

*Foreign Trade Regimes and Economic Development : TURKEY.* By Anne O. Krueger. New York : Columbia University Press 1975. (Published by the National Bureau of Economic Research, Inc., New York) xxiii + 339 pp. Price \$ 17.50 for hard cover ; \$ 5.00 for paperback.

The book is the first of a series of studies on Exchange Control, Liberalization and Economic Development sponsored by the National Bureau of Economic Research, New York. The ten-country study, of which the book under review is a part, provides an in-depth analysis of three major areas : The anatomy of exchange control along with its implications, the episode of the liberalization of the payments regime, and the relationship of growth with the exchange control regime. The findings of the individual country-studies have been consolidated in an overall synthesis. However, each study is complete in itself in accordance with the needs of scholars having an interest in only some of the studies.

The book under review seeks to analyse Turkey's trade and payments regime and the effect that the latter has had on the country's economic growth. Whereas quite a few other factors are instrumental in development (e.g. agricultural productivity, levels of education, political and social stability, etc.), the focus on foreign trade alone is justified by the author on the grounds of the tremendous amount of government influence in foreign trade. Moreover, the author believes that an intensive study of the trade-growth relationship is more rewarding than a general survey of all factors related to economic growth.

The book has four parts, each covering successive time-periods. The first part covers the growth of the Turkish economy from the 1920s to 1953. The second portion, covering the period from 1953 to 1960, deals with devaluation and the corresponding liberalization of the payments regime. The third section covers the structure and behaviour of the trade regime in the 1960s. The fourth part estimates the resource allocational and growth effects of the regime in the 1960s. It also includes conclusions.

The first part of the book, embodying only one chapter, opens with a briefing about the insignificant growth of the Turkish economy from 1920 to the beginning of World War II. Politically and socially, however, Turkey underwent a much more respectable transformation during this period. The Menderes government, which was elected in 1950 with "Private Enterprise" as its slogan, had three distinct periods : first, up to 1954 when increased agricultural productivity was the major aim of the government ; second, from 1954 to 1958 when a gigantic crop failure brought crippling economic difficulties in its wake ; and the third, which started with the Stabilization Programme and the devaluation of 1958 and ended with the revolution of 1960.

The striking feature of the economic policy during the 1950s was the lack of coordination in planning. Later governments removed this anomaly in the 1960s. Two Five-Year Plans were initiated in 1963 and 1968. In the period 1950-70, real Gross National Product tripled though this growth was not uniform. During this period, gross capital formation was the fastest-expanding segment of Gross National Product. The section goes on to give composition of output by sectors, showing the relative decline of agriculture as also of exports over the years. Turkey eventually intends joining the Common Market. The government is important in Turkey's growth, both by giving incentives to the private sector and by its own investment activities. The section closes by dividing various episodes of Turkey's trade and payments regime from 1950 to 1970 into eight periods.

The introduction thus gives an over-view of the Turkish economy and its growth over a twenty-year period.

The second part of the book, covering three chapters, examines the 1958 devaluation and its after-effects, and the period of liberalization that followed thereafter. The author identifies five interrelated factors as accounting for the inflationary pressures and imbalance that rocked the Turkish economy in the 1950s : (a) the government's budget policies ; (b) the agricultural price-support policy ; (c) the losses incurred by the State Economic Enterprises ; (d) the expansion of the money supply ; and (e) exogenous shifts in Turkish agricultural production.

These elements had the cumulative effect of badly damaging Turkey's export capacity, thereby resulting in a piling up of huge arrears in foreign indebtedness.

The author moves next to the Stabilization Programme and examines several aspects of the foreign trade regime and of domestic economic policy. The devaluation in 1958 had been long overdue, its timing being determined largely by the disruption of domestic economic activity, domestic political dissatisfaction and pressure by foreign creditors and donors.

The Stabilization Programme, also announced in 1958, had seven basic parts : the *de facto* exchange rates were altered and largely unified ; the Turkish external debt was consolidated and rescheduled and Turkey agreed

not to use supplier's credit-financing ; Turkey received massive credits from international lenders ; a ceiling was imposed upon the Central Bank and Commercial Bank credits and upon government budgets ; the import regime was substantially liberalized ; the export regime was altered ; and the prices of State Economic Enterprise products were raised and price controls removed.

