

**THE TURKISH ECONOMY AT THE TURN OF A NEW CENTURY:
CRITICAL AND COMPARATIVE PERSPECTIVES**

Ziya Öni^{o*}

Revised Draft

February 2000

***Professor of International Relations, Koç University, Istanbul, TURKEY**

I. Introduction

The year 1980 was a critical turning point in the evolution of Turkish Economy. The crisis of the late 1970s was the biggest that Turkey had experienced since the days of the early Republic. That crisis was in many ways, a typical crisis of the inward-oriented, import-substituting model of industrialization (ISI), based on a heavily protected domestic market, whose impact was magnified, by successive, externally generated oil price shocks. (1) The Turkish experience was similar to those in other parts of the developing world, notably in Latin America. The ISI model of development had failed to generate a sustainable economic growth and inevitably collapsed culminating in a major balance of payments crisis. The reforms introduced in 1980 were designed to transform the structure of the economy in the direction of an open, liberal, market-oriented economy in line with the global wave of neo-liberal reforms. Considering the geostrategic importance of Turkey in the Cold War context, the Turkish experiment in stabilization and structural adjustment has received significant international support from key international institutions such as IMF and the World Bank. Indeed, Turkey obtained a record number of five successive structural adjustment Loans (SALs) from the World Bank between 1980 and 1984. By the mid-1980s (2). Turkey was described as a success story and a model of successful structural adjustment, which other developing countries should follow and emulate. Indeed, after two decades of neo-liberal economic reforms, has the Turkish reform experiment been successful? How does it compare to the other “emerging markets” in East Asia, Latin America or Eastern Europe?

The reform process in Turkey has managed to accomplish profound changes in the structure of the economy. Turkey is far more integrated into the

international economy and has established itself as one of the strongest economies in the Middle East as well as an active and assertive regional power. The outcome of the reform experiment, however, has been rather mixed. Turkey has been able to maintain moderately high rates of growth in both the 1980s and the 1990s, in sharp contrast to the collapse of the Latin American economies in the 1980s. These rates of growth, however, never reached the standards set by the first generation Asian NICs like South Korea and Taiwan or second generation Asian NICs such as Thailand and Malaysia. Major progress has been accomplished in the realms of trade and capital account liberalization. Yet, much less has been achieved in relation to macroeconomic stability; privatization of state-owned enterprises and public sector reform is general. The vast public-private connection and the associated problems of favoritism and corruption have remained largely intact. Failure to achieve macroeconomic stability has been costly. Arguably, if a stable macroeconomic environment had been achieved, the Turkish economy would have generated a much more impressive performance in both investment and growth. One of the perennial weaknesses of the Turkish economy, the inability to attract long-term foreign capital on a significant scale judged by Asian or Latin American standards, is closely related to the failure to produce a stable macroeconomic environment.

II. Turkish Neo-liberalism Retrospect: A Critical Perspective

In comparative terms, the Turkish neo-liberal experiment may be categorized as a “radical-gradualist” program. In contrast to the well-known Chilean experiment, the earliest neo-liberal experiment in Latin America and a classical example of shock treatment approach, the Turkish case has been a stage by stage liberalization process (3). Indeed, it is possible to identify four key discrete turning points in the Turkish reform process. The very first phase of economic reform beginning in January 1980 involved a mix of stabilization and a major shift towards export orientation. Steps taken in the direction of trade and capital account liberalization remained rather limited at that stage. The second phase of reforms pertaining to the end of 1983 and early 1984 is significant in the sense that it marked a significant step in the direction of trade and capital account liberalization. The pinnacle of the reform was August 1989; it marks the transition to full capital account convertibility. Stated somewhat differently, Turkey by August 1989 was transformed from one of the closest to the one of the most open capital account regimes in the world over a decade. In addition to capital account liberalization, the third phase of economic reforms also involved a further round of trade liberalization. In fact, the process of trade liberalization gained further momentum during the 1990s (Phase 4) with the Customs Union Agreement with the European Union, which became effective from January 1996 onwards, providing further impetus in this direction.

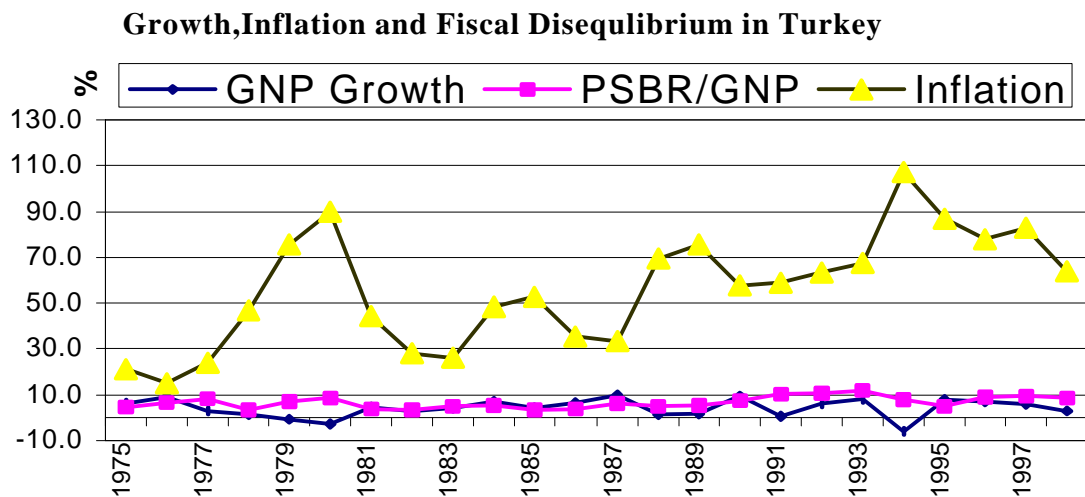
Privatization of public enterprises in Turkey was initiated in 1986 at a relatively advanced stage of the program. Most commentators would agree that privatization in Turkey has been a long affair, both in terms of the pace of the program and the scale of the revenues generated, at least judged by

standards of hyperprivatization cases such as Argentina and Mexico. It would be fair to say that privatization in Turkey up to now has been effectively confined to small and medium scale public companies. Large-scale enterprises, which have traditionally formed a key component of the public enterprise sector in Turkey, have emerged as serious contenders on the privatization agenda only towards the end of 1990s (4). In evaluating the degree of success of Turkish neo-liberalism in the post-1980 era attention ought to be drawn to five separate and yet highly interrelated criteria. These include (a) economic growth (b) export performance (c) macroeconomic stability (i.e. control over fiscal deficits and inflation) (d) investment (private, public and foreign) and (e) income distribution or relative income inequality. In terms of these broad criteria, there are striking difference differences as well as significant continuities (table 1).

The swift recovery in economic growth combined with the dramatic increase and diversification of exports were the principal highlights of Turkey's reform experience (figures 1 and 2). Some degree of success was also evident in fiscal adjustment with a major reduction in the rate of inflation compared with the hyperinflationary proportions reached in 1980 (figure 1). Several factors may explain the phenomenal growth in Turkish exports in the early 1980s. A drastic change in government policy certainly played a critical role. An aggressive policy involving major real devaluations of the exchange rate as well as an increase in direct subsidies to exports have made exporting a highly profitable activity for the first time since the early 1950s. Furthermore, the stabilization component of the program resulted in a significant compression of internal demand, whose effect has been further amplified by drastic wage repression one of the striking elements of the Turkish experience

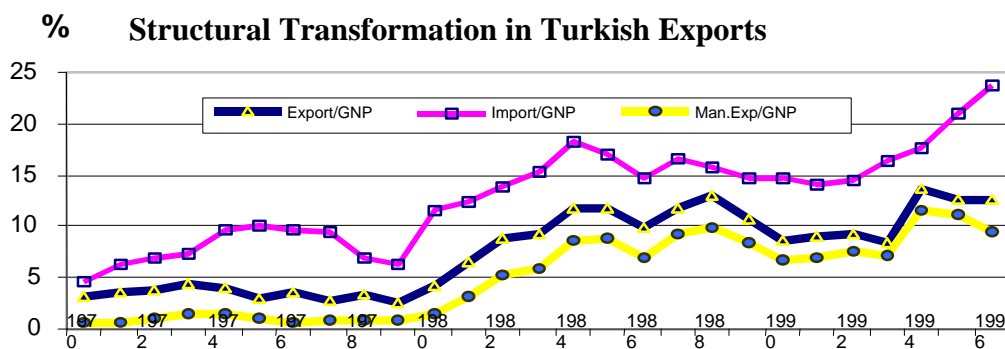
in early 1980s. Low internal demand coupled with wage repression have been instrumental in the diversion of significant industrial capacity, built during the years of import-substitution in the direction of exports. The Iran-Iraq war of the early 1980s also added an impetus to the Turkish export boom.

Figure 1



Sources: State Institute of Statistics, Statistical Year Book of Turkey, Various Issues; State Planning Organization, Main Economic Indicators, Various Issues; State Planning Organization, Economic Program for the year 2000.

Figure 2



Sources: State Institute of Statistics, Statistical Yearbook of Turkey, Various Issues; State Planning Organization, Main Economic Indicators, Various Issues.

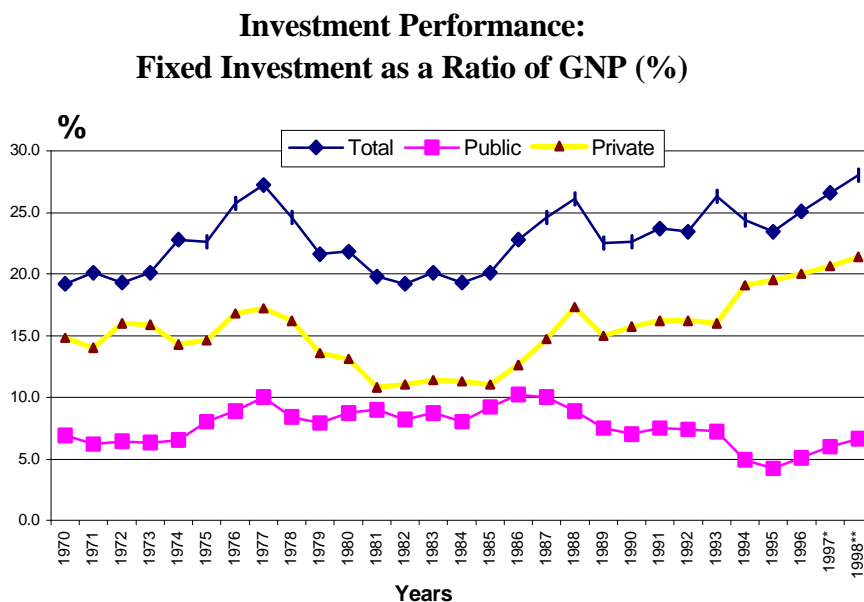
Towards the end of the 1980s, however, serious questions have started to be raised concerning the quality of the economy's performance. The momentum of the export drive could not be maintained as the special circumstances of the early phase began to evaporate. As the balance of payments position of the economy improved and the internal market started to recover following the onset of civilian government from late 1983 onwards, the policymakers were confronted with a new set of circumstances and constraints, restricting, in turn, their ability to pursue the aggressive real devaluation policy of the early 1980s.

Policymakers, increasingly concerned with rising inflation and the burden of external debt, had gradually shifted to a policy of maintaining the real exchange rate constant by the latter half of the decade (5). Moreover, it was no longer possible to subsidize exports through export tax rebates, on a grand scale, due to mounting pressures from both domestic and external circles. Export tax rebates were subjected to heavy criticism following evidence of misutilization of these public funds in the form of “overinvoicing” and “fictitious exports”. Export tax rebates have, in fact been dismantled in 1988 following heavy GATT pressure.

In retrospect, a serious limitation of the Turkish export drive had become apparent by the late 1980s. Whilst Turkey was able to diversify exports towards manufactured commodities, closer examination revealed an over-dependence on certain types of labor-intensive manufactured activities, with manufacture of foodstuffs, textiles and clothing and iron and steel accounting for a disproportionate share of Turkey's manufactured exports. Indeed, this pattern was not unique to the 1980s but in the 1990s (6). Part of the in explanation for the inability to diversify manufactured exports may be

traced to the fact that Turkey failed to achieve an investment boom necessary to sustain and deepen the initial export boom of the early 1980s. If one examines the hypergrowth experiences of countries like South Korea and Taiwan with outward-oriented development strategies, one of the striking elements is the capacity of these countries to generate rapid growth in exports and investment at the same time. A similar pattern of rapid investment expansion, notably in terms of private investment in tradeable activities, has been missing in the Turkish case with negative ramifications for both export expansion and economic growth although some improvement in private investment performance is evident the 1990s (figure 3) (7). Macroeconomic instability and high interest rates were among the major reasons for Turkey's inability to institute a major investment boom during the period.

Figure 3



Source: State Planning Organization: Main Economic Indicators, Various Issues; State Planning Organization, The Annual Program for the Year 2000.

Turning of to the 1990s, a striking new element was the impact of short-term external capital over the fortunes of the Turkish economy following the full capital account liberalization achieved by August 1989. In retrospect, short-term capital inflows on a substantial scale have proved to be something of a mixed blessing for the Turkish economy. In other words, Turkey has been confronted with both the positive and negative sides of financial globalization. Large inflows of short-term capital, mostly in response to high domestic interest rates, have been instrumental in Turkey's ability to achieve reasonably high rates of expansion and growth in the 1990s. However, the pattern of growth that emerged during the decade was very much a pattern of fragile equilibrium based on a distinct stop-go growth process. This fragile equilibrium became particularly evident in the aftermath of the financial crisis of 1994 and the serious downturn in economic activity, following the Russian crisis, in 1998 and 1999 (figure 1).

In rather broad terms, one could argue that the main element of success were reasonably rapid economic growth combined with a profound transformation is the economy's orientation. In contrast to its inward bias in the pre-1980 era, Turkey has become a highly outward-oriented economy with significant integration into world trade and capital markets having been accomplished in the course of the past two decades (table 1). Much less success was evident, however, in other critical realms such as "macroeconomic stability", "investment performance" and "income inequality"(8). A balanced interpretation would need to acknowledge that the patterns one observes concerning the fragile nature of economic growth based on over dependence on short-term capital inflows, failure to sustain the momentum of export growth, weak investment performance and a process of

rising or persistent inequalities are features which are not unique to Turkey. In fact, similar tendencies may be identified in many other middle income economies undergoing a drastic sequence of neo-liberal reforms, notably in Latin America (9).

Table 1: A Tale of Two Decades: Turkish Neo-liberalism in the 1980s and the 1990s in Comparative Perspective.

	1980s	1990s
ECONOMIC GROWTH	Moderately High	Moderately high; a distinct stop-go pattern
EXPORT PERFORMANCE	Very strong in the early 1980s accompanied by a major structural change in the direction of manufactured exports; The some momentum could not be maintained in the final part of the decade	Export growth continues but not at the pace of the 1980s; exports constitutes a relatively neglected dimension during the decade
MACROECONOMIC STABILITY	Success in reducing inflation and fiscal improvement during the early years of the decade; Growing instability towards the end of the decade	Macroeconomic instability is an endemic problem throughout the decade
INVESTMENT	Important public investment in transport and communications private investment in manufacturing is usual; foreign direct investments improves relative to ISI era, but weak by international standards.	Public investment is on the decline; a noticeable improvement in private investment; FDI performance remains weak in comparative terms.
INCOME DISTRIBUTION	Relative inequality is high but not higher than the ISI era. Significant wage repression in the early part of the decade followed by a recovery of wages toward the end	Persistence of high relative income inequality; wage growth followed by wage repression is aftermath of the 1994 crisis.

III. Fiscal Disequilibrium and the Crisis of 1994

For analytical purposes it makes sense to look at the period 1980-1987 as a broadly homogeneous time span displaying considerable degree of continuity. Certainly, the period from September 1980 to November 1983 represented the period of military interlude. A transition to electoral democracy followed the general elections of November 1983. However, the type of democracy established during the 1983-1987 era was restricted democracy in terms of both the degree of inter-party competition permitted by the military and the limitations placed on the bargaining rights of labor unions. The transition to full electoral competition in Turkey followed the referendum of September 1987 and the general elections of November 1987. By the end of 1987, the leading politicians of the earlier era--Süleyman Demirel, Bülent Ecevit and Necmettin Erbakan-- banned from participating in politics in 1980, regained their right to compete for office. Furthermore, the limitations imposed on the bargaining rights of labor unions were significantly relaxed. The year 1987 marks a turning point or a landmark in the evaluation of Turkey's political economy (10).

In retrospect, Turkey has not distinguished itself as a success case of sound macroeconomic management in the context of a more open, more democratic polity, perhaps a reflection of the low degree of institutionalisation of democracy in Turkey and the limited capacity to manage distributional conflicts rather than the fault of democracy *per se*. Indeed, there was a marked deterioration of fiscal balances between 1987 and 1993. Perhaps this was an understandable phenomenon in the sense that the principal losers of the reform process, namely wage earners and agricultural producers needed the opportunity to recover the serious losses they had incurred in the early 1980s,

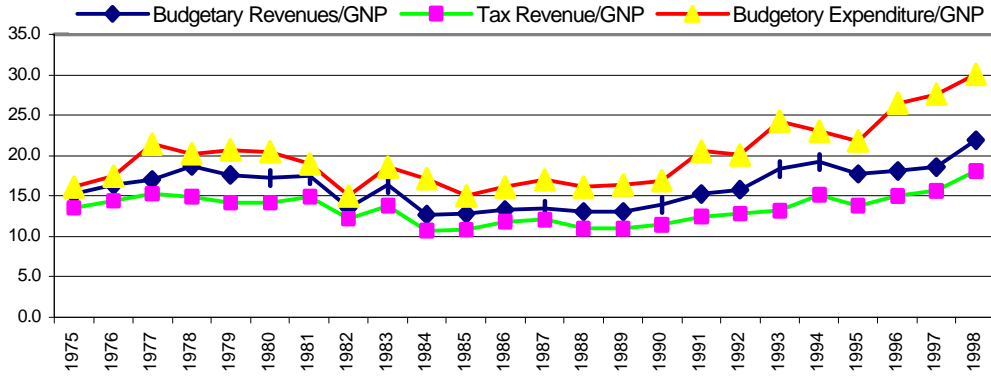
by capitalizing upon their newly acquired political rights. Pressures for populist redistribution mounted after 1987 and these pressures have become particularly acute during the 1990s following the emergence of a highly fragmented party system and a series of weak coalition governments. Turkey's encounters with coalition politics have typically been associated with economic and political instability dating back to the experiences of the 1970s. The pattern that emerged during the early 1990s, in a rather more liberal economic environment, could not change the long-established image of weak governance and instability associated with coalition politics, at least until very recently.

A clear indication of the steady decline in fiscal discipline is the fact that the public sector borrowing requirement-GNP ratio has reached a record level in 1993 prior to the onset of the major crisis of the neo-liberal era in late 1993 and early 1994, necessitating in a renewed encounter with the IMF (figure 1). In retrospect, the financial crisis of 1994 was a textbook case of a financial crisis originating from unsustainable fiscal disequilibrium. In this respect, there was a clear difference between the cases of Turkey, and those of Mexico in December 1994 Asia in September 1997 where financial crises manifested themselves in an environment of fiscal equilibrium and low inflation. **(11)**. A number of commentators have emphasized that Turkey's transition to full capital account liberalization had been premature, considering that the required fiscal adjustment had not been achieved in the first place **(12)**. In a sense, Turkey's financial crisis highlights the dangers involved when a country is suddenly exposed to the vagaries of financial globalization without undertaking the necessary measures to produce domestic macroeconomic stability **(13)**.

A close examination of Turkey's fiscal disequilibrium, a process which became progressively more acute from 1991 onwards, reveals the following striking tendencies. First, public expenditures-GNP ratio has risen strongly during the period pointing towards a clear loss of fiscal discipline (figure 4). Second, the trends concerning the composition of public expenditures were also striking and deserve emphasis. A dramatic shift took place in favour of current expenditures and away from public investment. This raises further serious question marks about the quality of fiscal management public investment performs a crucial complementary role from the point of view of long-term economic growth (figure 5). In contrast to the steady rise in public expenditures, overall public revenues as a proportion of GNP appear to have registered a decline during the period tax revenues as a proportion of GNP are on the rise during the period; but Turkey's tax revenue-GNP ratio continues to be low by international standards and is certainly the lowest among the OECD group of countries (14). The war against the PKK in the south-eastern part of the country, in progress since 1984, as well as the ambitious "South-Eastern Anatolian Project" (GAP), financed purely from domestic sources, have also undoubtedly made significant contributions to growing fiscal imbalances.

Figure 4

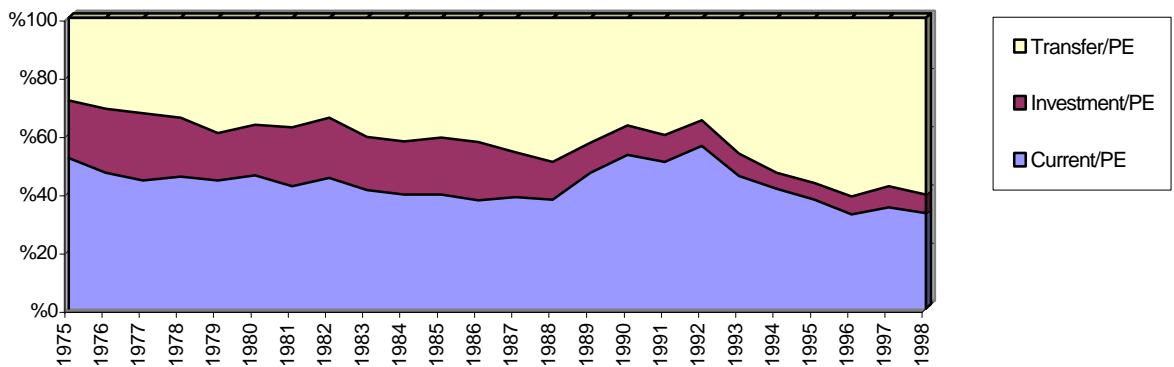
Indicators of Fiscal Disequilibrium: Budgetary Expenditures and Revenues



Source: State Planning Organization, Main Economic Indicators, Various Issues; Dýp Ticaret Mýste°arlýđý, Túrkiye Ekonomisindeki Geli°meler, 1998.

Figure 5

Composition of Central Government Expenditures



Source: State Planning Organization, Main Economic Indicators, Various Issues; Dýp Ticaret Mýste°arlýđý, Túrkiye Ekonomisindeki Geli°meler, 1998. PE: Central Government Expenditures.

IV. The Post 1994 Fiscal Restructuring: Change Versus Continuity?

Fiscal disequilibria were at the heart of the 1994 financial crisis but they cannot account for the timing of the crisis itself. What actually triggered the crisis were first the government's decision to reduce interest rates in order to stimulate domestic investment, in response to strong domestic pressures from domestic and second, a decline Turkey's credit rating by key international rating agencies. The outcome of these shocks was a speculative attack resulting in a massive outflow of short-term capital. With a large deficit on current account, the outflow of short-term capital signified a major balance of payment crisis. Consequently, Turkey had to sign an IMF stand-by agreement and to implement a package involving expenditure-reducing and expenditure-switching policies, popularly known as the April 5 decisions. The crisis of 1994 and the subsequent stabilization measures were costly in terms of output and employment losses. What was remarkable, however, were the speed which the economy could recover from the crisis of early 1995.

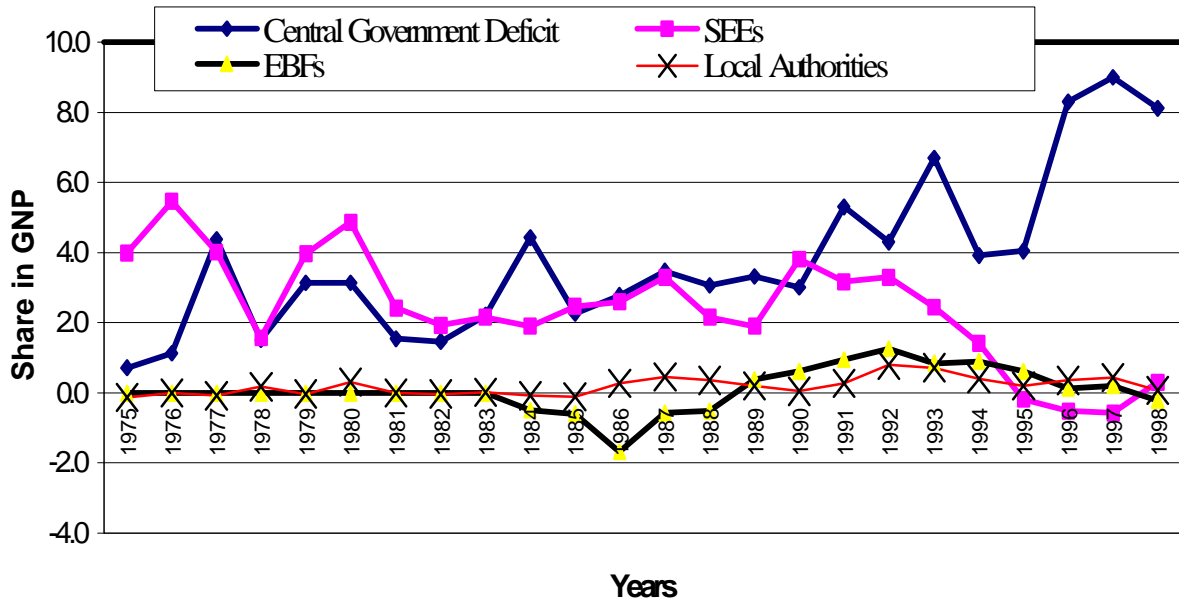
Admittedly, the Turkish financial crisis was a minor one by international standards. The comparatively small size crisis was, in part, due to the fact that Turkey was far less integrated into the international economy in terms of capital flows compared with its Mexican or Asian counterparts. However, the Turkish economy also appears to have possessed certain mechanisms of flexibility that facilitated a speedy recovery out of crisis. One such mechanism involved the ability to shift the burden of adjustment to the wage earners. The share of wages and salaries in national income drastically declined in the aftermath of the stabilization program, without serious social and political resistance (15). In fact, investigators have singled out the high degree of labor market flexibility as a positive influence in the Turkish economy in terms of inducing a smooth recovery following the outbreak of the crisis (16). It is

also the case that large industrial firms have managed to shield themselves from the negative effect of the crisis by continuing to lend to the government at high rates of interest (17). It is ironic, however, that the comparatively smooth recovery and resumption of growth also meant that a key underlying weaknesses of the Turkish economy, namely fiscal disequilibria over dependence of short-term capital inflows, remained largely intact during the latter half of the 1990s. Perhaps, from a somewhat different perspective, the crisis of 1994 did not bite sufficiently hard to provide the shock needed to create a radical change of economic behavior. Furthermore, Turkey has a large informal economy which has helped to keep the country going but it is hardly adequate for a country that aspires to be a member of the EU (18).

To what extent have fiscal disequilibria been reversed, following the crisis? A cursory examination of the data suggest that the critical indicator of the fiscal disequilibria, namely the PSBR-GNP ratio, continued to ride on a high plateau by international standards in the second half of the 1990s, and yet it was significantly lower than the levels reached just prior to the onset of the crisis in 1992 and 1993 until 1999 (figure 1). In retrospect, the IMF assisted program of 1994 involved two radical changes, which have helped to reduce the size of the public sector-borrowing requirement in Turkey. First, the stabilization package embodied a forced incomes policy, which radically reversed the public sector wage booms of 1989 and 1991. Second, the link between the borrowing requirements of state owned enterprises (SEEs) and the overall public sector borrowing requirement, which has been quite significant in the period leading up to 1994 crisis, has been largely dismantled through a radical downsizing of investment and employed in existing SEEs in Turkey (Figure 6).

Figure 6

Decomposition of Public Sector Borrowing Requirement



Source: State Institute of Statistics, Statistical Yearbook of Turkey; State Planning Organization, Main Economic Indicators of Turkey. SEEs: State Economic Enterprises; EBFs: Extra Budgetary Funds.

In spite of these profound changes, however, the perennial problem of large public sector deficits have continued to present serious problems for the Turkish economy during the final years of the decade. What is particularly striking in the context of the post 1994-1995 era concerns the changing origins of large public sector deficits. It became evidently clear that heavy domestic borrowing at high rate of interest, a practice that effectively started in the early 1990s, has helped to create an enormous interest burden in Turkey. This is clearly reflected in the progressive increase in the share of “transfer payments” in overall budgetary expenditures, at a time when the “current” and “investment” components of the budgetary expenditures appear to display a downward trend (figure 5). Indeed, the interest burden has become the dominant underlying element of fiscal disequilibria pointing towards the existence of a vicious circle. The government has increasingly borrowed at high rates to finance

its expenditures. This in turn has caused a lopsided pattern whereby in future years little money has been left for anything else but the repayment of the interest burden on domestic debt. Many commentators point out that the stock of domestic debt to GNP ratio in Turkey is not particularly high by international standards. What causes a problem, however, is the limited ability of Turkey to manage its debt given the limited size of its capital markets (19). Countries like Italy and Belgium possess larger ratios of domestic debt to GDP and yet display much greater capacity to manage this debt given the size and the depth of their domestic capital markets. Also striking is that the growing deficits of social security institutions that have emerged as a serious structural problem in the final years of the 1990s (20). Hence, what we observe in the post-crisis period is not a drastic change in the size of fiscal disequilibrium, but a significant shift in the underlying sources of fiscal disequilibrium in Turkey, with the growing interest burden on domestic debt emerging as the dominant source of fiscal instability.

V-The Crisis of 1994 and the Downturn of 1998-1999: Similarities and Contrasts.

Although Turkey had not been able to overcome its basic structural problems of fiscal disequilibria and high inflation, it has nonetheless managed to sustain fairly rapid economic growth in the latter half of the 1990s, at least up until the sharp downturn of 1998 and 1999. A close investigation reveals that there were fundamental differences concerning the origins of the fiscal disequilibria in 1994 and the severe contraction of the economy in the final years of the decade. In the former case, the crisis was primarily an outcome of domestic mismanagement. The later case, however, was largely an externally generated phenomenon. Turkey apparently did not feel the effects of the Asian crisis directly, largely because trade relations with Asian

countries were a marginal component of Turkish trade. In contrast, the subsequent Russian crisis of July 1998 had a severe impact on the Turkish economy. Turkey's economic relations with Russia had expanded significantly in recent years, with Turkey exporting consumer goods and construction services and importing significant quantities of natural gas in return. Tourism has also provided a significant source of foreign exchange for the Turkish economy in recent years. Hence, the Turkish economy has been affected directly by the collapse of the Russian economy in 1998 (21). Indirectly, however, the negative trends in the world economy following the Asian and the Russian crises had serious ramifications for the Turkish economy. The slowdown in industrial growth and world trade have exercised an unfavourable impact on Turkish exports. Furthermore, the major withdrawal of foreign funds and stagnation in external borrowing have also affected the prospects for economic growth adversely in Turkish economy like all other emerging markets.

Several analysts have pointed out that, compared to many other emerging markets, the Turkish economy had displayed a high degree of resilience to external shocks in spite of its inherent weaknesses in the form of large public deficits and chronically high inflation. Arguably, the Turkish economy by the end of the decade was in a more robust state compared to its position in 1994. The policy authorities had accumulated experience and appeared to possess greater capacity to manage the economy in the presence of large inflows of short-term capital. Through a flexible exchange rate system Turkey also has been able to sustain a competitive real exchange rate in the post-1994 period. The basic logic underlying this perspective is that through its exchange rate policy Turkey has managed to differentiate itself from other emerging markets and, hence, has been able to avoid a major crisis in spite of its inherent problems (22). Certainly, the current account deficit has been in better shape compared to Turkey's position in 1994.

Nonetheless, the severe contraction of the Turkish economy in 1998 and 1999 highlighted once again the vulnerability of the Turkish economy and the fragility of the growth path pursued through excessive dependence on inflows of short-term capital. In this respect, there exists a basic similarity between the crisis of 1994 and the economic downturn of 1998–1999. Indeed, the following table (table 2) neatly illustrates the striking correspondence between size of capital inflows and growth performance of the Turkish economy.

Table 2: **Capital Inflows and Economic Growth in Turkey**

Years	Real GNP Growth (%)	Net Inflows of External Capital (\$, billion of)	Net Inflows of External Capital/GNP (%)
1989	1.6	0.8	0.7
1990	9.4	4.0	2.7
1991	0.3	-2.4	-1.6
1992	6.4	3.6	2.3
1993	8.1	8.9	4.9
1994	-6.1	-4.1	-3.2
1995	8.0	4.6	2.7
1996	7.1	8.7	5.3
1997	8.3	8.6	4.7

Source: Central Bank, Annual Reports, and Various Years.

VI. The Turkish Economy at the Turn of a New Century: Grounds for Renewed Optimism

Where does The Turkish economy stand compared to other middle-income countries or emerging markets at the turn of a new century? It is illuminating to compare Turkey's performance with three groups of newly industrialized countries (NICs) in East Asian, Latin America and Eastern Europe in terms of three basic criteria, namely per capita income based on purchasing power parity, the "human development index", and the gini coefficient as an indicator of relative inequality (23). Turkey's performance on the basis of its per capita income compares favorably with the Eastern European averages, but lags behind its East Asian and Latin American counterparts. The differences also reflected in the respective set of HDIs. The gap between Turkey and the East Asian NICs such as South Korea and Taiwan is particularly striking and reflects the fact that these countries have managed to display both superior growth and income distribution performances. The HDIs of Eastern European countries are also higher than Turkey, in spite of the fact that their per capita income levels are broadly similar to the Turkish case, basically because they display a considerably more even distribution of income on the basis of their gini coefficients (table 3). Indeed, persistently high-income inequality between different social classes as well as different regions is a serious problem in The Turkish economy rather similar to the patterns observed in the major Latin American NICs such as Brazil and Mexico. It is important to recognize this persistently high-income inequality is an important contributor to the major conflicts that the country has been experiencing in recent years. The "Kurdish problem" in the Southeastern part of the Turkey is partly a problem of ethnic identity, but, also a reflection of the relative underdevelopment of the region in purely economic terms. It is also clear that, in

spite of the dynamism of its private sector and reasonable rates of economic growth achieved during both import-substitution and the neo-liberal phases, the pace of expansion has not been rapid enough to be able to pull the per capita income level to substantially higher levels, in the presence of acute population pressure. Considering the limitations on state capacity to achieve significant redistribution of income, Turkey's ability to deal with its mounting social problems and to absorb a disproportionately large number of young people entering the labor market depends on its ability to achieve much higher rates of economic growth on a sustained basis. Turkey's intentions to pursue a more active foreign policy and to play a more assertive regional role is also critically conditioned and constrained by its domestic economic performance.

Table 3: **Turkey and the NICs in Comparative Perspective Based on Real GDP Per Capita (PPP \$), the Human Development Index and the Gini Coefficient**

Country	Real GDP per capita (PPP \$) 1995	HDI Value	HDI Rank	Gini Coefficient
Turkey	5516	0.782	69	50.4*
Argentina	8498	0.888	36	N.A.
Brazil	5928	0.809	62	60.1
Chile	9930	0.893	31	56.5
Mexico	6769	0.855	49	53.7
China	2935	0.650	106	41.5
Hong-Kong	22950	0.909	25	41.6*
Malaysia	9572	0.834	60	48.4
Indonesia	3971	0.679	96	36.5
Korea, Republic Of	11594	0.894	30	34.5
Taiwan	16500	NA	NA	29.5
Thailand	7742	0.838	59	46.2
Czech Republic	9775	0.884	39	26.6
Poland	5442	0.851	52	27.2
Hungary	6793	0.857	47	27.9
Romania	4431	0.767	74	28.2
Russian Federation	4431	0.769	72	48.0

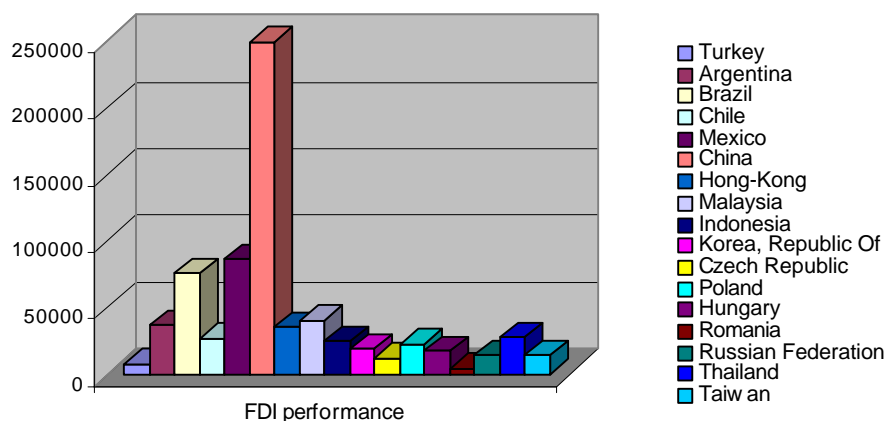
Source: The United Nations, Human Development Report, 1998.

*Observations have been taken from Michael Sarel.1997, "How Macroeconomic Factors Affect Income Distribution: The Country Evidence", IMF Working Paper.

A major structural explanation underlying Turkey's inability to generate sustained higher rates of economic growth on a sustained basis concerns the perennial failure to attract long-term foreign capital on a substantial scale. A broad examination of the distribution of foreign direct investment among the NICs indicate that the foreign direct investment flows received by Turkey has been quite marginal compared with East Asian and Latin America. Even the Eastern European Countries, on the whole, have been attracted more foreign direct investment than Turkey during the past decade (figure 7).

Macroeconomic and political instability have often been singled out as the primary causes underlying Turkey's inability to attract DFI on a sufficient scale. Bureaucratic obstacles, the weakness of the legal system and inadequate legal protection for foreign investors have also been identified as critical constraints. Success in terms of reforming the public sector and achieving fiscal stability will create a basis of a "virtuous circle" whereby a more conducive environment will be generated for both domestic and foreign investment, resulting in higher rates of economic growth. Higher rates of economic growth, in turn, will increase the capacity of the state to provide more for its citizens in key areas such as health and education.

Figure 7
Foreign Direct Investment Performance of Turkey and NICs in Comparative Perspective, 1987-1998.



Source: UNCTAD, World Investment Report, 1999.

Currently, there exists grounds for renewed optimism concerning Turkey's ability to break the vicious cycle of fiscal disequilibria, dependence on short-term capital flows and stop-go patterns of economic growth and convert it into a virtuous circle of macroeconomic stability, higher levels of domestic and foreign investment and higher economic growth. This renewed optimism concerning Turkey's future economic prospects is based on the following observations. First, Turkey is becoming accustomed and learning to live with coalition governments. There is an increasing feeling that coalition politics may not necessarily imply, as has been the case in the 1970s and most of the 1990s, pervasive political instability combined with weak and ineffectual governance. Reconciliation and compromise appear to becoming, at least, part of the vocabulary of Turkish politics in the current juncture. In fact, rather paradoxically, the most recent coalition government in Turkey involving the social democrat or left nationalist DSP and the extreme nationalist MHP, parties which tend to draw their political support disproportionately from the poor and the underprivileged, has managed to

implement significant reforms in a wide variety of areas since the general elections of April 1999. Critical reforms have been introduced in a number of areas including the social security system, regulation of banks and the financial sector and international arbitration. The government has also initiated a stand-by agreement with the IMF, whose support is conditional upon the implementation of a far-reaching program of public sector reform including the reform of the agricultural support system. Arguably, the nature of political leadership is significant in this context. Bülent Ecevit's image as a clean politician, one never associated with corruption or scandals in public life and a conciliatory style of leadership have been instrumental in building some degree of trust and optimism concerning Turkey's ability to deal with some of its fundamental economic and political problems (24). This sense of optimism is also compounded by the growing realization that the limits of clientelistic politics and populist redistribution have been reached. There is growing realization that the cost of distributive politics is extremely high whilst the benefits are low considering that little is left for redistribution, since a disproportionate share of government expenditure goes towards the repayment of interest on funds borrowed to finance redistribution in earlier years.

The announcement of Turkey's candidacy for the full membership of the European Union during the Helsinki Summit in December 1999 is also likely to exercise a positive impact concerning the ability to implement a far-reaching reform program. For countries like Turkey, where clientelistic patterns of politics are predominant, a powerful external anchor is often a precondition for the country's ability to engineer radical economic reform. The Mexican experience under NAFTA clearly illustrates how the Mexican policymakers during the late

1980s and the early 1990s utilized NAFTA membership to implement far-reaching fiscal reform, trade liberalization and privatization (25).

The Customs Union Agreement with the European Union has created a powerful impetus for a series of important regulatory reforms in Turkey in such key areas as competition and consumer protection, the establishment of intellectual property rights and achieving higher technical standards. Yet, the Customs Union has been a weak form of integration with benefits falling considerably short of those associated with full-membership. The logical corollary of this proposition is that a serious prospect of full-membership is likely to provide much more powerful incentives for undertaking serious reforms on both the economic and the democratization fronts, the type of incentives which have been lacking or have existed in a far weaker form under of the Customs Union Agreement (26). The growing confidence concerning Turkey's ability to undertake radical reform and to break its chronic inflation should not, however, lead one to underestimate the possible obstacles or pitfalls on the way. Macro stabilization based on radical reform of the government budget inevitably involves serious short-term losses in output and employment. In the past, the losses have been shouldered almost exclusively by the wage earners, public sector employees and other low income groups with the inevitable backlash which has subsequently undermined the effectiveness of the anti-inflationary strategy. It is imperative, therefore, that the burden of stabilization and reform should be distributed fairly evenly among the different segments of society and private corporations should also share the burden of adjustment. This would, in turn, necessitate a commitment on the part of the firms to increase their prices in line with the government's inflation target. Unless the burden of the anti-inflationary program is distributed in a relatively even fashion, it would be very difficult to sustain

confidence and consensus around the reform project and to prevent the subsequent reactions from social groups who lose disproportionately from this process.

VII-Economic Relations with the United States: Room for Improvement?

It is widely recognized that the United States has played a crucial role in terms of Turkey's security interest both during the Cold War and its aftermath. More recently, in the context of 1999, the relationship between the two countries has been particularly favorable, reaching a peak following President Clinton's visit to Turkey as part of the OESC Conference in November. The United States has provided active support for Turkey's membership of the European Union. Indeed, the biggest help that the U.S. can be to Turkey, private investment aside, is in making sure that the EU treats Turkey well and early on in the accession process pays high level attention to Turkey. The U.S. has also been supporting Turkey in creation of a route to transport energy from Central Asia and Caucasus through Turkey to Europe and other markets. The signing of the agreement involving the Baku-Ceyhan crude oil pipeline project during November 1999 has constituted a landmark in this context. The U.S. and Turkey have also agreed to promote the trans-Caspian gas pipeline project. The support of the United States will be crucial to the successful completion of the Baku-Ceyhan project considering that major conflicts of interest exist between Turkey, Russia and Iran with regard to the transportation of Central Asian and Caspian oil. Furthermore, the oil companies themselves are important actors in the new pipelines "game" and they have not been very receptive in the past to the Baku-Ceyhan project. Both the Baku-Ceyhan crude oil pipeline and the trans-Caspian gas pipeline projects are vital to the interests of Turkey in terms of generating significant revenues from the transportation of energy as well as in developing stronger

economic and political ties with countries of Caucasia and the Central Asian Republics (27).

The United States has been an important country for Turkey in terms of direct trade and investment relationships. These relationships, however, have certainly failed to reflect their true potential. The focal point of Turkey's trade relationships has been with the European Union, as a broad entity. Judged on a country-by-country basis, however, U.S. has ranked second among Turkey's trading partners for several years with a share of almost 9 percent in Turkish imports and 8 percent in Turkish exports in 1998. Turkey appears to be one of the few countries with which the United States has a favorable trade balance. At first sight, there appears to have been a healthy development of Turkish-U.S. trade relations with the trade volume between the two countries having more than tripled in dollar terms since the onset of economic reforms in Turkey in 1980. The relationship however, started from an extremely low base. Given the size of the American market and the marginal share of trade with the Turkey in the overall foreign trade position of the United States (with Turkey accounting for a mere 0.2 percent of U.S. percent U.S. imports and 0.5 percent of exports in 1998) the scope for improvement remains considerable (28).

The United States is also critical in terms of foreign direct investment. The amount of U.S. investment in Turkey is currently almost ten times higher than it was early in the 1980s again starting from an unusually low base. Indeed, as of the end of June 1999, 12.6 percent of the foreign capital invested in Turkey belonged to American firms. By the same date a total of 302 American companies have been operating in Turkey. Foreign investment permits approved by the Turkish Treasury in the case of American firms between 1980-1998 have reached a total of \$2.7 billion. In fact, even these figures understate the true

involvement of American investors in Turkey, because they fail to include investment realized foreign subsidiaries of U.S. firms. The new possibilities for investment in build-operate-transfer projects also appear to be generating U.S. investor interest. The U.S. has ranked third behind Netherlands and Germany in terms of authorized foreign direct investment in turkey both in 1998 and in 1999. Tourism constitutes get another area of economic activity where U.S. is significant for Turkey. The U.S. has ranked fifth with a share of 4.5 percent in the category of the number of tourists travelling to Turkey in 1998. Nonetheless, the numbers involved (about 440.000 in 1998) is exceptionally small compared to the number of American tourists travelling on a worldwide basis.

In all these critical areas, trade, investment and tourism, there is scope for a radical change considering the size of the American economy. One of the reasons for Turkey's inability to secure greater penetration of the U.S. market is related to the distance between the two countries. It is also the case that Turkish exports have been facing protectionist measures in the American market especially in critical sectors such as steel, textiles and processed agricultural goods. The evidence suggests that there exist import restrictions on 41 different textile products out of 50 basic categories in the market. Turkey should benefit significantly from a radical relaxation or dismantlement of quotas on textile imports by the United States. Turkey's ability to take greater advantage of the American market depends heavily on its own policies and its ability to diversify its export base in the direction of higher value added and more skill-intensive commodities.

The potential for improvement in DFI is enormous given the marginal position occupied by Turkey in the overall investment by American firms overseas. Authorized investment by American firms amounted to \$297.2 million in 1998

meagre figures by U.S. standards. In line with the arguments proposed earlier, in this context, the primary impetus for improvement needs to originate from the domestic sphere in Turkey itself. In fact, the fundamental problem of Turkey attracting long-term foreign capital on a sufficient scale compared to other “emerging markets” is a general problem and is not unique to the US firms. Greater security for foreign investors and a reduced perception of risk through a more stable macroeconomic and political environment as well as stronger legal protection for foreign investors are likely to have a positive impact. The significance of legal protection is highlighted by the fact that a number of U.S. companies who have been waiting for Turkey to implement rules of international arbitration before committing themselves to invest in major energy projects. Turkey could also benefit disproportionately by a strategy of diversifying its tourist trade and reducing the traditional structure of over dependence on European countries. A strategy emphasizing improved public relations and information flows is likely to be particularly productive in this context.

VIII-Concluding Observations

Turkey’s principal achievement compared with the NICs of other regions in the post-war period has been its ability to generate reasonably high rates of economic growth and a substantial degree of industrialization within a broadly democratic political environment. The depth of industrialization achieved, in turn, is a reflection of the strength of the domestic private enterprise and the state, in the absence of large inflows of foreign capital that characterized the experiences of major Latin American NICs such as Brazil and Mexico. The reform process in the Turkish case, however, has produced a mixed outcome. On the positive side, Turkey has managed to achieve a strong recovery from the crisis of the late

1970s. Growth has been reasonably rapid, if not outstanding. Furthermore, growth has been accompanied by significant structural change with the Turkish economy being converted from a relatively closed economy to an economy highly integrated with the world market over a comparatively short space of time. Exports have grown rapidly and the ratio of manufactured to total exports have registered a remarkable increase especially during the early years of the reform process. A balanced interpretation, however, would need to recognize that the outcome of the reform process has been less impressive judged in terms of fiscal performance, inflation and income distribution. Furthermore, the growth trajectory of the 1990s has been based on a fragile equilibrium, with short-term, speculative external capital playing a locomotive role in the process. Admittedly, the ongoing civil war in the south-eastern part of country and the ambitious South-East Anatolian Project (GAP), designed to improve economic conditions in this underdeveloped region, have also contributed to the acute strains imposed on government finances during the reform era.

Judged by its overall size, the Turkish economy has become a significant economy with a large internal market. Its per-capita income performance however is less impressive, which is largely a reflection of major inequalities in the inter-regional distribution of income, rather similar to the patterns observed in other large emerging markets such as Brazil. The contrast is sharply illustrated by the fact that Turkey has the twenty second largest economy in the world, whilst on the basis of per-capita income it is only in the eighty ninth position (29). A basic contention of this study is that the Turkish economy has failed to realize its potential during the past two decades. The performance could improve significantly depending on its ability to undertake far-reaching fiscal reform and generate the degree of economic and political stability needed to speed up the

process of domestic investment as well as to attract foreign direct investment on a substantive scale. Recent changes concerning the growing capacity of coalition governments to undertake serious reform as well as the possibility of full-membership of the European union acting as a mechanism of external discipline create the bases for renewed optimism concerning the future of the Turkish economy at the turn of a new century. The state will continue to perform an important role in the Turkish economy. However, the type of state which will be required in the new environment will be a much more “regulatory state”. This type of state will have to set high legal standards, create competitive markets as well as regulate the operation of capital markets and the banking system. Transparency and rule of law is deficient in a country that seeks to enter EU and wants to move to a well-functioning market system (30). In addition to its regulatory role, the state has to invest heavily in certain key areas such as physical infrastructure, human capital formation and research and development. Finally, in a society characterized by significant inequalities in income distribution, the state has to involve areas in the areas of social policy and poverty alleviation. In the presence of severe fiscal constraints, targeting of the poorest groups in society will emerge as the cornerstone of an active social policy in this sphere.

NOTES

1. For a comprehensive discussion of the import-substituting industrialization process in Turkey and the crisis of the late 1970s see, Barkey, Henri.1990, The State and the Industrialization Crisis in Turkey. Boulder Co.: Westview Press.
2. For detailed evidence concerning the size of adjustment assistance provided to Turkey during the early 1980s see, Kirkpatrick, Colin and Öni°, Ziya.1991, "Turkey", in P.Mosley et.al, eds., Aid and Power, Vol.2. London: Routledge.
3. On the characterization and examination of different facets of Turkish neo-liberalism see, Arýcanlý, Tosun and Rodrik, Dani.eds.1990, The Political Economy of Turkey: Debt, Adjustment and Sustainability.London:Macmillan and Öni°,Ziya.1998, State and Market:The Political Economy of Turkey in Comparative Perspective, Ýstanbul:Bođaziçi University Press.Specifically on the dynamics of export expansion in the post-1980 period see, Barlow, Robin and aenses Fikret. 1995, "The Turkish Export Boom: Just Reward or Just Lucky?". Journal of Development Economics. Vol.48,pp.111-133.
4. On the Turkish privatization experience and its limitations see Celasun, Merih and Ýsmail Arslan.1997, "State-Owned Enterprises and Privatization in Turkey: Policy, Performance and Reform Experience, 1985-1995". ERF Working Paper . No:9709
5. On the nature of exchange rate policy In Turkey during the underlying reasons for the inability of policymakers to pursue the aggressive real devaluation policy of the early 1980s see, Arýcanlý, Tosun and Rodrik, Dani.1990, "An overview of Turkey's Experience with Economic Liberalization and Structural Adjustment". World Development. Vol.18, No.10.
6. For detailed evidence on Turkey's foreign trade performance see, the report by Undersecreteriat of foreign Trade, Foreign Trade of Turkey, 1998. (July 1999). Concerning the limitations of Turkish export performance in terms of its ability to diversify exports see, Arslan, Ismail and Celasun, Merih. 1995, "Sustainability of

- Industrial Exporting in a Liberalizing Economy: The Turkish Experience” in G.K. Helleiner, ed., Manufacturing for Export in the Developing World. London: Routledge.
7. For a concise discussion of South Korea's and Taiwan's ability to combine an export boom with investment boom see, Haggard, Stephan.1996, "Lessons from Successful Reforms: Korea and Taiwan", Economic Reform Today. Vol.1, No: 2 and Akyüz, Yılmaz and Gore Charles. 1994, “ The Investment-Profit Nexus in East Asian Industrialization”, UNCTAD Discussion Papers. No.91 (October).
 8. Gini coefficient as a key indicator of income inequality has been estimated as 0.55 in 1963, 0.51 in 1973 and 0.50 in 1994 pointing towards persistently high-income inequality. See Özmucur, Süleyman.1996, Türkiye'de Gelir Dağılımı, Vergi Yükü ve Makroekonomik Göstergeler. İstanbul: Boğaziçi University Press and Devlet İstatistik Enstitüsü (State Institute of Statistics).1996; 1994 Hanehalkı Gelir ve Tüketim Harcamaları. Anket Sonuçları ve Gelir Dağılımı. Ankara: Devlet İstatistik Enstitüsü.
 9. For a documentation of similar tendencies in Latin America see, Bird, Graham and Helwege , Ann. 1997, " Can Neoliberalism Survive in Latin America?" Millennium: Journal of International Studies. Vol.26, No: 1,pp 31-56 and UNCTAD 1999. Trade and Development Report, 1999. Geneva: United Nations Conference on Trade and Development.
 10. For a comprehensive coverage of political dynamics involving the military interlude and the subsequent stage-by-stage return democracy see, Heper, Metin, ed .1991, The Strong State and Economic Interest Groups. The Post-1980 Turkish Experience. New York and London: Walter de Gruyter. For another good discussion of the military interlude and the subsequent A Motherland Party (ANAP) governments under Özal’s leadership from a political economy perspective see, Waterbury, John. 1992, “Export-Led Growth and the Center-Right Coalition in Turkey”, Comparative Politics. Vol:24, No:2, pp.127-145.
 11. For a comparison between the Turkish, Mexican and the Asian financial crises see, Öni°, Ziya and Aysan, Ahmet Faruk.2000, "Neo-liberal Globalization, the Nation State and Financial Crises in the Semi-Periphery: A Comparative Analysis". