrict the emigration of skilled workers, because domestic industries need them and they are good assets for the country's development. In several branches of manufacturing industries, it is becoming very difficult to bring any further rise in output without enough skilled workers. And training of the unskilled and semi-skilled workers is becoming a very costly operation in terms of time and money. Forty-one per cent of those who were interviewed think that emigration of technicians should be banned. Engineers were picked as a second groups with 27.0 per cent, and experienced line workers took the third place on the list with a narrow gap of 24.0 per cent.

What will happen if the EEC member countries layoff large numbers of Turkish workers because of higher unemployment rates

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[19] The Economist (September 4, 1976), p. 75.

among their own nations? Half of the respondents think that it will create additional economic and social problems in Turkey. It will create new economic problems because workers' remittances is a very good source of foreign currency. As can be seen from Table VII, yearly remittances reached $1,426 billion in 1974. In the same year, total export revenues in Turkey was $1,532 billion. The comparison of these two figures shows how important the remittances are for Turkey's balance of payments and economic development. Most of these workers will not be able to find jobs in a short period of time, simply because most of them acquired different skills than the Turkish domestic industry needs. Most of the jobs that they are working in do not exist in Turkey. For example, any worker who is working in an assembly line in the electronic industry in Germany will not be able to find a similar job in Turkey as an experienced worker.

Forty per cent of labor representatives in Turkey think that the major problem of Turkish workers in Common Market countries is poor housing and living conditions. Housing is a very serious problem in nearly all western European countries. Population has increased considerably since the war, and the bulk of growth has been absorbed in the larger cities, where industry and services have been expanding constantly.[20] The

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[20] Castles and Kosack, *op. cit.*, p. 240.

increasing demand for housing has not been met, and many people therefore live in overcrowded and poorly equipped accommodations. Low cost accommodations are available only through the private sector. Council housing is in short supply and distributed on a first-come, first-served basis. The waiting lists are long.[21] For immigrants, the housing problem is very serious. They have great difficulty in finding anywhere to live. One reason for this is discrimination: many landlords refuse to rent accommodations to immigrants, and house owners often refuse to sell property to them. Immigrants also have special needs and problems which place them at a distinct disadvantage on the housing market.[22] First, immigrants come mainly to the already overcrowded conurbations, where jobs are available. Here they meet the worst housing situations in the country. Second, immigrant workers belong to the lowest income groups and therefore have little money available to spend on rent. Third, immigrant workers with dependents at home have to send regular remittances for their support. Most immigrants also wish to save money rapidly, in order to improve conditions when they return home. This also reduces the amount of money available for expenditures on housing. Fourth, most of the immigrants are not accustomed to spending a high proportion of their income on accommodations. Before migration, most

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[21] Turkey-EEC Relations, 1963-1977 (Ankara, 1977), p. 90.

[22] Castles and Kosack, *op. cit.*, p. 243.

lived in the country and owned their own shacks or houses. Finally, immigrants are newcomers with little knowledge of prevailing conditions and prices, and lacking the local contacts through which indigenous people often obtain housing. This makes it easy for landlords to exploit them, especially where the immigrants do not even speak the language, which makes matters still worse.

As can be seen from Table VII, starting from 1975 the amount of remittances sent by Turkish workers declined and continued to decline in 1976. There are several reasons for this development: Turkish lira was devaluated frequently against most foreign currencies. If the workers transfer their savings and convert into Turkish currency, they would lose money in a very short period of time. For instance, the value of the Turkish lira was adjusted forty-one times since 1971. Twenty-nine per cent of the respondents think that several successive mini devaluations was the main reason for the decreases in remittances. Twenty-four per cent of labor representatives think that " . . . fear of another major devaluation of lira" was the reason for decreasing remittances. In this respect, their prediction was correct. At the beginning of the fiscal year 1978, which was March 1, Turkish currency was devaluated for the second time in three months; the U. S. dollar's official exchange rate was raised almost 30 per cent to twenty-five lira from 19.25 lira.[23]

[23] The Wall Street Journal, March 2, 1978, p. 9.

Official programs to encourage a higher share of savings from earned income and to direct a higher share of savings of Turkish workers abroad into productive investment have had only limited success. The government has attempted to provide savings incentives and to create greater investment opportunities by various techniques. For example, preferential interest rates have been established in recent years on foreign exchange bank deposit accounts in Turkish banks and easier credit conditions have been established for returning workers who desire their own homes.

In August, 1973, the Turkish government authorized Turkish workers abroad to open convertible investment savings accounts with Turkish banks for the purchase of equity in domestic enterprises.[24] But this measure did not produce the expected results, because a noticeable number of enterprises went out of business in a very short period of time. Most of them were newly established and highly publicized companies. Most of their common stocks were purchased by migrant workers. Several similar developments occurred in the first half of the 1970's. Such incidents discouraged the migrant worker to purchase equities of domestic enterprises. They switched to less productive, but also more conservative, fields as housing and land acquisition.

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[24] OECD, Economic Survey, Turkey (1974), p. 54.

The respondents of mail questionnaires suggested different reasons to increase the amount of remittances. But the highest percentage of labor leaders (31 per cent) agreed that investments of migrant workers should be insured by the government against any fraud and/or misconduct. Also, in August, 1973, the interest rate on purchase of government bonds was declared tax exempt.

Concerned with the future of Turkish migrant workers in the Common Market countries, the majority of the labor representatives think that the number of Turkish migrant workers in these countries will decrease. The main reason for this prediction is higher unemployment rates among their nationals because of economic recessions. According to the Social Affairs Commissioner's report to the European parliament in January, 1974, the most vulnerable group in the face of the unemployment threat are the migrant workers.[25]

The Major Effects of Labor Migration on the Turkish Economy

Turkey presented and continues to present a unique situation in which the structural transformation from an agrarian to industrialized economy releases a steady flow of labor and the present rate of industrialization in usable to absorb and surplus labor.

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[25] A Social Policy, The European Community Information Service (Washington, D. C., April, 1975), p. 9).

The impact of labor migration on Turkey's economy will be examined briefly in the following sections. The most commonly discussed and debated impact of labor migration and Turkey-EEC relations is the remittances of workers who are employed in the western European countries.

Remittances

The sum of money sent home to their dependents by workers appears among the remittances and are often regarded as one of the major benefits of migration. Besides improving the living standards of the families concerned, those remittances are claimed to improve the balance of payments, and to provide investment capital to assist industrial development.

Since the structure of emigration currents varies at different times according to countries of destination, areas of origin, types of emigration, and economic levels of emigrants, the remittances have been inadequately analyzed from the viewpoint of both the country receiving the workers and the country sending them. In the host country, immigrants typically work unusually hard, and send home a large portion of their wages, which is the equivalent of a high marginal propensity to import. Immigrant workers contribute to the supply, but not so much to the demand for local output, so that their presence in the host country has a deflationary effect on the national economy.

In the home country, immigrant remittances represent

1. a higher return to labor than can be earned at home, since the labor is combined with large amounts of capital,

2. a credit in the balance of payments, and

3. a source of savings.

The credit in the balance of payments is statistically complex because of national accounting systems and balance of payments bookkeeping. However, whatever bookkeeping system they use, the remittances constitute a flow of foreign exchange available to the national monetary authorities that is better than exports because it is not preceded by expenditures on labor and materials, some part of which comes from abroad or in the case of the expenditure, be quickly spent abroad. These remittances have a higher than normal marginal and average propensity to go into savings because so many of them are sent for special purposes. The worker abroad wants to save as much as he or she can in a short period of time and return home as soon as possible. The purpose in emigrating is often to save for a particular target--to purchase a piece of land or a house or to open a privately owned business--and even if the individual is working toward savings in general, his/her family is disposed to live economically, as s/he does abroad, and to await his/her return.

Remittances of Turkish Migrant Workers

The main objective of the Turkish migrant worker, like others, is to earn and save as much money as possible so that the worker can return home as soon as the goal of accumulated wealth has been accomplished.[26] Most migrant workers tend to have a very large propensity to save out of disposable income.

Workers can save monthly amounts ranging from slightly greater than their total monthly income before migration. According to State Planning Organization (SPO) survey results, the average propensity to remit varies among migrant workers:

Average propensity to	% Total	% Urban	% Rural
Consume abroad	43.0	43.0	43.0
Save	35.5	33.3	39.5
Remit	11.0	8.2	15.3

Rural emigrants remit 15.3 per cent of their monthly income while urban emigrants remit only 8.2 per cent. This great difference is simply because of their family and social backgrounds. People from rural areas are much more conservative about spending and saving, as they see savings as solid insurance for their future.

Emin Carikci, in his unpublished dissertation,[27] challenged the SPO survey findings. In January and February of

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[26] Carikci, _op. cit._, p. 124.

[27] _Ibid._, p. 126.

1974, the Turkish Migrant Labor Survey, undertaken by Carikci, reported that Turkish workers save an average of 43 per cent of their monthly net pay. They reported that their monthly net pay averaged TL 6,977 (U. S. $500). Using $500 as the average monthly disposable income of Turkish migrant workers and 43 per cent as the average propensity to save out of disposable income, and assuming 800,000 workers are employed in the EEC member countries at the end of 1974, and if the average monthly savings of Turkish workers abroad is $215 ($500 average monthly disposable income x 0.43 the average propensity to save), then the total annual savings of Turkish workers abroad is estimated at $2.06 billion. However, Turkish workers abroad remitted $1.2 billion in 1973 and $1.5 billion in 1974. From these calculations it would appear that the average propensity to remit through official channels was approximately 28.5 per cent.[28] Evidently a considerable amount of their net savings were not remitted through official channels. Most of them carry part of their savings with them when they return home for summer vacation.

The average propensity to remit is estimated at only 11 per cent by the State Planning Organization (SPO) of Turkey. Using Carikci's estimated average net income of Turkish emigrant workers ($500) and the SPO's estimated average propensity to remit, total remittances would be estimated at $528 million ($500 monthly net wage x 12 months =

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[28] Ibid., p. 127.

$6000 annual net income and $6,000 x .11 = $660 yearly remittances per worker).

The total number of Turkish workers in the EEC countries is over 800,000 ($660 yearly net remittance per worker x 800,000 = $528 million) for 1973 which is considerably below the actual figure of $1,193 million.

Factors Affecting the Amount of Remittances

The emigrants are able to remit monies, because they can earn more abroad than they can at home. Most of the emigrants tend to maximize their savings during their stay abroad by living frugally, often in miserable self-deprivation.[29] They work harder in order to reduce the time required to meet their savings goals. The emigrant frequently wishes to return home and leave a socially unsuitable environment as soon as possible. The worker would do this by maximizing savings, by working as much as possible, and not thinking of social needs in daily living.

But, as Miller and Cetin noted in their research study,[30] this trend started changing in the early 1970's. The Turkish Ministry of Labor data indicates that the desired duration abroad of emigrant workers is continuously increasing over time.

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[29] Temel Ergun, "Some Economic Implications of Migrating to Western Europe Since 1945 with Special Reference to Turkey," unpublished master's thesis (January, 1975), p. 166.

[30] Duncan Miller and Ihsan Cetin, <u>Migrant Workers, Wages, and Labor Markets</u> (Istanbul, 1974), p. 75.

For example, as late as 1968, more than 60 per cent wanted to work abroad only one to three years. Three years later, the proportion who wanted to reside abroad one to three years was less than 25 per cent, while that of four years or more had risen to almost 60 per cent. This trend of increasing time spent abroad has two immediate and widespread implications.

1. An increasing proportion of working life spent abroad will increase the social cost of generating domestic skilled labor and, at the same time, will inflict a larger welfare loss on nonmigrants.

2. An increased working life spent abroad also may affect the workers' propensity to take their families with them, and therefore, influence remittances. Specifically, if workers tend to stay abroad longer period of time, instead of transferring their savings, they might prefer to keep their savings in immigration countries or even invest those savings there.

When the family migrates with the worker, remittances are much lower. Remittances of single workers may be lower than those of married workers with families at home.[31] The money transfers are largest in the case of married workers whose family members live in the home country; nearly all the workers in this group make such transfers, which amounted to an average of about D. M. 5,900 (U. S. $2,360) per year.[32]

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[31]Kindleberger, op. cit., p. 93.

[32]"Foreign Employees in Germany: Their Transfers to Their Home Countries and Their Savings in the Federal Republic," Monthly Report, XXVI (April, 1974), 23.

In this context, it has to be emphasized that the volume of remittances is, above all, related to recent movements of emigration; the more recent the emigration, the more frequent the remittances. This is because

1. immigrants leave close relatives in the country of origin;

2. they do not adapt themselves to the higher standard of living of the host country; and

3. the desire to return home is very strong.

All these factors tend to have less effect as time passes. Therefore, it is very likely that all things remaining equal, the volume of the remittances is greater when the duration of stay abroad is shorter, and the proportion of the unaccompanied emigrants is higher.

The Effects of Remittances on the Balance of Payments

International transactions are an important element in the contemporary growth process. Trade in goods and services permits individual economies to benefit from the opportunities for specialization and for the economies of scale.

Developing nations often encounter balance of payments disequilibria as they seek to accelerate domestic economic activity. Internal inflationary pressures spill out and cause export weaknesses. There have been serious and protracted payments imbalances in Turkey's foreign trade in the third quarter of the twentieth century. These disequilibria have in fact led to serious interruptions in the growth of production and trade. Starting from 1968, the remittances have made it possible to find means to finance the deficits.

The remittances have been the second most important item with regard to foreign exchange earnings in recent years after the exports in the balance of payments.

Table XII shows substantial increases in official remittances from $93 million in 1967 to $1.3 billion in 1975. The share of remittances in Turkish balance of payments increased steadily in the past ten years. The remittances played an important role to close the gap between imports and exports. It was equal to 0.02 per cent of commodity exports in 1964, increasing steadily; remittances as a percentage of commodity exports reached its peak, 93.1 per cent in 1974. The amount of remittances slightly declined in 1975 and 1976. According to labor and private and public sector representatives, the main reasons for this development were as follows:

	Labor		Private and Public*	
	Responses	%	Responses	%
Successive devaluations	12	29.0	6	30.0
High inflation rate	11	27.0	2	10.0
Lack of investment opportunities	7	17.0	3	15.0
Fear of another major devaluation	10	24.0	8	45.0
Total	30		19	

*Interview results

Turkey's foreign trade deficits were largely offset in recent years by the remitted earnings of migrant workers in the EEC member countries. In spite of increasing remittances, Turkey's balance of payments still shows a deficit. It is simply caused by the 75 per cent increase in the cost of imports, meaning substantial increases in oil prices in 1974.

TABLE XII

COMPARISON OF REMITTANCES WITH EXPORTS AND IMPORTS (Million $)

	1964	1968	1970	1971	1972	1973	1974	1975	1976
Remittances	9	930	273	471	740	1183	1426	1300	983
Imports c.i.f.	537	764	958	1171	1563	2086	3777	4738	5123
Exports f.o.b.	411	496	588	677	885	1317	1532	1401	1960
Foreign Trade Balance	-126	-268	-360	-494	-678	-769	-2245	-3337	-3168
Remittances as a Percentage									
Imports	0	12	29	40	47	56	40	27	19
Exports	2	19	46	70	84	90	93	93	51

Note: Figures have been rounded to the nearest whole integer.

In order to cope with the persistent shortage of foreign exchange, the Turkish government introduced special provisions for remittances in 1965. Export growth was promoted through tax rebates and access to preferential credit.[33] The devaluation of the Turkish lira (60 per cent) in 1970, gave an added incentive to emigrant Turkish workers to liquidate monies held abroad and to transfer the proceeds to Turkey.[34] Premiums paid on the deposit of foreign exchange also helped to entice migrant workers to remit through official channels rather than through unofficial (black market) channels. Any Turkish worker who remits his savings to the Central Bank can immediately receive interests of the coming three years. Such a deposit can be withdrawn any time in Turkish currency, with an interest penalty.

Remittances increased by 94 per cent in 1970, 57 per cent in 1972, 60 per cent in 1973, and only 18 per cent in 1974. The devaluation of the Turkish lira in August, 1970, caused a massive inflow of official remittances and enabled the authorities to greatly expend imports. Shortages of raw materials and other industrial supplies which previously were bottlenecks to industrial growth because of a lack of convertible currency reserves were largely overcome. According to Castles and Kosack,[35] Turkey is the only country which has made large-scale efforts to channel migrant workers' savings

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[33] Carikci, op. cit., p. 152.

[34] OECD, Economic Survey: Turkey (1972), p. 18.

[35] Castles and Kosack, op. cit., p. 419.

into industrial investment. Measures have been adopted to encourage the repatriation of savings, at a premium exchange rate. In 1968, the government raised the effective nominal rate on conversion of workers' foreign savings from TL 9 to TL 12 to the U. S. $1, and their investments in a special fund at favorable interest rates. On return, supplementary credits will be extended for housing building and for the establishment of arts and crafts enterprises and perhaps small-scale industrial activities.

The formation of joint stock companies by emigrant workers, with a 25 per cent state participation and the creation of cooperatives in agriculture, transport, and industry are encouraged by means of credit facilities, custom-free import of machinery, and technical advice. On their return, Turkish emigrants could find jobs in such enterprises.

Some steps in this direction have already been taken. In 1974, West German companies were told to stop hiring workers from outside the Community. And as early as 1972, Bonn and Ankara set up a $17 million fund to help Turkish entrepreneurs in Germany to finance their own businesses back home.

As Business Week reported,[36] there are 6,000 Turks working abroad, most of them in West Germany who have become the owners of a new $10 million auto component parts company

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[36] Business Week, September 20, 1976, p. 46.

in Nigde, which was opened in October, 1976. The project is being financed by a combination of savings from the workers' West German wages and a low-interest government loan provided jointly by Bonn and Ankara.

Government officials in West Germany and Turkey have high hopes for the new program. Bonn sees it as investments in Turkish industry, therefore, a way of opening fresh markets for the export of capital goods, as well as cutting down on foreign workers. For its part, the Turkish government hopes the scheme will create jobs, as well as use the worker's skills and Deutschemark savings--estimated at roughly $3 billion --for Turkey's economic development.

The Inflationary Impact of Remittances

The purported benefits of massive inflows of remittances are less than commonly thought. Clearly, there has been some inflationary impact on domestic economy. Existing data do indicate that relatively a few workers spend their savings to create new investments.

In recent years, a significant amount of inflationary pressure has been imported into the Turkish economy from abroad. In spite of the encouraging development of large remittances that resulted from the devaluation of 1970 and the government incentives to remit through official channels, there were inflationary costs to the economy by policy moves in the early 1970's. For example, while the 1970 devaluation gave a more favorable conversion rate to workers abroad, it also increased the price of many imports. Higher prices of Middle East oil and oil-based chemical products such as fertilizers has increased the cost of production of domestic goods and commodities. Higher prices of imported industrial supplies and raw material not available in Turkey also contributed to the rise in wholesale prices.[37]

In 1971, inflationary tendencies increased; the government sector had given the signal for further price increases by granting very substantial increases in the salaries of public employees in December, 1970, by imposing a higher indirect tax burden on the economy, and by increasing the prices of state controlled enterprises.[38] Large deficits were generated in the state budget which were financed by increasing arrears of payment to suppliers and contractors and by the substantial icnrease in short term advances from the Central Bank. These added inflationary pressures, which was countermanded to some extent by a virtual stop in credit expansion in the private sector.

An increased flow of remittances in the first half of the 1970's is not necessarily the principal reason for severe inflationary pressures that arose. However, in the second half of the 1970's the remittances have played an important role in price increases in certain areas such as housing and land acquisition. According to OECD's survey, this accounts

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[37] OECD, Economic Surveys: Turkey (1974), p. 17.

[38] OECD, Economic Surveys: Turkey (1972), p. 12.

for approximately 50 per cent of the use of yearly net savings among Turkish workers in Germany in 1970.[39]

Aker, in his study, asked 586 Turkish emigrant workers whether they will transfer their savings or not. The majority of them (491 of 586 or 83.2 per cent) indicated that they will remit their savings.[40] Where are they going to spend their savings? Aker tabulated their answers as to first and second choices.

TABLE XIII

UTILIZATION OF SAVINGS

First Choice	Number of Workers	Percentage
House	215	38.4
Land	43	7.3
Debt payment	25	4.2
Bank deposit	10	1.7
Stock purchase	2	.3
Open own business	19	3.2
Equipment	141	23.9
No comment	135	23.0

Source: Ahmet Aker, Isci Gocu (Istanbul, 1972), p. 102

[39] OECD, Problems Concerning Cyclically-Determined Homeward Flows of Turkish Workers from Germany (Paris, 1971), p. 12.

[40] Ahmet Aker, Isci Gocu (Istanbul, 1972), p. 102.

Although the data indicated the per cent of items mentioned, not actual allocations of savings, they do reveal a tendency of workers to seek relatively risk-free means of holding wealth, in spite of very low productivity in that type of investments.

According to an SPO survey,[41] an average 45 per cent of total returned workers invested their savings in housing and land. But among returned rural workers, this rate was even higher--61 per cent of them invested in such area.

If the base were gross savings, a substantial part of the remitted earnings would be spent for consumption purposes. If most of the durable purchases of housing and land are considered unproductive spending in the sense that such expenditures add little to the country's capacity to produce an increased supply of goods in the future, then the main impact of such expenditures is inflationary.[42] If a substantial number of workers from abroad add to domestic demand in Turkey by spending purchasing power generated abroad and do not at the same time add to the supply of goods available for purchase in Turkey, then the impact is most likely inflationary and much of the incidence of this inflation is an increased burden on nonmigrants who did not have the opportunity to earn the higher western European salaries.

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[41]Unpublished SPO Survey, op. cit., pp. 14, 22.

[42]Carikci, op. cit., p. 168.

Returning workers' consumption pattern also creates demonstration effects for all consumers which cause serious structural changes in demand and supply of private consumer goods. Speculative bidding for real estate might put decent housing beyond the reach of nonmigrant families.

Increases in consumption demand arising from remittances of earnings of Turkish workers abroad pushed up prices. From about 1971 onwards, monetary factors were earnings through unofficial channels does deny the Turkish government the use of scare foreign exchange which is vital for the future development and stability of the economy.

TABLE XIV

TURKISH MIGRANT WORKERS' REMITTANCES,
MONEY SUPPLY AND INFLATION
(Yearly Per Cent Increase)

	1970	1971	1972	1973	1974	1975	1976
Official remittances	94.0	72.6	57.0	59.9	17.0	-9.0	-24.0
Money Supply	17.1	23.6	22.2	36.0	26.0	26.0	26.0
Inflation:							
Consumer Price Index	11.8	22.0	15.3	15.8	23.9	21.2	15.0
Wholesale Price Index	6.7	15.9	18.0	20.5	35.0	18.0	15.0
Construction	13.5	6.0	22.3	27.3	18.0	56.0	na*

*na = not available

Source: OB, Iktisadi Rapor, 1977, pp. 72, 281, 409, OECD, Economic OUtlook (December, 1977), p. 125, OECD, Main Economic Indicators (November, 1977), p. 117.

The average yearly increase in consumer prices between 1961 and 1971 was 7.4 per cent. The inflation rate increased considerably after 1971. The money supply increases in the first half of the 1970's were essentially the automatic result of converting foreign exchange into Turkish currency, which leads to the conclusion that undisguised inflation was the result.

Effects on Agricultural Surplus

If the remittances are not critical, the net saving in consumption which emigration provides should be considered as a positive effect on the economy in the following conditions.[46] In the first place, there must be no decline in production, or the decline in production must be lower than the wages paid to the emigrating workers or lower than their consumption. Second, the increased income of the remaining workers or farmers, who benefit from sharing the same or only slightly reduced output among fewer income recipients, must be saved in considerable part.

The question of how much of the increased income of the remaining people will be saved depends on the distribution of income and in turn on the system of land holding. With small land holding, such as Turkey, Portugal, and Greece, emigration will increase the incomes of relatively poor

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[124] Kindleberger, op. cit., p. 96.

peasants and their families, and the increase in income will probably be spent. If the peasants are deeply in debt to moneylenders, the marginal propensity to save is likely to be high, as they attempt to get clear of debt, but once the debt is paid, it is not likely to remain so. For instance, the combination of industrialization in Italy, which pulled labor off the farm, with land reform, which made the distribution of farm income more, rather than less, equal, is likely to leave savings limited.

Emigration as a Form of Economic Loss

Emigration is considered as an economic loss for home countries. On the other hand, immigration can be regarded as an economic gain by the receiving countries.[47]

The emigration is costless for the receiving country because the cost of raising young people is a sunk cost for the country of origin. It was calculated that every migrant worker arriving in West Germany in the late 1940's was counted as a gift of $5,000, because of the cost of training in home countries.[48]

Today, the same situation exists regarding many international migrants. A skilled worker in Europe has probably entailed expenditures of $20,000 in public money for education and training. If a skilled worker moves through the Intergovernmental Committee for European Migration (ICEM) program

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[47] Miller and Cetin, <u>op. cit.</u>, p. 69.

[48] Kindleberger, <u>op. cit.</u>, p. 99.

it costs the immigrating country perhaps $100 for the financing of the operation.[49]

In addition, there is the important question of income distribution. What difference does it make to the country as a whole whether a worker remains at home or goes abroad? What the worker is paid goes to the individual, to dispose of as the person pleases. The worker's product is not lost to the state because it was never contemplated that it would accrue to the state. The worker may contribute to the support of the immediate family--possibly to a greater extent from abroad than if the person remains at home. The state may be said to have lost taxable capacity if the worker emigrates--a second order effect--and this will equally be true of the community in which the person lives, but the worker is normally free to move from a community even if s/he does not emigrate.[50]

There are second order effects other than changes in taxable capacity: narrowing of the market for producers, changes in marginal products for other factors, the contribution which the worker's savings may take to capital formation, and so on. But the first order effect cancels out: the worker's production is lost, but so is the individual's

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[49] John I. Thomas, "Planned International Migration and Multinational Cooperation" (ICEM at Work), Collection Conferences No. 8 (Geneva, 1971), p. 20.

[50] Frederick Hartoz, "Economic Policy in the Netherlands," Economic Policy in Our Time, III (Chicago, 1964), 137.

consumption, which is approximately the same.[51] This line of argument needs more careful and detailed statistical information which shows the levels of training, the achieved qualifications, and exact nature of employment prior to emigration.

Acquisition of Skills by Migrant Workers

One hoped-for dynamic gain which applies when the transfer is between countries, though not between sectors in the same country, is the training of industrial workers. The Mediterranean countries hope that most of their emigrants will return and that they will bring back with them skills required for economic development and adjustment to industrial life. Workers leave as peasants and return as invaluable contribution to the economic development of the countries concerned.

At this point if they return, will they have acquired any skills useful for economic development? If so, will they work for the industry? If the emigrants return and if they have brought back skills which they are content to apply to industry and agriculture, this can contribute to economic development. But several problems exist in this process, and several factors affect the outcome.[52]

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[51] Kindleberger, op. cit., p. 100.

[52] J. P. Pillard, "Considerations on Recent Trends in Intra-European Manpower Migration and Its Repercussions on Government Policies," International Institute of Labor Studies Symposium (Geneva, 1965), pp. 5-6.

Between the time when the worker leaves the country and the time the individual feels disposed to return and exercise the skills that have been acquired, the following conditions should exist:

1. Employment possibilities should become available in the country;

2. These opportunities should correspond more or less to the skills acquired; and

3. The emigrant must decide to pursue some type of activity in the industry.

According to Castles and Kosack,[53] a very high proportion of immigrant workers in western Europe never progress beyond the unskilled status, because the policies of governments and employers often contribute to keeping immigrant workers in low occupational positions. First, restrictions on length of stay are likely to prevent immigrant workers from achieving promotions. These restrictions go under the guise of protecting the domestic labor market. For many employers and officials "the great value of the employment of foreigners lies in the fact that we thus have a mobile labor potential at our disposal." This is the opinion of Ulrich Freiherr von Gienanth, a leading representative of German Employers' Federation (B.D.A.).[54] The idea is that

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[53]Castles and Kosack, op. cit., p. 414.

[54]Ibid., p. 98.

foreigners should be used as the regulators of the labor market: in the times of labor shortage, they should be brought in; if there is a recession they should simply be dismissed and expelled from the country with no consideration of their needs. This is only possible if the foreign workers are prevented from taking up the key positions in the production process and if they are prevented from settling permanetly. In case of a decline in the employment situation, the foreigners would therefore have to expect to be the first to lose their jobs. In Switzerland the "rotation" of the foreign workers are likely to ensure that foreign workers never gain qualifications and that they remain in subordinate positions.[55]

France has similar restrictive regulations on the employment of foreigners. They are completely barred from certain occupations: for instance, the Civil Service and the legal profession. Certain other occupations are reserved for persons holding French qualifications.

Immigrant workers in France, Germany, Switzerland, and Britain are usually employed in occupation rejected by indigenous workers. In a situation of full employment, the nationals of the EEC member countries have taken advantage of opportunities for moving into better-paying and more pleasant jobs, usually in the white collar or skilled sectors. The

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[55] Ibid.

immigrant has been left with the jobs deserted by the others. Typically such jobs offer low pay, poor working conditions, little security, and inferior social status.

The immigrants' inferior position on the labor market is shown in three ways.

1. Immigrant workers tend to be heavily concentrated in certain industries or occupations, such as building, textiles and clothing, and catering and domestic services. These are the sectors which have either the lowest pay or the worst working conditions.

2. An analysis of the socio-economic status of immigrant employees shows that the overwhelming majority of them are manual workers, usually unskilled or semi-skilled. In Germany, for instance, the lowest positions are occupied by southern Europeans and Turks, while immigrants from other western European countries often have skilled or non-manual jobs.

3. Immigrants tend to be at a disadvantage with regard to unemployment. Either they are unemployed more frequently and for longer periods than the rest of the population, or they are likely to be expelled from the country if they become unemployed.

Because of several reasons mentioned above, a very high proportion of immigrant workers in the EEC member countries never progress beyond unskilled status. Of those who do gain promotion, the overwhelming majority become semi-skilled workers. This usually means nothing more than a brief instruction in how to carry out a specific operation in a specific factory. It cannot be regarded as a true vocational training and does nothing to answer the need of the home country for skilled technicians. Only a small minority of immigrants become skilled workers. This takes so long that the people concerned have often settled down by the time their training is completed and never return home. Furthermore, both the governments and the employers of immigration countries make great efforts to retain just these workers and to encourage them to remain permanently.[56] The main reason for the disequilibrium in the balance of profits is that interests on one side or the other differ as regards to employment:[57] the current interest of the European economy is to keep labor from the Third World at a low or medium level of skill in a few particular branches and only really allow it to reach a higher level in a few trades, whereas the development of the labor-supplying countries demand that the latter should reach a high level of skill in a wide variety of specialities, often different from those in which they have been trained in Europe.

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[56] Ibid., p. 414.

[57] Madeleine Trebous, Migration and Development: The Case of Algeria, Development Centre Studies, OECD (Paris, 1970, p. 181.

Even if migrants do acquire skills, it is far from certain that these will correspond to the needs of the country of origin.

Finally, there is the question of whether returning migrants do in fact take up employment in industry. Even if the industries are being set up in the country of origin (which is not always the case) they are likely to be in the larger towns. Most migrants come from the countryside, and wish to return to their home villages, where there are no opportunities of obtaining industrial jobs. Moreover, the overwhelming majority of returning migrants do not aspire to be industrial workers.

Rural workers hope to buy land or to set up small retail or construction businesses in order to become independent. Paolo Vigorelly studied the occupations of migrants who had returned to Italy and reached the following conclusions:[58] The majority of returnees do not lean towards working in industry, and rather look for work in other occupations, if they have gained experience in this field while abroad, and if they have been able to save the necessary capital to carry out an autonomous occupation.

Ricardo Zingaro found the following occupations among male Italian migrants who had returned to Andria, Italy:[59]

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[58] Paolo Vigorelly, "Returning Migrants Re-Employed in Italian Industry," Migration News, II (1969), p. 5.

[59] Riccardo Zingaro, "Re-Integration of Returnees in Andria," Migration News, II (1969), p. 20.

Present Occupations of Returnees

Occupation	Quota	Percentage
Agriculture	17	30
Building and Small Industry	25	44
Business	8	14
Crafts	7	12
Total	57	100

Almost all of the returneeds resettled in their home towns or villages almost exclusively for family reasons.[60] In the absence of policies to coordinate the employment and training of migrants in western Europe with the future labor needs of their home countries, few of the workers gain skills which can be useful upon return. The tendency of returning migrants to establish small unproductive enterprises, particularly in the retailing sector, is likely to retard economic development.

Most of the Turkish migrant workers interviewed in Brussels, Belgium, and Nurnberg, West Germany do not want to return to Turkey even if they accumulate enough wealth to establish their own businesses. The reasons most of them stated were unstable economic and political conditions, and host countries' policies toward labor emigration. Most of

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[60] *Ibid.*

the EEC countries stopped accepting migrant workers from nonmember countries because of higher unemployment rates among their own nationals.

According to the latest SPO survey, many of the returning workers do not engage in activities for which their early schooling and on-the-job training abroad endowed them, but instead they tend to go back to more tranditional occupations such as subsistence farming,[61] which are of little social benefit to the future economic development of the Turkish economy.

In their attempts to maximize psychic income and gain social prestige, returning emigrant workers shun employment as miners, construction workers, and factory workers. Instead they choose occupations such as a grocer or landlord which they believe will provide more social promotion.[62] Moreover, the returned emigrant knows that he or she can earn a higher income by self employment that was made before his or her departure from Turkey. Prior to emigrating, only 7 per cent of the sample had been self-employed whereas after returning, 23 per cent were self-employed, mostly in the retailing industry as small shopkeepers.[63]

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[61]Yurt Disindan Donen Iscilerin Sosyo-Economik Egilimleri Uzerine Bir Calisma, SPO (Ankara, 1974).

[62]Carikci, op. cit., p. 129.

[63]Krane, op. cit., p. 435.

Turkish workers who returned from EEC countries were not very hopeful about the possibility of finding jobs which correspond to their conception of their own qualifications. Most of the returned workers are not happy with their earnings in Turkey. The State Planning Organization Survey reported that over 75 per cent of the returned migrants located wanted to emigrate again. The reason most of them stated was insufficient income.[64]

In comparison to what the worker had been accustomed to earning abroad, the average person in the same occupations endured a 61 per cent reduction in income upon returning to Turkey. In other words, the worker's earning power in Turkey was only 39 per cent of what it had been abroad. Miners endured the most drastic cut--75 per cent--while drivers, mainly because of their high level of self-employment as taxi and van owner/operators, the least--34 per cent. Workers in metal trades and textile machine operators experienced decreases amounting to 70 per cent in each case; the factory workers trailed closely behind with a 68 per cent cut after return.[65]

In Turkey the employment impact of emigration, in terms of skill acquisition and increased economic mobility, is

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[64] SPO Survey, 1974, _op_. _cit_., pp. 23-24.

[65] R. E. Krane, "Effects of Cyclical International Composition Migration Upon Socio-Economic Mobility," _International Migration Review_, VII (Winter, 1973), p. 433.

difficult to assess. Estimates of skill acquisition according to five broad categories are presented in Table XV. Skilled acquisition gained abroad during the first year appear minimal and, in fact, tended to be negative, i.e. under-utilization of skills for certain workers at both the highest and lowest skill groups. Specifically more urban workers have been employed in unskilled jobs during their first year abroad than before emigration; likewise, under-utilization of master workers and skilled technicians is perceivable.

By the fourth year abroad, however, skill acquisition appears to be significant. The decreases in skill acquisition at the highest two levels may be in part because of differences in job classification between Turkey and Germany, or an overly optimistic self appraisal by the workers, but may also represent a true under-utilization of emigrant workers' skills. In any case, the overall skill acquisition because of emigration is dramatic indeed. Unfortunately, declared skill levels upon return were not accurately compiled in the State Planning Organization (SPO) survey, especially at the general skilled level.

Chapter Summary

The fundamental causes of emigration from Turkey to western European countries are purely economic. The annual

TABLE XV

SKILL LEVELS OF MIGRANTS BEFORE, DURING AND AFTER MIGRATION

Skill Level	Before			Abroad-First Year			Abroad-Fourth Year			Return		
	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural
Unskilled	50.7	32.4	75.3	54.0	44.0	67.5	30.1	13.2	51.9	28.5	17.4	43.5
Semi-Skilled	2.2	2.4	2.0	13.0	11.1	15.7	15.6	5.9	37.0	4.4	6.8	1.3
Skilled-General	6.9	9.6	3.3	14.7	19.3	8.4	30.0	36.8	7.4	n.4	n.r*	n.r*
Skilled-Master Workman	23.6	29.0	16.3	13.6	18.8	6.5	17.8	22.1	3.7	22.7	33.3	8.4
Skilled-Technician	4.7	7.7	0.7	0.6	1.0	--	--	--	--	5.0	11.6	2.0

*n.r. = not reported.

Source: Unpublished SPO Survey.

income of some workers in Turkey (before emigration) was equal to one-fourth of the worker's annual income in Germany. Starting from 1974, the migration movement lost momentum because of economic recession and high unemployment rates in the European Economic Community member countries.

Total labor surplus of Turkey has increased in recent years, reaching 13.3 per cent in 1977. This increase was the result of rapid population growth in the country and inability of domestic industries to provide employment for the newcomers in the Turkish labor force.

The annual export earning of Turkey and yearly remittances of Turkish immigrant workers in western European countries have an equal share in Turkey's balance of payments. The inflationary impacts of workers' remittances are felt in the country, especially in the fields of real estate and land acquisition.

In addition to transferred savings from emigrant workers, Turkey, like other labor supplying countries hoped that most of their emigrants will return and they will bring with them all necessary skills required for economic development and adjustment to industrial life. But experiences show that the wealth acquired and skills generated are clearly less than potential. The assumption that emigrant Turkish workers are acquiring valuable industrial skills, experience, and discipline, and upon their return--if ever--the workers will have a tremendous impact on the Turkish industrial development, would be very optimistic and far from reality.

CHAPTER IV

THE TURKISH INDUSTRY IN THE TRANSITION PERIOD

Introduction

The Turkish economy underwent profound changes from the end of World War II to 1977. Real national income more than tripled, while the country's population increased from 20 to 40 million. The resultant increase in real per capita income and government efforts to accelerate development led to an increase in the share of GNP allocated to capital formation: from 9.7 per cent in 1948 to 21 per cent in 1970. The share of agriculture in GNP fell from 51.3 per cent in 1948 to 28.0 per cent in 1972, while the share of industry rose from 10.1 per cent to 23.0 per cent in the same period.[1]

Efforts of the Turkish government to join the Common Market faced some opposition from politicians, organized labor, industrialists, and some economists. The opposition parties argued that Turkey should develop her own manufacturing industries, because industrialization is necessary for economic development.

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[1] _Third Five Year Development Plan, 1973-1977_, State Planning Organization, p. 78.

Under the light of these discussions, the opposing group argued that the newly established manufacturing industries will not be able to compete with giant corporations of the European Economic Community. Even considering the twenty-two years transition period for industry which ends in 1995, Turkey's entry into the Common Market as a full member was considered a damaging factor to the achievement of the industrialization. It was also argued that Turkey will not gain any benefits but will end up with tremendous losses from the full membership in the Community.

Protection of Domestic Industry

The "protection" of the domestic industry is generally referred to as the nominal rate of tariff or subsidies on imports of goods which are competitive with domestic suppliers. In order to protect an industry, traditional theory prescribed a certain nominal rate of tariff on those imported articles.

The nominal protection theory tries to predict the changes in output levels, primary factor allocations, and in real and nominal value added per unit output, the changes which might be caused by a change in nominal tariff rates. This theory assumes that there are no traded intermediate inputs in the process, so it cannot be utilized if the objective is to examine the changes in the same variables mentioned above under a tariff structure which also includes traded intermediate inputs.

This theory enabled an evaluation of the protectiveness of a particular tariff system on the basis of either simple averages or nominal tariff rates on imported final goods.[2] The recently developed "effective protection" theory is attempting to bring new solutions to the previous problems. The new theory is not concerned with nominal tariff rates on particular final goods but with the "effective protection rate" of the tariff on the production process. The new approach is concerned with the net effect of tariffs and other taxes on an industry, as the result of "protecting" the final output from foreign competition and raising the prices of inputs because of tariffs on imported inputs.

Authors William M. Corden and Harry G. Johnson have contributed to the development of the "effective protection rates." Corden explained the effective rate of protection as follows:

> The effective protective rate is the percentage increase in value added per unit in an economic activity which is made possible by the tariff structure relative to the situation in the absence of tariffs but with the same exchange rate. It depends not only on the tariff on the commodity produced by the activity but also on the input coefficients and the tariffs on the inputs.[3]

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[2] Ahmet Yorukoglu, "The Effective Rate of Protection and Developing Countries: The Turkish Case," unpublished dissertation, New York University (June, 1973), p. 1.

[3] William M. Corden, "The Substitution Problem in the Theory of Effective Protection," Journal of International Economics, I (1971), 37.

From this explanation, "the effective rate of protection" refers to a production but with nominal tariff rates on several flows in that activity; in other words, the flow of outputs and inputs. It explicitly takes into account the impact of all these tariffs on value added, which is usually the main reason for initially levying a tariff.[4]

According to Johnson, a tariff on a good used in a protective process is equivalent to a tax on the output of that process, and the consequent necessity of distinguishing sharply between the structure of tariff rates on the commodities entering international trade, and the structure of rates of protection accorded by the tariff structure to the specific processes or stages of production that make up the productive system. The latter are commonly referred to as rates of protection of value added of "implicit" or "effective" rates of protection.[5]

The "effective rate of protection" of a particular activity (j) is defined simply as the ratio of the difference between the value added at domestic prices (Vd) with protection and the value which would have been added at world prices (Vw) to the latter. Symbolically,

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[4]Yorukoglu, _op_. _cit_., p. 3.

[5]Harry H. Johnson, "Tariffs and Economic Development," _Journal of Development Studies_ (October, 1964), pp. 3-30.

$$E_j = \frac{V_{d_j} - V_{w_j}}{V_{w_j}}$$

E is, therefore, higher when the nominal protection to output is higher, and when the nominal protection of inputs is lower.[6]

Comparison of Turkish and European Views on Certain Issues

In order to compare the European view with the Turkish side of the same issues, ninety-nine questionnaires were mailed to 50 per cent of European Parliamentary members of the European Economic Community (sampling technique was discussed in Chapter I). Twenty-one questionnaires were received in a given period of time. Considering the summer recession of the European Parliamentary Assembly and satisfactory rate of returns for mail questionnaire technique, the follow-up letter was not mailed.

Considering the low return rate in Turkey, questionnaires were not mailed. One hundred questionnaires were distributed to randomly selected private and public sector representatives (the procedure was explained in Chapter I). Fifteen questionnaires--nine from the private sector, and six from the public sector representatives--were collected.

The average age of the members of the European Parliament was forty-six years. On the other hand, Turkish representatives were younger with an average age of thirty-seven

[6] Yorukoglu, _op_. _cit_., p. 2.

years. Respondents from the EEC countries were all male, but there was a female respondent among the Turkish representatives. The majority of the respondents from both sides were college graduates. Four respondents from each side have doctoral degrees. Five respondents from the EEC, and four from Turkey have masters degrees. In sum, most of the respondents were highly educated persons. This may be one of the important reasons for high mail questionnaire returns.

According to MPs, the major problems of Turkey in the transition period is "lack of technological know-how," and this is followed by "low productivity in industry and agriculture." On the other hand, Turkish representatives have shared the same views but with different percentages. For instance, 35 per cent of Turkish respondents picked the "lack of technological know-how" as a major problem of Turkey, while 49 per cent of Europeans have chosen the same way. Turks have also picked the low productivity in industry and agriculture as a second choice but with a higher percentage. Rapid population growth and foreign trade deficits were ranked third with 14 per cent each on the MP's list, but the Turkish side considered "the foreign trade deficits," a more serious problem than the rapid population growth (see Table XVI).

TABLE XVI

COMPARISON OF QUESTIONNAIRE RESULTS FROM EUROPEAN PARLIAMENTARY MEMBERS AND TURKISH PRIVATE AND PUBLIC SECTORS REPRESENTATIVES

Area of Response		
Background of the Respondents	MP[7]	RTPPS[8]
Age (average)	46	37
Sex	M: 21 F: --	M: 14 F: 1
Education		
High School	1	--
College	11	7
Masters Degree	5	4
Doctoral Degree	4	4
Employment		
Public Sector	17	6
Private Sector	4	9
	Number of Questionnaires	
	Mailed	Received
Representative of		
Great Britain	18	4
West Germany	18	6
France	18	2
Netherlands	7	2
Belgium	6	2
Italy	18	--
Luxemburg	3	2
Ireland	5	--
Denmark	5	3
Total	99	21
	Distributed	Collected
Turkish Public and Private Sector Representatives		
Private Sector	50	9
Public Sector	50	6

[7]Member of European Parliament

[8]Representatives of Turkish Private and Public Sectors

TABLE XVI--Continued

Description	MPs Number of Responses	MPs Per Cent	RTPPS Number of Responses	RTPPS Per Cent
1. What are the major problems of Turkey in the Transition Period?				
a. lack of know-how	17	49	11	35
b. rapid population growth	5	14	3	10
c. low productivity in industry and agriculture	7	20	8	26
d. foreign trade deficit	5	14	6	19
e. other	1	3	3	10
2. EEC should give more economic aid to Turkey.				
Yes	16	76	--	--[9]
No	5	24	--	--
If yes, terms and field of uses				
a. financial credit for the development	16	43	8	36
b. more imports from Turkey	8	22	8	36
c. investments in Turkey	3	8	1	5
d. technological know-how	10	27	5	23
3. Will the EEC demand more Turkish workers?				
Yes	10	48	--	--
No	11	52	--	--
If yes, types of workers				
a. skilled industrial workers	10	55	--	--
b. farm workers	--	--	--	--
c. construction workers	6	33	--	--
d. mine workers	2	12	--	--
e. unskilled service workers	--	--	--	--
4. Will it be necessary to cut number of immigrant workers in the EEC?				
Yes	15	72	--	--
No	6	28	--	--
If yes, reason(s)				
a. high unemployment rate among EEC nationals	15	56	--	--

[9]Adopted Turkish version of the questionnaire did not include these questions.

TABLE XVI -- Continued

Description	MPs Number of Responses	MPs Per Cent	RTPPS Number of Responses	RTPPS Per Cent
b. Immigrant workers create more problems	4	15	--	--
c. They cannot use their present skills and re-training them is very costly	6	22	--	--
d. Immigrant workers can-not adapt themselves into our life style.	2	6	--	--
e. Other	--	--	--	--
If no, why most of the com-panies prefer to hire immi-grant workers?				
a. They are hard-working.	2	22	--	--
b. Indigenous workers re-fuse to take dirty and less prestigious jobs.	4	45	--	--
c. They work for less.	3	33	--	--
d. Other	--	--	--	--
5. Is Turkey an attractive coun-try for foreign investments?				
Yes	17	80		
No	4	20		
If Yes, reason(s)				
a. Cheap labor	13	57	8	47
b. Natural resources	--	--	1	6
c. Potential markets	2	8	2	12
d. High rate of return on investment	8	35	6	35
c. Other	--	--	--	--
6. Which areas would be more pro-fitable for foreign investment?				
a. service industry	13	30	--	--
b. soft drink and bottling	5	12	--	--
c. auto industry	15	35	--	--
d. manufacturing industry	15	35	--	--
e. other	3	7	--	--

TABLE XVI --Continued

Description	MPs Number of Responses	MPs Per Cent	RTPPS Number of Responses	RTPPS Per Cent
7. What form of investment would the EEC entrepreneurs prefer in Turkey?				
a. full ownership	4	19	--	--
b. joint ventures-majority rights	12	57	--	--
c. joint ventures-minority rights	5	24	--	--
d. franchising	--	--	--	--
e. other	--	--	--	--
8. What kind of benefit(s) will Turkish manufacturers get, if Turkey joins the EEC as a full member?				
a. They will work hard to meet competition.	4	16	8	31
b. They will adopt new technological changes quickly.	13	52	5	19
c. Manufacturers in the same industry will merge to become more competitive.	6	24	5	19
d. They will get no benefit at all.	2	8	5	19
e. other	--	--	3	12
9. What kind of benefit will Turkish farmers get from Turkey's full membership in the Community?				
a. They will be able to sell more because of abolished custom tariffs	14	43	12	55
b. They will develop and/or change their marketing strategy to meet the competition.	12	36	4	18
c. There will be no additional benefits.	--	--	2	9

TABLE XVI -- Continued

Description	MPs Number of Responses	MPs Per Cent	RTPPS Number of Responses	RTPPS Per Cent
d. They will make more profit because of higher prices for community-produced farm goods.	7	21	1	5
e. Other	--	--	3	13
10. Do you predict any problem(s) in the agricultural market if Greece, Spain, Portugal, and Turkey become full members of EEC?				
a. strong competition between countries	19	70	7	44
b. new entries in EEC discouraged by competition	6	22	4	25
c. low profit margin for farmers	2	8	3	19
d. other	--	--	2	12
11. Is it necessary to limit the number of new associated membership agreements from non-European countries?				
Yes	3	14	--	--
No	18	86	--	--
If yes, reason(s)				
a. large number of memberships lessen cooperation/coordination among members	2	40	--	--
b. difficult to enforce laws/regulations	3	60	--	--
c. EEC would lose credibility	--	--	--	--
d. other	--	--	--	--
If no, reason(s)				
a. limitation would hurt EEC's future growth	10	39	--	--
b. anti-free enterprise system	3	15	--	--

TABLE XVI --Continued

Description	MPs Number of Responses	MPs Per Cent	RTPPS Number of Responses	RTPPS Per Cent
c. limitation may lead other countries to establish a similar organization against the EEC.	6	23	--	--
d. discourages competition, research, and development	6	23	--	--
12. Could full membership help to bring about more economic/political stability?				
Yes	16	76	--	--
No	5	24	--	--
13. Turkey's chance of success in meeting requirements for full membership at the end of the transition period is				
a. very good	--	--	--	--
b. good	3	14	1	7
c. fair	6	29	4	27
d. poor	3	14	8	53
e. very poor	9	43	2	13
If "poor" or "very poor," what should Turkey do to fulfill the requirements?				
a. raise custom tariffs to protect domestic industry	--	--	--	--
b. increase exports to minimize foreign trade deficits	6	55	--	--
c. cut imports	5	45	--	--
d. increase remittances by sending more Turkish workers abroad	--	--	--	--
e. other	--	--	--	--

The State Planning Organization of Turkey listed the following as the major problem areas of Turkey in the Third Five Year Plan period.[10]

1. Rapid growth of population--population is increasing at the rate of 2.7 per cent per year. As was discussed in Chapter III, Turkey has the highest population growth rate among European countries.

2. The high levels of open and disguised unemployment--In 1972, out of a 14.3 million labor force, only 12.7 million are gainfully employed; out of an average of 440,000 persons entering the working age annually, only 160,000 are able to find jobs in productive activities. Furthermore, it is estimated that as of 1971 the number of uninsured and non-unionized workers was of the following order: 600,000 agricultural workers, 3.7 million artisans, handicraft masters and their apprentices, and 5.9 million unpaid family workers in agriculture and other independent workers.[11]

3. Low level of income and its unbalanced distribution--The per capita income of $364 in 1972 is the lowest among European countries.[12] Income distribution among various income strata, professional, and occupational groupings is unbalanced.

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[10]State Planning Organization, _A Summary of the Third Five Year Development Plan, 1973-1977_ (Ankara, 1975), p. 34.

[11]_Ibid._

[12]_Ibid._

4. Insufficiency of domestic savings and financial institutions--Turkey's domestic savings have not been adequate to meet the financing requirements of investment; comparatively speaking, savings are small as a result of low per capita income, high and diversified consumption patterns of higher income strata, inadequate public finance and financial institutions, and the lack of an active capital market.

5. Productive structure and technology--The basic investment goods industry is inadequate. Certain major problems exist, within the manufacturing industry such as less than an optimum operating size (particularly for the investment goods industry mainly as a result of low-level of demand) and a lack of modern technology. On the other hand, agriculture is still dependent on weather conditions; productivity has not increased sufficiently.

6. Structure of foreign trade and trade deficits--Agricultural commodities continue to dominate exports. They were 70 per cent of the total exports in 1972. The average rate of increase in exports of 7.1 per cent annually between 1960-71 is comparatively low.[13]

7. Obligations stemming from the Customs Union with the EEC--The political decision to join the EEC and to accomplish full "Customs Union" within a twenty-two year

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[13] *Ibid*., p. 36.

period puts the following pressures on the planning process: (a) need to solve the above mentioned problems within a limited time span, calling for sacrifices and determining priorities to achieve results within a short period of time; and (b) removal of the conflicts existing between the use of some policy tools (e.g., customs duties and import restrictions) and the obligations of the "Customs Union."

By the end of the Second Five Year Plan, Turkey has covered a long stretch of the arduous road of economic development and the new horizons have become clear and well-defined. Reviewing the progress achieved so far and the problems encountered have been helpful not only in setting the targets for the future, but also in evolving new strategies and in determining the changes which must be made to face the future with confidence.

When Turkey applied to join the EEC, it was hoped that financial aids and more economic cooperation would be available and encouraged by the EEC member states. In accordance with the terms of the Ankara Agreement, Turkey was granted financial aid, amounting to $175 million through the European Investment Bank. This aid was to be used in financing the investment projects prepared within the framework of the Turkish Development Plans. The entire amount of this financial aid was used in the preparation stage of the membership. Additional financial aid amounting to $195 million was provided to Turkey in the transitional period which theoretically will end in 1995.

Members of the European Parliament were asked whether or not the EEC should give more economic aid to Turkey. Seventy-six per cent of the respondents were in favor of such aid. Among the favorable members, 43 per cent think that economic aid should be in the form of financial credit and used for the development of manufacturing, industry, and agricultural facilities. On the other hand, not only financial credit but also more imports from Turkey, took the priority on Turkish private and public sector representatives' list with 36 per cent each. Almost one-fourth of the respondents from both sides agreed that economic aid should be in the form of technological know-how.

The economic aid for the development of Turkish manufacturing industry is the most important and crucial point in the EEC-Turkey relations today. Too many newspaper articles have been written and numerous seminars have been held in order to find a solution to this important question. For instance, Melih Koknel, General Secretary of Union of Mechnical and Construction Engineers, told at the new conference that "protected and very weak Turkish industry will bankrupt after all tariff barriers have been abolished at the end of the Transition Period."[14] Instead of lowering

[14]"Insaat Odalari Ortak Pazara Karsi Cikti," Vatan, December 21, 1972.

custom tariffs, Turkey should raise them in order to protect the infant manufacturing industry.

> Input prices are very high in Turkey compared to the EEC countries. We cannot compete with Europe's giant corporations. They are using advanced production techniques so that their manufacturing costs are lower than ours. Their products are tested and accepted by the consumers, our products are totally new and unknown to the buyers.[15]

In the same article, Pamuk has also compared the prices of raw materials which are used by manufacturers. Most of the raw materials cost 50 per cent more in Turkey than in the Community.

Lead and construction iron cost 100 per cent more in Turkey than in EEC countries. Almost all manufacturers use electricity as a main source of power, and the price of electricity is determined and controlled by the government. In spite of special cheaper rates for industrial uses, the electricty used by the manufacturing industry has higher costs in Turkey than in the EEC countries (see Table XVII).

"Turkish manufactured goods have not any sales potential in the EEC countries," claims Veysi Sevig[16] because selling prices of manufactured goods are lower in the Community. If we consider abolished custom tariffs, the Community made goods will flow to Turkey, not Turkish goods with high manufacturing costs. This means domestic manufacturing industry

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[15]Gunduz Pamuk, "Turkiye ve Ortak Pazar Iliskileri," Milliyet, November 5, 1976.

[16]Veysi Sevig, "AET ve Turkiye," Cumhuriyet, Mart 29, 1976.

will be eliminated by large European companies in a short period of time.

> Newly established industries in the developing countries cannot even compete behind the protected tariff walls with the giants of industrialized nations. The infant industries of developing nations should be protected against foreign competition and exportation of their items should be encouraged and supported by the government.[17]

TABLE XVII

COMPARISON OF RAW MATERIAL PRICES IN THE EEC AND TURKEY

Raw Material	Unit prices TON/TL Turkey	EEC	Turkey/EEC (%age price)
Copper	39,000	26,500	1.50
Tin	201,050	135,000	1.49
Lead	15,750	8,250	1.90
Zinc	20,000	12,800	1.67
Aluminum	20,500	13,650	1.54
Iron bars	6,600	3,100	2.10
Iron sheets	6,500	3,720	1.75
Iron profiles	6,375	4,000	1.59

Source: Gunduz Pamuk, "Turkiye ve Ortak Pazar Iliskileri," Milliyet, November 5, 1976.

Haluk Cillov, in his article, analyzed the past three years of the EEC-Turkey relations.

[17]Sadun Aren, "Turkiye ve Ortak Pazar," Politika.

> Experiences from the past three years showed that turkey did not get benefits as much as she hoped for. Imports from the Community have increased substantially while exports to the EEC slowed down in recent years. Substantial increases in imports were acceptable as long as most of the imported items were investment goods and semi-finished products. But the causes of the very slow increases in exports to the Community should be taken into consideration and analyzed very carefully.[18]

The main reasons for limited increases in exports were the higher manufacturing costs, quality of the goods, and lack of promotional activities. On the other hand, the Community has signed several agreements with other countries, especially Mediterranean and African nations. Preferential treatments for those countries' products has reduced the effectiveness of the preferential treatments given to the Turkish goods. This was true especially for agricultural products because most of the Mediterranean countries produce the same type of goods.

Comparison of Retail Prices of Selected Items in the EEC and Turkey

At the present time, it seems to be that the majority of the durable and non-durable consumer goods and most of the semi-finished products are selling for less in the Community than in Turkey. The main reasons for high manufacturing costs in Turkey was briefly discussed in this chapter.

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[18]Haluk Cillov, "Ortak Pazar Darbogazina Karsi Neler Yapilabilir?" Milliyet, Ocak 2, 1976.

Another analysis will not be made to avoid duplication. But mainly input prices are considerably higher in Turkey compared to the EEC countries.

As can be seen from the following table, retail prices of consumer goods are higher in Turkey. One might argue that it is simply because of lack of competition in the market place, because Turkish manufacturing industry is protected against foreign competition by high tariff walls. Instead of increasing productivity and/or taking necessary measurement to minimize the costs, the manufacturers are enjoying a high rate of return on their investments.

It would be difficult and weak to derive conclusions from the comparisons of retail prices of selected items in Turkey and the Community. The quality of goods, sales promotion activities, and physical distribution of the products may be powerful competitive weapons, as effective as prices. Other marketing strategies, such as product differentiation and market segmentation might be effective tools to compete with the Community's giant corporations. On the other hand, protected Turkish manufacturing industries might work more productively to face foreign competition. There is no dependable research study (to the author's knowledge) about their cost structures and other expenses. They may be enjoying profits from artificially raised production costs and higher mark-ups. The foreign competition will definitely

TABLE XVIII

RETAIL PRICES OF SELECTED ITEMS IN TURKEY AND IN THE EEC

Product	Retail Price in	
	Turkey	EEC
Polyester fiber - cut	39.50	25.50
Polyester thread	51.50	36.25
Printing paper	4,750.00/ton	5,191.00/ton
Oil paints	15.30/kg	13.80/kg
Synthetic paints	30.60/kg	27.70/kg
Plastic paints	20.40/kg	18.30/kg
Pig iron	2,600.00/ton	2,142.00/ton
Construction iron*	5,100.00/ton	3,240.00/ton
Iron profiles	5,100.00/ton	3,626.00/ton
Refrigerator (180 liters)	3,400.00	2,820.52
Refrigerator (240 liters)	4,165.00	4,402.12
Refrigerator (310 liters-2 dr.)	5,725.00	6,133.51
Television set B & W 19"	5,000.00	3,625.00
Light truck	272,000.00**	169,500.00***
Minibus	120,000.00**	72,500.00***
Passenger Cars:		
Anadol 4 door	73,650.00**	42.900.00***
SW-1600	84,000.00**	45,500.00***
Renauld - 12	936.00****	563.61*****
Fiat - 124	1,750.00****	1,385.63*****
Fiat - 131	1,800.00****	1,317.07*****
Anadol	675.00****	399.96*****
Tires:		
155-13	308.00	389.69
165-SR-13	520.00	407.20
750-16	857.00	1,010.00
900-20	1,924.00	2,631.50
600-16	471.00	544.00
11-28	1,774.00	2,211.39

Source: Urun ve Girdi Fiyatlari Yonunden Turk-AET Saneyileri IKV Yayini, Sanayi No. 1976-5, (Istanbul, 1976), pp. 1-10.

*Prices vary between 5,100.00 and 6,500.00 TL/ton.
**Includes 50 per cent tax.
***No tax added
****Original equipment prices
*****F.O.B. prices, no custom duty added.

force them to be more realistic about their costs, and sensitive about their mark-ups.

Besides the traditional Turkish labor-intensive export items, there are some other manufacturing industries that require high technology and intensive labor such as the electric and electronic industries. As long as the production of such items is labor-intensive, Turkey with abundant labor supply may become the major producer and seller of those items. As will be seen later, income elasticity of electric and electronic goods is very high. In other words, to sell these type of goods in rich countries like the EEC, member states will not be as difficult as other traditional Turkish manufactured goods.

The only possible manufacturing industry that can compete effectively with the manufacturers from the Community is the tire industry. As can be seen from Table XVIII all sizes of this product, except 165-SR-13, are cheaper than the Community prices. The cost saving items might be cheap labor, and the uses of advanced production techniques in this particular industry, because the establishment of the tire manufacturing industry is relatively new in Turkey.

Foreign Investments in Manufacturing Industry

Some large privately owned manufacturing companies are in favor of joining the European Economic Community under any circumstances.[19] In order to understand their desire to join the EEC, joint investments of large private companies with foreign investors should be examined very carefully. Table XIX shows the fifty largest private manufacturing companies and their total invested capitals and shares of foreign capitals in these particular industries.

According to data obtained from the same source, the share of foreign capital in paid capital of twenty firms which are operating in the fields of mining, transportation, research, and consulting is TL 298.0 million out of TL 481.8 million, which equals to 62 per cent of the total investment.[20]

Total capital of 121 private companies is TL 4 billion. Total foreign capital in this category is equal to TL 1.9 billion which is 47.5 per cent of total capital. It was also reported that foreign companies (investors) also control technical parts of the operation and 90 per cent of higher management positions are held by foreign executives.

In 1971, the majority of the foreign investments in Turkey were owned by Common Market countries. The U. S. based companies' share was 26 per cent, and Switzerland was placed at the bottom of the list with a share of 16 per cent. The U. S. based companies' share was 30.5 per cent in 1965. This indicates that the EEC based companies invested more

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[19] Gulten Kazgan, 100 Soruda Ortak Pazar ve Turkiye, III Baski (Istanbul, 1975), p. 213.

[20] Ibid.

capital in Turkish manufacturing industries in the transition period of Turkish membership in the Community. The attracting factors for foreign investments in Turkey will be examined later in this chapter.

TABLE XIX

SHARES OF FOREIGN CAPITAL IN SELECTED MANUFACTURING INDUSTRIES (1971) TL Million

Industry	Number of Firms	Total Capital	Foreign Capital	Percentage of Foreign Capital
Food	10	191.0	116.0	60.8
Beverage	1	35.0	21.0	60.0
Tobacco	1	3.0	2.3	76.7
Textile-Clothing	3	29.5	21.5	70.2
Paper	1	76.3	49.6	65.6
Tire	3	226.0	163.4	72.3
Chemical	31	700.0	385.3	55.0
Total	50	1260.8	759.1	60.0

Source: Gulten Kazgan, *100 Soruda Ortak Pazar ve Turkiye*, III, Baski, Gercek Yayinevi (Istanbul, 1975), p. 213.

Small manufacturing companies are owned and operated by Turkish citizens. They are not organized as large companies and their products are complementary in nature. They cannot compete with large domestic companies, and none of them will survive if they face competition with foreign companies.

Economically, even if we accept their elimination from the market place, this will create more economic and social problems, because 700 people were employed in small manufacturing companies in 1965.[21] Most of the export items in transition period are labor-intensive goods, and this may create more employment opportunities in this sector, but it will not reduce Turkey's high unemployment rate because of rapid population growth and migration from rural areas to the cities.

The Impacts of Trade Liberalization on Domestic Industries

The trade liberation between 1970 and 1974 mostly affected petro-chemical, iron and steel, fertilizing, and oil industries.[22]

The selling prices of iron and steel products in Turkey is 150-200 per cent higher than world prices. During the liberalization, Turkey's state owned iron and steel industry faced several difficulties. First of all government kept charging production tax for those goods produced by the steel industry--in other words, keeping the selling prices above the prices of imported goods. This caused large amounts of unsold stocks, and plants operated under the normal capacities.

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[21] *Ibid.*, p. 215.

[22] Kazgan, *op. cit.*, p. 241.

There was 800 thousand tons of unsold stocks at the Karabuk plant, and 200 thousand tons at the Eregli plant in 1974. Total iron and steel unsold stock was over 1.6 million tons in the same year.

The Turkish government simply ignored domestic steel industry to fulfill its obligations under the terms of existing agreements. Even highly industrialized nations such as the U.S.A. has protected their steel industries against foreign competition whenever it was necessary. For instance, the United States government determined the quantity of steel imports by quotas, and raised custom tariffs to 13 per cent from 3 per cent in 1968. Between 1969 and 1971, the U. S. government asked Japan and the European Economic Community to cut their steel exports to the United States voluntarily.[23]

The second badly hurt industry from liberalization was the fertilizing industry. The manufacturers in this industry could not compete with low priced imported fertilizers. For instance, there was 1.4 million tons of ammonium nitrate and 850 thousand tons of phosphorus pentoxide unsold stocks on hand. The unsold stocks of the first fertilizer was equal to a two-year production capacity, and the second groups was 70 per cent of annual production capacity of the plants.

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[23] Ibid., p. 242.

The largest petro-chemical company, Pet-Kim, was forced to shut-down one of its production lines because of foreign competition in 1974. That particular line used to produce "black carbon dye" with Phillips Petroleum Company's license for tire manufacturing companies.[24] In spite of the good quality, the EEC based tire manufacturers refused to buy from Pet-Kim to stimulate the sales of their companies' products.

Shifts in Production Structures

If Turkey moved toward full membership, a gradual elimination of tariffs would change the relative commodity prices in the economy. Changes in relative prices might, by affecting the domestic value-added per unit output in each sector, lead to changes in output levels, thus causing resource movements. As it was analyzed in Chapter II, a gradual elimination of tariffs on imports from the EEC would change the direction of resource reallocations called forth by the present tariff structure.[25] While theory can suggest the direction of changes in resource allocation, it does not provide guidance as to the probable quantitative importance of such changes.

Effects on Foreign Trade

The traditional export goods would continue to have a competitive advantage in trade with the EEC if Turkey moved

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[24] Ibid., p. 243.

[25] Baysan, op. cit., p. 142.

toward full membership. There are still potential markets for Turkish tradition export goods. (This was discussed in Chapter II.) Growth in the EEC countries might increase the demand for Turkish traditional exports. Nevertheless, whether or not an absolute expansion in traditional exports would take place depends on whether output levels of these commodities would or would not expand under the free trade conditions. This, in turn, would be determined by--among other factors, such as weather conditions--the changes in the relative profitability of these sectors as the tariff cuts take place.

At the present, the domestic prices of non-traditional export goods are generally higher than their f.o.b. export prices. This price discrepancy might completely or partially be eliminated because of a gradual decline in the domestic cost of imported intermediate inputs because of tariff cuts. Large increases in non-traditional exports to the EEC are potentially possible, as free trade is gradually established, with the government's help (through tax rebates and other financial incentives) and an appropriate exchange rate policy.[26]

Because of the gradual elimination of tariffs on imports from the EEC and the adoption of the Common External Tariff would make the Community products would more attractive to

[26] *Ibid.*, p. 144.

the Turkish importers. The absolute size of Turkish imports from the EEC might expand, but the extent of this expansion would depend on the foreign exchange supply and on what happens to output levels in the import-substitute industries.

Future of the Exportable Manufactured Goods

All discussions and analysis up to this point have been made from a structural standpoint of both sides--in other words, what the weak and protected Turkish manufacturing industries can do if Turkey abolishes all custom tariffs after she joins the EEC as a full member. In what direction, if there is any, should Turkish domestic industries go in order to stay alive in the Community, i.e., can they produce any type of product with their present technological know-how that can effectively compete with the EEC based companies?

At the present conditions, it seems most unlikely because the income elasticity[27] of Turkish manufactured goods is very low compared to the manufactured goods from the EEC member countries.

As can be seen from Table XX, income elasticity of Turkish manufacturing industries is the lowest on the list. Whenever per capita income increases 1 per cent the demand for metal goods, agricultural and electrical machineries increases 2.7 per cent. Most of the products in this category are produced by EEC based companies. This figure also

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[27] If income increases 1 per cent, demand for the particular products increase more than 1 per cent.

indicates that imports of these type of goods will increase accordingly. However, taking the average imports between 1960-1962 = 100 as a base, imports of goods in this category reached 203 in 1971 and 405 in 1973. In the same period, imports of the fourth group which are paper, tires, plastics, chemicals, and petroleum products reached 256 in 1971 and 428 in 1973.[28]

TABLE XX

INCOME ELASTICITY OF THE MANUFACTURED GOODS
1974

Industry Group	Income Elasticity
Metal products, machinery, agricultural machinery, electrical machinery	2,699
Transportation vehicles, maintenance, and repair	2,036
Glass, ceramics, cement	1,393
Paper and printing, tires, plastics, chemicals, petroleum	1,364
Food, textile-clothing, wood products, hides and leather, tobacco, beverages	1,096

Source: Gulten Kazgan, 100 Soruda Ortak Pazar ve Turkiye, III, Baski, Gercek Yayinevi, (Istanbul, 1975), p. 245.

According to the State Planning Organization's estimate, if the annual growth rate of gross national product reaches

[28]Kazgan, *op. cit.*, p. 245.

8 per cent in the Third Five Year Development Plan period, if government does not take necessary measurement to increase import-substituting production of these goods, imports of goods in this category will continue to increase in the years ahead.

Need for Protection

Do all manufacturing industries need protection in Turkey, or can some of them effectively compete with foreign companies? Ahmet Yorukoglu,[29] in his study, has examined all Turkish manufacturing industries and ranked them according to nominal and effective protective rates, and also calculated correlation coefficients for each industry. According to Yorukoglu's findings, the most protected industries are not mainly import-substituting industries, but are consumption goods industries, both durable and non-durable. On the other hand, producers of primary goods are the least protected. At the first glance, one could conclude that higher tax rates on final goods, and lower or zero tax rates on semi-finished and primary goods, is being fulfilled by the Turkish tariff structure. A more careful examination, however, shows that this is not completely accurate as an interpretation, and that in fact, such a judgment is generally misleading.

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[29] Ahmet Yorukoglu, "The Effective Rate of Protection and Developing Countries: The Turkish Case," unpublished dissertation, New York University, New York City, 1973.

If we examine the industries listed in Table XX, the situation of each industry sometimes does not support the aforementioned judgment. For instance, industries in the first group are the producers of durable consumer goods and not protected effectively.

The metal products industry, consisting of both public and private firms, produces all types of semi-finished and durable metal products. The ratio of import to total production is .278. Obviously, the growth of this industry is strongly related to foreign trade, even though the export as compared with the import is extremely small. Given the import substitution policy of the government, this industry needs more support from the government and more protection, especially since most of the import goods in this industry are finished products. There is no reason why more of these goods could not be produced domestically.[30]

The electrical machinery and appliances industry also meets 37 per cent of its needs from abroad, even though this industry shows a 28 per cent production growth rate in four years,[31] which is much higher than other industries that imported the same percentage of their needs from abroad. It is totally privately-owned industry and most of the products are durable goods. This industry does not export any of its

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[30]Yorukoglu, _op_. _cit_., p. 141.

[31]_Ibid_.

products, all of its products are devoted to domestic needs. The demand is growing for the electric machinery industry's products, and this industry faces the possibility of faster expansion and needs protection during those expansion years.

The agricultural and non-electrical machinery industry is also rapidly growing. Sixty per cent of the demand has been provided from abroad, while only 3 per 10,000 of the total supply is exported. This industry must be more highly protected, since it has a possibility and opportunity to grow faster and answer the total demand domestically. It is the seventh largest industry in the economy with both private and public firms; and more investment must be planned here.[32]

As can be seen from Table XX, the second highest industry group in terms of income elasticity is the transportation vehicles industry. This industry consists mostly of public sectors, and provides 33 per cent of its total supply from abroad, while 3 per 10,000 is being exported. This industry shows the highest growth rate of all, a result of the desperate need for transportation facilities in Turkey. Most of the public firms in this industry deal with repair of strips, locomotives, and passenger coaches. Real physical outputs are produced by the private sector. The necessity of more investment in this industry has been realized by the

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[32]*Ibid.*, p. 147.

government. Since 1968, using mostly foreign capital, the automobile industry has been established. French-made Renault and Italian-made Fiat automobiles are assembled in Turkey. In the early years of production, foreign parts have been generally used on the assembly line, but the percentage of foreign parts will be reduced each year. This gives an opportunity to Turkish companies to produce more and more parts each year. Large amounts of investments have been already made for this purpose. In the early years of investment, the manufacturing costs will be higher because of higher depreciation rates. Domestic auto part manufacturers should be protected against foreign competition. In later years, the rate of protection may be reduced to force auto manufacturers to work more productively.

The ceramics, glass, and non-metallic production industries have different characteristics compared with the industries discussed above. Almost 42 per cent of the total industry consists of small-scale firms, mostly in bricks, glassware, ceramics, and china production, as well as some building materials. Very few of these are publicly owned and almost 55 per cent of the firms are private.[33] This industry seems to be adequately protected. It is also a considerably small industry, which mostly produces semi-finished and some finished products. As was discussed

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[33] Ibid., p. 142.

previously, the foreign competition is not a significant factor in this industry because income elasticity for this industry's goods is much lower than the other previously discussed two groups of industries. However, almost 13 per cent of the demand is answered by foreign goods.

The fourth ranked industry group includes paper, tires, plastics, chemical, and petroleum industries. The paper and printing industry, which is predominantly public, is poorly supported by the government. Since 1963 the growth rate of production in this industry has been approximately 15 per cent, although the government's policy on this industry is growth-by-protection. Thirty-seven per cent of the total demand is supplied by foreign companies. Turkey has raw materials, technology, sufficient capital, and labor to expand this industry to cover the 37 per cent demand, and thus she would be able to meet all of the domestic needs. Obviously, levying high taxes on imports is not an adequate policy to protect and enable the industry to expand. More private capital should be encouraged to be invested in this industry.

The chemicals and pharmaceuticals is a rapidly growing industry in Turkey. Most of the firms are private, while only a few, namely explosives-producing and rayon, are public firms. The import substitution is the main policy for this industry. It is highly protected compared to other domestic industries.

The petroleum refineries industry produces both semi-finished and finished products. Most of the firms are foreign private enterprises, such as Mobil, British Petroleum, and Shell. Turkey produces an average of 25 per cent of its oil needs.[34] The major oil suppliers of Turkey are Libya and Iraq. Since 1963, this industry has expanded its output more than twice. This industry is already among the highly protected industries.

The fifth and lowest (in terms of income elasticity) industry group includes foods, textile and clothing, wood products, hides and leather, and tobacco and beverages manufacturers.

The food industry is the third largest industry in Turkey and it is mainly owned by private firms. Only slightly more than 1 per cent import exists, while almost 3 per cent of the total supply is being exported. Seventy-nine per cent average tariff rate appears to be convenient for the protection of the industry,[35] since almost no food is imported.

An import-substitution policy has been strictly applied to textile and clothing industry since 1935. In addition to the import prevention policy with high taxes, an export promotion policy has also been applied by the government

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[34] Iktisadi Rapor - 1977, *op. cit.*, p. 187.

[35] Yorukaglu, *op. cit.*, p. 142.

with subsidy payments. This is the only industry that Turkey can effectively compete with the EEC based companies when Turkey joins the Community as a full member. Turkish textile products are presently competing with English and Italian products. The export of Turkish textile products to the Community is determined by quotas each year. After the quotas have been used, the Common External Tariff rates are used to determine custom tariffs for imported textile products. As was discussed in Chapter II, quotas are very small compared to total textile exports. The main purpose here is protect the British textile industry against foreign competition.

The alcoholic beverages industry is also highly protected. Almost 90 per cent of the industry is owned and operated by TEKEL, the state monopoly. The purpose of the high protection is not mainly to protect a promising industry, but to create a revenue source for the government's budget.[36]

Concerning the question of labor demand (question 3), the MPs are almost equally divided into two groups. Ten respondents think that the EEC will demand more Turkish workers in the years ahead. On the other hand, eleven or 52 per cent of the respondents, think that the opposite will happen; the Community will not demand any more workers from Turkey. There

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[36] *Ibid.*, p. 141.

are two major reasons for this: first, unemployment rates among their own nationals is higher in recent years, and second, the Community has signed several agreements with other Mediterranean and African countries in recent years. These nations are also suffering from foreign trade deficits and higher unemployment problems. The EEC is committed to hire migrant workers from these countries. After Great Britain joined the EEC in 1973 and trade agreements were signed with Magreb countries, workers from Common Wealth and Magreb countries started to emigrate to the Community. Because of historical ties of French and Magreb countries, workers from these countries are given job opportunities in France over other migrant workers.

Fifty-five per cent of those who were in favor of accepting more Turkish migrant workers indicated that the EEC will demand "skilled industrial workers" and 33 per cent think that the Community will need construction workers.

Will it be necessary to cut the number of immigrant workers in the EEC? The majority of the respondent members of the European Parliament indicated that it will be unavoidable to cut the number of foreign workers in the Community. Twenty-eight per cent disagreed with the statement.

Of those who think that migrant workers are more than enough, picked "high unemployment rate among the EEC nationals" as a main reason why the number of migrant workers should be cut. "They cannot use their present acquired skills in their home country, and retraining them for new jobs is very costly." Twenty-two per cent of the respondents gave this reason for cutting the number of guest workers.

Of those who were against the cutting of the size of migrant workers and think that indigenous workers refuse to take dirty and less pretigious jobs, and those jobs filled by migrant workers were deserted by our own nationals. This group represents 45 per cent of the respondents. One-third of the MPs think that foreign workers work for less. As was discussed in Chapter III, wages in most of the EEC countries are at least three times higher than the wages in their home countries. Wages paid for foreign workers are cheaper in the Community countries compared to member states' own nationals. Twenty-two per cent of the MPs feel that immigrant workers are hard-working people. If they are adequately trained, their productivity will be higher and their contribution to the economy will be better.

It is the opinion of 80 per cent of the respondent MPs that Turkey is an attractive country for foreign investments. Turkish representatives also consider Turkey as an attractive country, but the percentage is smaller; 57 per cent compared to Europeans' view on the same issue. The main reason for being attractive for foreign investments, according to members of the European Parliament, is "availability of cheap labor."

The shares of foreign capital investments in the selected manufacturing industries in Turkey on Table XIX also supports these findings. In 1971, for instance, two manufacturing industries--tires and chemicals--had the highest share in terms of value. Total foreign investment in the chemicals industry was TL 385 million. This was 55 per cent of the total capital investment in this field. The share of foreign capital in the tire industry was TL 163 million in the same year.[37] Most of the raw materials for both industries are imported from abroad. In other words, foreign investors did not invest their capital in these fields considering cheap raw materials, but because of availability of cheap labor supplies. Forty-seven per cent of Turkish representatives agreed with European representatives on the same question. The high rate of return on investments was the second choice by both sides with the same percentage (35 per cent). The availability of natural resources was not considered as an attractive reason by the Europeans, but one respondent from the Turkish side considered "the availability of natural resources" as an attractive reason for foreign investment.

Concerning the fields of investments, the manufacturing industry had priority with 35 per cent. The service industry ranked second with 30 per cent among the attractive fields in terms of profitability. As can be seen from the following

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[37]Kazgan, op. cit., p. 213.

Table, the Turkish government is also hoping that the service industry will be the answer of high unemployment problems of the country.

TABLE XXI

CHANGES IN THE STRUCTURE OF GNP AND COMPOSITION OF EMPLOYMENT (Per Cent)

Sectors	GNP			Employment		
	1972	1977	1995	1972	1977	1995
Agriculture	28	12	10	65	58	20
Industry	23	36	40	11	13	22
Services	49	52	50	24	29	58

Source: The Summary of the Third Five Year Development Plan, 1973-1977, State Planning Organization (Ankara, December, 1975), p. 78.

In order to achieve these goals, the GNP should grow 7.9 per cent annually, agriculture 4 per cent, industry 11.5 per cent, and services 7.7 per cent. During the Third Five Year Plan (TFYP) period $3 billion worth of investments will be made, and 45 per cent of this amount will be invested in mining, energy, and manufacturing sectors.[38]

The majority of the MPs think that entrepreneurs from the Community countries would prefer the form of joint ventures with majority rights. As was discussed earlier in

[38] The Summary of the Third Five Year Development Plan, 1973-1977, State Planning Organization (Ankara, 1975), p. 34.

this chapter, high level management position, in those companies which have foreign capital in their assets, are held by foreign executives. They want to control operations as well as management. The Foreign Capital Encouragement Law of Turkey does not permit full ownership to the foreign investors. In most fields of investment, 51 per cent of the stocks should be held by Turkish citizens or by the government.

On the issue of advantages and disadvantages which Turkish manufacturing industries will have after Turkey joins the EEC as a full member, the respondents from both sides did not agree with each other. The majority (52 per cent) of MPs think that Turkish manufacturing industries will adopt new technological changes quickly in order to compete with the EEC based companies. On the other hand, 19 per cent of the Turkish representatives feel the same way, but 31 per cent think that Turkish manufacturing companies will work hard to minimize their costs and increase productivity in the transition period and be able to compete with the manufacturers of the same products from the Community. One-fifth of the Turkish respondents believe that manufacturing companies will have no benefit at all from full membership of Turkey in the Community, and 12 per cent think that domestic companies will go bankrupt if Turkey joins the EEC. This issue was discussed in detail earlier in this chapter. Further discussion will not be made to avoid duplication.

Concerning the future of the agricultural goods in the Common Market countries, 43 per cent of MPs think that Turkish farmers will be able to sell more agricultural goods because of abolished custom tariffs after Turkey joins the EEC. The Turkish side is more optimistic on the same issue. The majority of the Turkish representatives (55 per cent) agreed with their counterparts. Thirty-six per cent of the respondents from the Community believe that producers of agricultural goods in Turkey will change their marketing strategies to compete effectively with Community farmers. As was discussed in Chapter II, Turkey is the only country that will benefit from Common Agricultural policies when she joins the EEC as a full member.

"Do you predict any problem(s) in the agricultural goods' market if Greece, Spain, Portugal, and Turkey become full members of the Community?"[39] Seventy per cent of the members of the European Parliament representatives think that there will be strong competition between those nations and present members of the Community such as Italy and France. Because of the climate conditions, Mediterranean countries generally produce very similar agricultural goods. Being closer to the market, Spain and Portugal might have some advantages over Turkey and Greece in the short-run, but in the long-run it is believed that both Greece and Turkey can

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[39]The wording of this question on the Turkish version of the questionnaire was slightly different than the original (English).

effectively compete with them. As a matter of fact, Greece and Turkey will be major competitors (see Chapter II) in the agricultural goods' market when they join the EEC as full members. Almost one-fourth of the respondents from both sides agreed that strong competition in agricultural goods' market will discourage the new entries to the Community.

Eighty-six per cent of members of the European Parliament rejected the idea of placing limitations on the new entries to the Community as associated members from non-European countries. Any European country can join the EEC, if she fulfills the requirements. But lately, there is a trend to extend the same right to all Mediterranean countries. Some countries received better treatment than the associated members. Magreb countries, Malta, Israel, and Egypt were among those who signed preferential trade agreements with the Community. Turkey was very upset about the recent developments. The Turkish government claimed that preferential trade agreements hurt the Turkish agricultural exports because those countries produce and export almost the same agricultural goods. On the other hand, they do not have to lower their custom tariffs for imported goods from the Community, i.e., their domestic industries will not be facing strong competition as much as Turkish domestic industries would in the years ahead.

Thirty-nine per cent of those who rejected placing limitations on new entries think that such limitations will hurt the future growth of the European Economic Community.

Almost one-fourth of the respondents believe that such limitations may encourage other countries to establish similar economic organizations against the EEC. On the same issue 15 per cent indicated that it would be against the idea of "free enterprise system."

Sixty per cent of those who were in favor of putting limitations on new entries worried about the control of the organization. They believe that enforcement of the laws and regulations would be difficult if the Community covers all Mediterranean countries. And 40 per cent of the supporting group think that a large membership will lessen the coordination and cooperation between member states.

The majority of the MPs believe that if Turkey joins the Community as a full member, this would help to bring economic and political stability to the country. Since 1971, eight different governments have been formed. Political instability also brought serious economic problems with it. Independent or weak coalition governments were unable to take necessary economic measures to control the economy. The average inflation rate was 25 per cent per year in the last five years.[40]

Concerning the political stability in Turkey, some of the respondents commented that "there is no real democracy in Turkey." The author was unable to interpret their comments because they did not give any further explanations.

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[40]OECD, Main Economic Indicators (November, 1977), p. 117.

On the issue of meeting the necessary requirements for full membership at the end of transition, the majority of the Turkish and European respondents agreed that Turkey's chance of success is not good. There was not a single respondent who believed that Turkey's chance is "very good" in meeting the requirements at the end of the transition period. Twenty-nine per cent of the EEC representatives and 27 per cent of the Turkish representatives think that Tdrkey's chance is "fair" in this battle. While 14 per cent of Europeans rating Turkey's chance of success as "poor," the majority of the Turks (53 per cent) think the same way. But Turkish representatives seem to be more optimistic about the outcome, because 43 per cent of MPs believe that the chance of success in meeting the requirements by the end of the normal transition period is "very poor."

If you rated Turkey's chance as "poor" or "very poor" the the question is, "What should Turkey do in order to fulfill the requirements?" On this issue, members of the European Parliament were divided into almost two equal groups. Fifty-five per cent suggested that exports should be increased in order to minimize foreign trade deficits. As was discussed in Chapter II, Turkish foreign trade deficits reached $3.5 billion, three times the export revenues in 1976.[41] The opposition group urged cutting imports to narrow the gap between export earnings and import expenditures. In March of

[41] Iktisadi Rapor, op. cit., p. 481.

1978, Turkey devalued its currency about 35 per cent against the hard foreign currencies to encourage exports and discourage imports. During the personal interviews with Turkish private sector representatives, most of the interviewees insisted that there is no way to cut imports because most of the imported items are intermediate and investment goods. They claimed that if government cuts the imports, it will be more harmful to the economy than it will be beneficial, because most of the manufacturing companies will be forced to close their operations which means more lay-offs and higher unemployment.

Other Possible Economic Cooperations for Turkey Outside of the EEC

Turkey is also a member of the Regional Cooperation for Development (RCD) which was signed in 1969 between Turkey, Iran, and Pakistan. The main objective of this organization was to encourage economic cooperation between member countries, and to find permanent solutions to the regional problems, such as development of human resources, unemployment, and under-employment. But the RCD did not work effectively in the past nine years and has not achieved any of the proposed objectives.

Another alternative seems to be more attractive or possibly beneficial than the previous one. All the Balkans, except reclusive China-oriented Albania, are rapidly building practical economic links. A major stumbling block until mid-1974 was the military dictatorship in Greece, a right-wing regime that the leftist Balkan countries shunned as much as possible.[42]

But since civilian rule has returned to Athens, relations among the Balkan states are "better than ever" according to Bulgaria's deputy foreign trade minister. From only about $35 million yearly before, Bulgaria's two-way trade with Greece jumped to $85 million in 1975 and is heading towards $100 million in 1976.[43]

Balkan integration is going far beyond ordinary exporting and importing. Making fuller use of each other's natural resources and developed industries is a major motivation. Under a long-term contract, aluminum from Greece goes to Bulgaria in return for caustic soda. This year, Turkey is expected to assemble about 500 forklift trucks, a product in which Bulgaria specializes; Bulgaria provides sophisticated parts and Turkey simpler ones, with Turkey slated eventually to build its own under Bulgarian license.

Joint ventures are surmounting ideological lines with both countries consuming the same type of white cheese from sheep's milk. Turkish officials agreed to share a projected cheese factory in Bulgaria in May of 1976. Another joint venture under discussion would be a non-ferrous metal mining

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[42]Richard F. Janssen, "Balkans Forge Closer Economic Ties," The Wall Street Journal (June 7, 1976), p. 4.

[43]Ibid.

project in Turkey. Bulgaria already gears its ammonia output to supply a fertilizer factory in Greece.

Bulgaria is clearly eager for more industrial projects in the region. The "non-socialist Balkan countries" of Turkey and Greece are "very promising indeed" as economic partners, according to Bulgarian officials.[44] Among the reasons are proximity, which slashes transport costs, and Turkey's rapid economic development and large population.

In April of 1978, another Turkish-Bulgarian agreement was signed to encourage trade and economic cooperation between the two nations. The Minister of State in charge of economic affairs said that the $35 million trade agreement is the first step of further economic cooperation.[45] Both sides agreed that there is a great trade potential between two neighbors, but that it has not been used effectively in the past.

Turkey's friendly relations with the oil-producing Muslim countries such as Iraq, Libya, and Iran may become an important factor to attract foreign capital to the region. For instance, after the Middle-East Crisis in 1973 and the oil embargo in 1974, several projects have been discussed to transport oil and natural gas by pipeline. A 1,000 kilometers long pipeline, between Musul oil-producing

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[44] Ibid.

[45] Cumhuriyet, April 20, 1978.

regions of Irqa and the Mediterranean seaside city, Iskenderun, was completed in the first quarter of 1977. Joint investment projects with oil-rich Libya have already been started, especially in the fields of housing and petrochemical industries.

Chapter Summary

Turkey, as an associated member of the European Economic Community, has started to charge lower tariffs on industrial imports from the Community with the beginning of the transition period. Highly protected Turkish manufacturing industries felt the effects of foreign competition for the first time. While the domestic industries were dealing with high production costs and low productivity, the country as a whole had serious economic and social problems such as rapid population growth, large foreign trade deficits, and high unemployment rates.

Representatives of the Turkish manufacturing industries claimed that the infant Turkish industry will not be able to compete with giant corporations from the Community. Input prices in Turkey are higher than in the EEC member countries. As a result, productivity is comparatively lower in Turkey than in the Community.

Labor intensive manufacturing industries can compete with the European companies because labor is much cheaper in Turkey. Foreign capital investments are increasing because of the availability of cheap labor in Turkey.

Most of the Turkish manufacturing industries produce non-durable consumer goods and income elasticity of these goods is lower compared to imported durable goods. The future of the small manufacturing industries is entirely dependent upon effective protection against the foreign competition but tariffs should be lowered for imported industrial goods by the terms of agreement with the EEC. The summary, the basic conclusions of the study, and some recommendations are included in Chapter V.

CHAPTER V

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Summary

The history of economic integrations in Europe goes back to the first quarter of the twentieth century. The first regional economic integration was formed between Luxembourg, Belgium, and the Netherlands, called Benelux in which consumption taxes were harmonized, custom duties were coordinated, and quantitative restrictions had been eliminated.

After witnessing the success of Benelux, other European countries also started to favorably discuss European integration after the Second World War. The leaders of the movement were in favor of both economic and political unification of Europe. But Great Britain opposed the idea claiming that she would lose her national economic and political sovereignty. Six European countries--Luxembourg, the Netherlands, Belgium, France, West Germany, and Italy--signed the treaty for the establishment of the European Coal and Steel Community, giving their entire coal and steel production to a single supranational authority. In a few years, the success of the Coal and Steel Community proved that supranational economic integration is not only practicable, but also beneficial in the long run for the economic welfare of the participating countries.

The economic cooperation, beginning with the Coal and Steel Community, was perpetuated and extended on the continent as the most promising and practical means of achieving the European economic union. The members of the European Coal and Steel Community signed the Treat of Rome on March 24, 1957, and officially established the European Economic Community and European Atomic Energy Community. Both Communities are open to any non-Communist European country.

Turkey applied for EEC membership in 1959 and the membership agreement was signed in 1963. Turkey's membership involved three stages: preparatory period, transition period, and full membership. The preparatory phase made substantial contributions towards strengthening economic relations between Turkey and the European Economic Community. The conditions were satisfied for the transitional phase and Turkey and the Community signed the Additional Protocol on November 23, 1970, specifying the conditions and procedures for the transitional period. Custom union, unification of agricultural policies, social rights, and financial aid were the main features of the transitional phase.

Turkish custom tariffs are comparatively higher than the EEC's Common Custom Tariffs (CCT). The reduction of her tariffs to the level of the CCT will require a considerable effort for Turkey since the CCT is one of the lowest tariffs in the world. Turkey made the first reduction in its custom duties at the beginning of 1977, under the terms of Additional Protocol.

Turkey's foreign trade shows large amonts of deficits in the first half of the 1970's. The EEC member countries are the main buyers of Turkish goods, and also the major suppliers of the Turkish imports. Seventy per cent of export earnings came from the traditional agricultural goods.

The distribution of major agricultural export items indicates that the Common Market countries have consistently been Turkey's largest market, thus, she must look to the EEC and other western European countries as a potential market today and tomorrow as she has in the past. However, Turkish agricultural goods will be facing tough competition from other Mediterranean countries in the near future because these countries produce very similar agricultural goods. Agricultural goods from those countries have been granted the same rights, and in some cases, preferred status, over Turkish goods by the EEC. Turkey's major competitors for dried figs, raisins, and tobacco will be Greece, because she will join the European Economic Community as a full member several years ahead of Turkey. As a full member, Greek agricultural goods would be protected by custom tariffs or quantitative restrictions against its competitors, mainly against Turkish agricultural products.

In spite of foreseeable difficulties for agricultural goods, Turkey will benefit the most from the application of Common Agricultural Policies (CAP) because Spain and Portugal will not gain as significantly, in spite of their closeness to the market. Greece will be competitive in only dried figs, raisins, and the tobacco market.

Production costs of agricultural goods in Turkey are lower than the EEC's. If Turkey's enormous potential for agricultural expansion could be mobilized, extra production of oilseeds, field grains, and other nontraditional agricultural goods could significantly increase its export earnings.

The concept of "immigrant workers" is not new for western European countries. It goes back to the second half of the nineteenth century when worker migrated from eastern European countries instead of from the Mediterranean countries.

The labor shortage in the EEC countries after the Second World War was caused by several factors, such as depressed birth rates during the war years, casualties suffered in the war and the post-war recovery, and dramatic economic growth in the 1960's. Several Common Market countries had signed agreements with Mediterranean countries, such as Spain, Greece, Turkey, Yugoslavia, Portugal, Morocco, and Tunisia, to fill job vacancies in their industries.

Turkey was the main supplier of emigrant workers for West Germany. The number of Turkish workers increased steadily in the western European countries until the economic recession in 1974. The primary causes of migration of Turkish workers were insufficient income and unemployment.

They have migrated in response to differences in the incomes available to them. Most of the emigrants were highly skilled workers. On the other hand, research findings showed that there was, during the migration and there still is, a skilled worker shortage in Turkey.

The remittances of Turkish workers plays an important role in the foreign deficit payments. The amount of yearly remittances from Turkish workers abroad was nearly equal to the total export earnings in 1974. In recent years, because of high inflation rates and successive devaluations in Turkey, immigrant workers have been forced to keep their savings in the EEC countries.

The majority of those workers who transferred their savings to Turkey invested their monies in traditional fields, such as housing and land acquisition, because the purchase of land or a house was considered a risk-free investment by the emigrant workers. Existing data indicate that relatively few workers spend their savings to create new investments. Their spendings have had some inflationary impact on domestic economy.

In host countries, immigrant workers have made important contributions to the higher rates of economic expansion. Among other things, they have diminished the labor shortages, permitted fuller utilization of productive capacity, and modified the pressures that would otherwise have led to wage and price increases. They have frequently been ready to accept less prestigous positions and lower salaries which that countries' nationals were no longer willing to undertake. Another factor of importance is the adaptability of foreign labor to the changing needs of the economy. With the domestic labor force relatively committed, foreign labor plays an important role as an available and flexible labor reserve.

Surveys indicate that most migrant workers, at least initially, tend to regard their migration as temporary. However, as a result of working abroad they realize expectations of higher earnings and greater financial independence than they may be able to achieve in their home country.

Questionnaire results showed that the major problems of Turkey in the transition period are lack of technological know-how and low productivity in industrial and agricultural sectors. The respondents from both sides were agreed on the same problems. In addition to the above mentioned problems, Turkey also suffers from rapid growth of population (2.7 per cent annually), high levels of unemployment, and huge foreign trade deficits.

The domestic prices of coal, iron, steel, copper, and petro-chemical products are higher than world prices, and these supplies are controlled by the government. In addition to these higher input prices, during the transition period, competitive EEC-originated products will gradually be liberalized and enjoy reduced custom tariffs. As a result of high input prices, the production costs of the manufactured goods are also higher than the cost of the goods which are manufactured in the Common Market countries. The opposing groups claimed that there is no way that the Turkish manufacturing industries can compete with the EEC-based companies. If Turkey joins the European Economic Community as a full member at the end of the normal transition period, all infant Turkish domestic industries will be forced to close their businesses.

Foreign investments in Turkey increased lately in the form of joint ventures. The majority of the investments were made by EEC-based companies and were especially concentrated in the fields of chemicals and food processing industries.

Research findings show that the metal products industry, the electrical machinery and appliances industry, and the domestic auto parts manufacturing industry need more protection from foreign competition. If these industries are not protected against the EEC's giant corporations, they will not be able to face competition and will be eliminated in a short period of time.

Both the European and Turkish representatives think that Turkey is an attractive country for foreign investments. The main reason is the availability of cheap labor in Turkey.

Conclusions

The findings of this study rejected Hypothesis One, "Reduction in custom tariffs by the European Economic Community for Turkey's major export items will have negative effects on the prices and quantity of Turkish agricultural goods." As explained in Chapter II, the Common Agricultural Policy (CAP) aims to keep prices of Community-produced farm goods slightly higher than those from outside. In other words, members who are net exporters of agricultural goods should be gaining from the CAP. Turkey will benefit the most from CAP because of the country's potential to produce and export more agricultural goods among the previous and the new applicants. Seventy per cent of the total export earnings are obtained from the sales of agricultural commodities. If Turkey joins the European Common Market as a full member, reduction in custom tariffs by the European Economic Community for Turkey's major export items will have positive effects on the prices and quantity of Turkish agricultural goods. Elimination of quantitative restrictions at the end of the transition period would also help the Turkish traditional (cotton, tobacco, hazelnuts, dried figs, and raisins) export commodities.

Research findings showed that the presence of Turkish migrant workers in the EEC countries was a very complicated issue in the opinion of the Turkish labor and public sector representatives. Most of the workers who emigrated to western European countries were skilled laborers. Turkey itself needs skilled workers for its developing domestic industry. Training and/or re-training of unskilled workers is a very costly operation.

On the other hand, the remittances of Turkish workers is considered very vital for the economic development of the country. Total remittances of migrant workers is almost equal to the total export earnings of the country. An economy with a huge foreign trade deficit cannot survive without the transferred savings of its workers abroad. Also, the development of domestic industry depends upon the availability of foreign currency, because most of the domestic industry's raw materials and/or intermediary goods come from abroad.

Initial optimistic hopes of the government and industrialists concerning acquired skills, industrial experience and discipline, are disappearing. Experiences show that emigrant workers' acquired skills do not fit into Turkish domestic industry's needs. Most of the returned emigrant workers could not find similar jobs in Turkey that they were doing in western European countries. Their industrial experience and discipline could have been an asset for industrial development, but most of them opened up their private small businesses instead of working for someone else.

Research findings also showed that transferred savings of Turkish workers abroad has inflationary impacts on domestic economy, especially in the fields of housing and land acquisition.

Hypothesis Two, "Presence of Turkish workers in the European Economic Community member-countries is considered very important for Turkey's economic development by Turkish Labor and public sector representatives," was not supported by the research findings of this study.

As explained in Chapter IV, Hypothesis Three, "Representatives of the Turkish private sector will object to joining the European Economic Community as a full member at the end of the normal transition period," was supported by the research findings. Representatives of the Turkish private sector rejected joining the European Economic Community as a full member at the end of the normal transition period, because, they claimed, input costs are higher than EEC prices. The infant Turkish industries cannot compete with foreign companies. Instead of lowering custom tariffs, they should be protected against foreign competition by charging higher custom duties to the imported goods if the similar products are available in Turkey.

Consistent with the objectives of the study and based on the description and analysis of the gathered data, the following conclusions are presented.

1. There is still a potential market for the traditional Turkish export goods in the European Economic Community, and Turkey would have a competitive advantage in all her agricultural commodities except fresh fruits and vegetables.

2. Turkey will benefit the most from the application of Common Agricultural Policies among the new prospective countries, namely, Greece, Spain, and Portugal.

3. High unemployment rates in Turkey and higher wages in the western European countries were the main reasons for Turkish labor emigration.

4. Most of the emigrated Turkish workers to the western European countries were highly skilled laborers.

5. If Turkey joins the EEC as a full member, income distribution in Turkey would change in favor of wage earners, because availability of cheap labor was the main factor for attracting the foreign capital investment to Turkey during the early stage of the transition period.

6. Since the raw materials cost more in domestic markets, Turkey can concentrate in labor-intensive industrial goods such as textiles, and if developed, electronics.

7. Domestic industries will remain dependent upon the importation of capital goods, which are not only necessary for other industries, but also for the production of import substituting goods.

8. Workers' remittances have been the largest single unanticipated source of strength in the Turkish balance of payments from 1970 to 1977.

9. Attempts by the Turkish government to attract the remittances into savings accounts of financial investments have largely failed because of people's anticipation of inflation and fear of another major devaluation.

10. Workers' remittances have some inflationary impacts on domestic economy.

11. Most of the emigrant workers do not acquire useable skills for economic development in Turkey. Of those who acquire skills, they either do not return or do not want to work for industry, because they generally open their own small business.

12. High inflation rates, rapid population growth, and high unemployment are the main problems of Turkey in the transition period of the EEC membership.

13. The input prices are higher in Turkey than the EEC's input prices. So are the production costs and selling prices. As a result, most of the Turkish manufacturing industries will not be able to compete with the EEC-based companies. Only a few selected manufacturing companies may survive from price competition, but price is not the only factor for effective competition. The quality, warranty, and promotional policies should also be developed as well.

Recommendations

Based on the findings and conclusions derived from this research study, the following recommendations are suggested.

1. In order to inform the farmers and their organizations about market conditions, intelligence units should be established in selected cities of the Common Market countries. Agriculture and marketing officers should be assigned to these units.

2. If the EEC countries demand more Turkish workers in the years ahead, present and future needs of the domestic industry for skilled workers should be analyzed carefully, and emigration of domestically needed skilled workers should be restricted by the government. Incentive programs should be prepared for those who are forced to stay in Turkey.

3. The remittances of Turkish emigrant workers should be encouraged to move into investment in manufacturing industries instead of the traditional investments as housing and land acqusition.

4. Turkish officials should make detailed studies about the acquired skills of returned emigrant workers. In order to adapt them to the new work environment, re-training programs should be developed and financed by the government and domestic industry.

5. The present situation of the domestic industry should be analyzed against foreign competition before further tariff reductions enter into force under the terms of Additional Protocol. If it is needed, tariff reductions should be delayed.

6. The government should take all necessary measures to keep the input prices down in the domestic market. On the other hand, domestic industry for its part, should spend part of their profits for research and development to find ways and means of increasing productivity.

7. During the coming Fourth and Fifth Five Year Plan periods the choice of areas of public and private investments have to be made more selectively; considering the competition between domestic and the EEC-based companies when all tariff restrictions are abolished. Namely, investment projects concentrating on labor intensive technologies of production should be selected.

8. In order to increase productivity in agricultural sector, efforts to expand co-operative farming--mostly large scale--should be encouraged through government support and other incentives, such as financial credits, technical assistance, and tax rebates.

APPENDIX A

RESEARCH STUDY ON THE ECONOMIC RELATIONSHIP BETWEEN THE EUROPEAN ECONOMIC COMMUNITY AND TURKEY IN THE TRANSITION PERIOD

Dear Sir:

This questionnaire is part of the research which is being undertaken to fulfill the requirements for the Ph. D. degree in Business Administration at North Texas State University, Denton, Texas, U.S.A. It is designed to survey the economic relationship between the European Economic Community and Turkey in the transition period which started in 1970, and theoretically will end in 1985.

All replies will be kept strictly confidential and will be used only for academic purposes.

Thank you for your kind cooperation.

INSTRUCTIONS

Please read each qeustion carefully, then select the most appropriate response or responses.

Please return the completed form before July 10, 1977. Use the enclosed addressed, stamped envelope for returning the form.

TIME REQUIRED

This questionnaire should take less than 10 MINUTES.

BACKGROUND QUESTIONS

1. Name ______________________________

2. Age ______________ 3. Sex ___Male ___Female

4. Education (give highest level attained) __________Years

5. Previous employment _____Employed in public sector

   _____Employed in private sector

   _____Owned my own business

   _____Other (Please specify)

   ____

6. Nationality____

7. Do you desire a summary of the findings of this study?

_____Yes _____No

MAIL QUESTIONNAIRE

Data Collection from European Parliamentary Assembly Members

1. In your opinion, what are the major problems of Turkey in the transition period? (Please check as many responses as is appropriate.)

_____a. Lack of technological know-how
_____b. Rapid growth of population
_____c. Low productivity in industry and agriculture
_____d. High foreign trade deficits
_____e. Other (please specify) ________________________

2. In your opinion, should the EEC give more aid to Turkey in order to solve her problems?

_____Yes
_____No

If yes, please check the most appropriate response(s).

_____a. More financial credit for development of Turkish manufacturing industry and agricultural facilities
_____b. More imports from Turkey
_____c. More foreign investments in Turkey
_____d. More aid in the form of technological know-how
_____e. Other (please specify) ________________________

3. In your opinion, will your country demand more Turkish workers after Turkey becomes a full member of the EEC?

_____Yes
_____No

If yes, what kind of Turkish worker will be needed? (Check as many responses as is appropriate.)

a. Skilled industrial workers
b. Farm workers
c. Construction workers
d. Mine workers
e. Unskilled workers for service industry
f. Other (please specify) ______________________________

4. Is there any plan(s) to cut the number of immigrant workers in your country?

_____Yes
_____No

a. If yes, please indicate the reason(s) below. (Check as many responses as is appropriate.)

_____1. We have a high unemployment rate among our own citizens.
_____2. Immigrant workers are creating more problems than ever before.
_____3. They do not have skills to work in our manufacturing and service industry and training them is very costly.
_____4. They cannot adapt themselves into our life style.
_____5. Other (please specify) ____________________

b. If no, why do your industries hire immigrant workers in spite of high unemployment rates among your own citizens? (Check as many responses as is appropriate.)

_____1. They are hard-working people.
_____2. Our nationals refuse to take dirty and less prestigious jobs.
_____3. Their wages are cheaper than our nationals.
_____4. Other (please specify) ____________________

5. In your opinion, is Turkey an attractive country for foreign investments?

_____Yes
_____No

If yes, please indicate the reason(s). (Check as many responses as is appropriate.)

_____a. Availability of cheap labor.
_____b. Availability of natural resources
_____c. Close to the potential market(s)
_____d. High rate of return on investments
_____e. Other (please specify) ____________________

6. In your opinion, what area(s) of the Turkish economy would be more profitable for foreign investments?

_____a. Service industry (hotel, motel, restaurants, etc.)
_____b. Soft drink and bottling industry
_____c. Auto industry (including assembly plants)

_____d. Manufacturing industry
_____e. Other (please specify)_____________________

7. In your opinion, what form and extent of investment would your businessmen prefer in Turkey?

_____a. Full ownership
_____b. Joint ventures - majority rights
_____c. Joint ventures - minority rights
_____d. Franchising
_____e. Other (please specify)_____________________

8. In your opinion, what benefits, if any, will the Turkish manufacturers get, if Turkey joins the EEC as a full member?

_____a. They will work harder to meet the competition; as a result, they will make more profit.
_____b. They will adopt new technological changes as soon as possible.
_____c. Similar manufacturers will merge and become more competitive and effective in their operations.
_____d. They will get no benefit(s) at all.
_____e. Other (please specify)_____________________

9. In your opinion, what benefit(s), if any, will Turkish farmers get from Turkey's full membership in the EEC? (Check as many responses as is appropriate.)

_____a. They will sell more in the EEC member countries because of abolished custom tariffs.
_____b. They will develop and/or change their marketing practices to meet the competition.
_____c. There will be no additional benefit(s), because demand for Turkish agricultural goods will not increase.
_____d. They will make more profit because of higher prices for community produced farm goods than those from outside.
_____e. Other (please specify)_____________________

10. As a member of parliament, do you predict any problem(s) in the agricultural goods' market if Greece, Spain, Portugal, and Turkey become full members of the Community?

_____Yes
_____No

If Yes, please indicate the problem(s). (Check as many responses as is appropriate.)

_____a. There will be strong competition among producing countries.
_____b. Competition will discourage new entries into the Community.
_____c. Each producing country will be spending more on promotional campaigns to increase its market share, and this means lower profit margins for farmers.
_____d. Other (please specify)_____________________________

11. The EEC has signed several association agreements and presently is negotiating with some other countries. In your opinion, would it be necessary to put a limit on the number of new entries into the Community?

_____Yes
_____No

a. If Yes, please check the appropriate reason(s).

_____1. Large number of memberships will reduce the coordination and cooperation among member countries.
_____2. Enforcement of the laws and regulations will be difficult.
_____3. The EEC as an organization will lose its credibility and not attract good potential members.
_____4. Other (please specify)_________________________

b. If No, please check the appropriate reason(s).

_____1. Such a limitation will hurt the future growth of the EEC.
_____2. It would be against the idea of "free enterprise system."
_____3. Such a limitation may encourage other countries to establish similar organizations against the EEC.
_____4. It will discourage competition, research, and development activities in the EEC.
_____5. Other (please specify)___________________________

12. As a member of Parliament, did you make any suggestion or recommendation concerning the future of the Community?

_____Yes
_____No

a. If Yes, please summarize briefly.____________________
____
____
____
____
____
____

13. In your opinion, could full membership in the European Economic Community help bring economic and political stability to Turkey?

_____Yes
_____No

a. If Yes, how? Please explain briefly.______________
____
____

b. If No, why not? Please explain briefly. __________
____
____

14. In summary, according to your overall evaluation, Turkey's chance of success in meeting the requirements for full membership by the end of the transition period (1985) is:

_____very good
_____good
_____fair
_____poor
_____very poor

15. If your answer to question #14 is "poor" or "very poor," what should Turkey do in order to achieve its goals? (Check as many responses as is appropriate.)

_____a. Custom tariffs should be raised to protect domestic industry.
_____b. Exports should be increased in order to balance the foreign trade deficits.
_____c. Imports should be cut in order to balance the budget.
_____d. More Turkish workers should be sent to the EEC member countries to get more foreign currency.
_____e. Other (please specify)__________________________

APPENDIX B

MAIL QUESTIONNAIRE

Data Collection from Turkish Private and Public Sector Representatives

1. In your opinion, what are the major problems of Turkey in the transition period? (Please check as many responses as is appropriate.)

   _____a. Lack of technological know-how
   _____b. Rapid growth of population
   _____c. Low productivity in industry and agriculture
   _____d. High foreign trade deficits
   _____e. Other (please specify) ________________________

2. In your opinion, should the EEC give more aid to Turkey in order to solve her problems?

   _____Yes
   _____No

   If yes, please check the most appropriate response(s).

   _____a. More financial credit for the development of Turkish manufacturing industry and agricultural facilities.
   _____b. More imports from Turkey
   _____c. More foreign investment in Turkey
   _____d. More aid in the form of technological know-how
   _____e. Other (please specify) ________________________

3. If the EEC agrees to give more financial aid to Turkey, in your opinion, where should these financial credits be used? (Please check as many responses as is appropriate.)

   _____a. For the development of manufacturing industry
   _____b. For the development of agricultural facilities
   _____c. For the development of infrastructural facilities
   _____d. For the payment of foreign trade deficits
   _____e. Other (please specify) ________________________

4. In your opinion, is Turkey an attractive country for foreign investments?

   _____Yes
   _____No

If Yes, please indicate the reason(s). (Check as many responses as is appropriate.)

_____a. Availability of cheap labor
_____b. Availability of natural resources
_____c. Close to the potential market(s)
_____d. High rate of return on investments
_____e. Other (please specify) ____________________

5. In your opinion, what benefits, if any, will the Turkish manufacturers get if Turkey joins the EEC as a full member?

_____a. They will work harder to meet the competition; as a result, they will make more profit.
_____b. They will adopt new technological changes as soon as possible.
_____c. Similar manufacturers will merge and become more competitive and effective in their operations.
_____d. They will get no benefit(s) at all.
_____e. Other (please specify) ____________________

6. In your opinion, what benefit(s), if any, will Turkish farmers get from Turkey's full membership in the EEC? (Check as many responses as is appropriate.)

_____a. They will sell more in the EEC member countries because of abolished custom tariffs.
_____b. They will develop and/or change their marketing practices to meet the competition.
_____c. There will be no additional benefit(s), because demand for Turkish agricultural goods will not increase.
_____d. They will make more profit because of higher prices for community produced farm goods than those from outside.
_____e. Other (please specify) ____________________

7. In your opinion, what would happen to agricultural goods' market if Greece, Spain, Portugal, and Turkey join the EEC as full members? (Please check the most appropriate response.)

_____a. It would be very difficult for Turkish producers to compete with them.
_____b. Spain and Portugal will capture larger shares because they are close to the market.
_____c. Each country will be specialized in different areas.
_____d. Other (please specify) ____________________

8. In your opinion, is the emigration of skilled and semi-skilled Turkish workers to the EEC providing more benefits to the country than their presence in Turkey?

_____Yes
_____No

a. If Yes, how? Please explain briefly.______________
____
____

b. If No, why not? Please explain briefly.___________
____
____

9. In your opinion, should the Turkish government increase restrictions to prevent the migration of skilled workers to the EEC countries?

_____Yes
_____No

a. If Yes, please check the appropriate reason(s).

_____1. Our domestic industry needs more skilled workers.
_____2. They are trained and/or educated in Turkey, and they should work here before they leave the country.
_____3. They are one of the most important national resources and should not be wasted by sending them to the EEC countries.
_____4. Other (please specify) ____________________

b. If No, please check the appropriate reason(s).

_____1. We need their transferred savings for our economic development.
_____2. Domestic industries cannot hire any more skilled workers.
_____3. The unemployment rate would be very high among skilled workers.
_____4. They will be great assets for the country after Turkey joins the EEC as a full member.
_____5. Other (please specify)____________________

10. In summary, according to your overall evaluation, Turkey's chance of fulfilling all the requirements for full membership in the EEC by 1985 is

_____a. Very good.
_____b. Good.
_____c. Fair.
_____d. Poor.
_____e. Very poor.

11. If your answer to question #10 is "poor" or "very poor," what should Turkey do in order to achieve its goals?

_____a. Custom tariffs should be raised to protect domestic industry.
_____b. Exports should be increased in order to balance the foreign trade deficits.
_____c. Imports should be cut in order to balance the budget.
_____d. More Turkish workers should be sent to the EEC countries to get more foreign currency.
_____e. Other (please specify)_________________________

APPENDIX C

MAIL QUESTIONNAIRE FOR TURKISH LABOR REPRESENTATIVES

1. In your opinion, is there any shortage of labor supply in the Turkish labor market?

   ___Yes
   ___No

   If Yes, please indicate the areas of shortages. (Please check as many responses as is appropriate.)

   _____a. Skilled assembly line workers
   _____b. Technical supervisory personnel
   _____c. Construction workers
   _____d. Skilled workers for service industry
   _____e. Other (please specify) ______________________

2. In your opinion, what are the major problems of Turkish labor? (Please check as many responses as is appropriate.)

   _____a. High unemployment rate
   _____b. Underemployment
   _____c. Low wages and bad working conditions
   _____d. High turnover rate
   _____e. Other (please specify) ______________________

3. In your opinion, do the EEC member countries prefer Turkish people as migrant workers? If Yes, please indicate the reason(s).

   _____a. They are better qualified.
   _____b. They work harder than their own nationals.
   _____c. They accept dirty and less prestigious jobs.
   _____d. They work for less.
   _____e. Other (please specify) ______________________

4. In your opinion, should Turkish government put more restrictions than before in order to prevent the emigration of skilled Turkish workers to the EEC countries?

   ___Yes
   ___No

a. If Yes, please check the appropriate reason(s).

_____1. Turkish domestic industry needs more skilled workers.
_____2. Those workers are trained and/or educated in Turkey, and they should work here before they leave the country.
_____3. They are one of the most important national resources and should not be wasted by sending them to the EEC countries.
_____4. Other (please specify) ____________________

b. If No, please check the appropriate reason(s).

_____1. Turkey needs workers' transferred savings for economic development.
_____2. Domestic industries cannot hire any more skilled workers.
_____3. The unemployment rate would be very high among skilled workers.
_____4. Workers will be a great asset for the country after Turkey joins the EEC as a full member.
_____5. Other (please specify) ____________________

5. In your opinion, which, if any, of the following occupational group's emigration should be restricted?

_____a. Technicians (technical school graduates)
_____b. Engineers
_____c. Experienced line workers
_____d. Mine workers
_____e. None of them
_____f. Other (please specify) ____________________

6. In your opinion, what would happen if the EEC countries fire and/or lay off large numbers of Turkish workers in the near future? (Check as many responses as is appropriate.)

_____a. Workers will open their own businesses.
_____b. Workers will create new economic and social problems in Turkey.
_____c. Most of the workers will be unemployed.
_____d. Most of the workers will be hired by the domestic industries because of their high technical skills.
_____e. Other (please specify) ____________________

7. In your opinion, what are the major problems of Turkish workers in the EEC countries? (Check as many responses as is appropriate.)

_____a. Poor housing and living conditions
_____b. Low wages compared to the EEC's own nationals
_____c. Restricted civil rights (cannot join the unions)
_____d. Inadequate recreational and educational facilities
_____e. Other (please specify) ______________________________

8. In your opinion, what can be done to solve the problems of Turkish workers in the EEC member countries? Please explain briefly. ______________________________
____
____
____

9. According to the latest statistics, transferred savings from Turkish workers in the EEC countries to Turkey declined substantially in recent years. In your opinion, what are the major reasons for this development? (Check as many responses as is appropriate.)

_____a. Several successive devaluations of Turkish lira in past two years
_____b. High inflation rate in Turkey
_____c. Lack of investment opportunities in Turkey
_____d. A fear of a major devaluation of Turkish lira
_____e. Other (please specify) ______________________________

10. In order to increase hard currency transfers, the Turkish government recently decided that transferred savings from the EEC countries can be deposited as a "convertible account." In spite of this action, hard currency transfers are not increasing. In your opinion, what can be done to attract more savings from EEC countries to Turkey by Turkish workers? (Please check as many responses as is appropriate.)

_____a. Turkish interest rates should be raised.
_____b. Interest revenue from transferred savings should be tax free.
_____c. Prize system in Turkish banking should be re-established.
_____d. Investments of Turkish workers should be insured against any fraud.
_____e. Other (please specify) ______________________________

11. In summary, according to your overall evaluation, in the future the number of Turkish workers in the EEC member countries will:

_____a. increase.
_____b. be the same.
_____c. decrease.
_____d. decrease substantitally.
_____e. no opinion

APPENDIX D

INTERVIEW QUESTIONS

For Turkish Public and Private Sector Representatives

1. In your opinion, what are the major problems of Turkey in the transition period? What can be done in order to solve those problems? Please explain briefly.

2. What kind of major problems does the Turkish industry have now and what can be done to solve those problems? Please explain briefly.

3. The present slowdown in the world economy has caused higher unemployment in the EEC member countries. What kind of difficulties do you predict for the Turkish workers if the EEC countries fire and/or lay off large numbers of their employees? Please explain briefly.

4. Turkish workers in the Common Market countries are often forced to accept the worst-paid, the most dangerous jobs, as well as poor housing and educational facilities. What study and/or effort, if any, will be made in your Ministry or department to contact the EEC's governments to change the present status of Turkish workers? Please explain briefly.

5. According to Rome 1963 and Ankara 1970 agreements, all members of the EEC have to accept more Turkish workers while Turkey is reducing tariff charges to their products and services. Turkey has reduced customs duties more than she is supposed to do, but the EEC member countries are refusing to accept more Turkish workers because of high unemployment rates in their countries. In your opinion, how can this problem be solved without hurting the relations between the EEC and Turkey? Please explain briefly.

6. The EEC has signed several agreements with other countries, especially with Mediterranean countries. On farm exports, the Turkish government complains that we are being less favorably treated than non-associated Mediterranean countries. In order to solve this problem, what solutions, if any, do you see? Please explain briefly.

7. According to the latest reports, there are huge amounts of unsaleable beef, butter, and wine stocks in the EEC, and the Community has already suffered from occasional over supply of apples, pears, tomatoes, peaches, and some citrus fruit. The new potential members, such as Greece, Spain, Portugal, and Turkey could make those surpluses very much worse. In your opinion, would it be necessary to place a limit on the new entries into the EEC? What, if any, reaction(s) do you expect from associated member countries like Turkey? Please explain briefly.

8. In the past eight years, Turkey has suffered from economic and political instability. In your opinion, what are the possibilities that full membership in the EEC might bring such stability to Turkey? Please explain briefly.

9. In your opinion, what are the major advantages and disadvantages of being an associated member of the EEC for the Turkish farmers and manufacturers? Please explain briefly.

10. In summary, according to your overall evaluation, what is Turkey's chance of fulfilling all the necessary requirements by 1985 for full membership in the EEC? What does Turkey need to do in order to achieve its goals and objectives? Please explain briefly.

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