The response to the Stabilization Programme is brought under discussion next. Between 1958 and 1960, fiscal policy was mildly expansionary while monetary policy was extremely tight. The Menderes government began to drift away from the Stabilization Programme, and this led to a military take-over in 1960. The State Economic Enterprises became less of a liability during the duration of the programme. The author concludes that the following factors were important for price stability : (a) increased imports ; (b) absorption of domestic purchasing power by altering import Effective Exchange Rates ; (c) since imports were financed by foreign credits, the altering of export Effective Exchange Rates was not considered necessary ; (d) the altering of export Effective Exchange Rates was important to maintain the flow of imports in the long run.

The author emphasizes that the two recessions in the 1950s were not a result of the Stabilization Programme, which, in fact, as a whole, was highly successful.

Part Three, which analyses the trade and planning regime in the 1960s, consists of three chapters. In contrast with the policy of the 1950s, the Turkish foreign trade regime was closely linked to domestic economic policy. The author gives a detailed account of the First and Second Five-Year Plans, including their objectives and various other aspects. The import regime of the 1960s is also reviewed in detail. The author examines the structure and composition of Turkey's exports and their geographic distribution, and goes into the government policies that have affected exports. The conclusion is that the Government did little to encourage exports during the 1960s. The last chapter of Part Three of the book closes with a discussion of the behaviour of various individual export commodities.

Part Four begins by reviewing the micro-economic effects of the trade regime. It estimates, in turn, the Domestic Resource Cost for various activities to show variation in economic costs between industries and firms ; the excess costs of production associated with the system ; and finally the effect of the trade regime upon employment factor proportions and income distribution. This section of the book next estimates the micro-economic effects of the trade regime upon economic growth. The undue concentration on import substitution in the 1960s led to losses in the manufacturing sector, which are estimated. It is shown that different policies could have brought about considerable increases in the manufacturing sector : these have also been estimated. It is shown that different policies could have brought about sizeable increases in the growth rate of value-added and manufacturing output at both Turkish and international prices, and could have cut down the import requirements for both new investment and intermediate goods, reduced incremental capital-output ratio, and greatly increased employment opportunities for the same level of investment. Section One describes the method of analysis and Section Two the results. Chapter Ten, embodying the conclusions, sums up many of the points earlier made. It also makes hypotheses about the course that the Turkish economy would have charted had it followed certain alternatives in earlier years.

The book under review must rank by any standards as an excellent study on the trade-growth relationship of Turkey. The treatment of the material is exhaustive and few, if any, points seem to have been ignored. However, the narrow limits of the book seem to be a drawback, since the entire analysis centres around the role of foreign trade as a factor in economic growth to the total exclusion of other, perhaps more important, factors. One is inclined to believe that even a cursory reference to the other elements involved in growth would have vastly enhanced the utility of the study, notwithstanding the author's contention to the contrary.

The author's findings are strongly reinforced by the evidence of other studies referred to in the book, e.g. Maxwell Fry's work which proves that the Turkish inflation of the 1950s was largely induced by Central Bank creation of high-powered money, largely for agricultural and State Economic Enterprise pricing policies of the government. McCabe and Michalopoulos investigated the combined effects of foreign exchange availability and relative prices of imported and domestic capital investment for the years 1950-1963, which the book makes use of.

The very large number of references made by the author in the book are indicative of the very real effort that has gone into bringing the book into its present form. The book is rigorous in its reaching of conclusions. Tables and diagrams figure prominently in the book.

At numerous points, the author has been confronted with severe limitations of data availability, but she has done an excellent job of drawing conclusions from whatever little has been available by way of material. This applies especially to the section in which the devaluation effects and the balance-of-payments crisis are explained.

Despite the fact that many policy effects considerably overlap in different areas, the author has dexterously outlined the specific changes in each area. At some points, the author presents some hypotheses which do not seem to be based so much on solid evidence as on subjective inferences. For example, the author contends that the foreign credits received by Turkey in 1958 had a marginal product in excess of their costs, but admits that there is no conclusive evidence on the cost-benefit ratio for foreign credits (pp. 77-78).

The analysis throughout the study has centred around past developments alone. The book is thus more a documentation of history than a guide-line that may make it possible to adopt specific policy measures in the future. This impression is reinforced by the fact that the experiences of Turkey's unbalanced and grossly mismanaged economy can have little relevance for other countries. Indications by the author as to the paths that the Turkish economy can profitably pursue would have immensely raised the value of the study, besides giving the research a more practical air. The expectation is entirely reasonable since the author's intensive study of the Turkish economy must have yielded sufficient information on both Turkey's weaknesses and sources of strength to enable her to offer excellent suggestions for the future with all the authority that a systematic and thorough analysis of this kind can yield.

In conclusion, the book must be commended for putting together hitherto scattered information, and for making a splendid addition to the current literature on recent economic history.

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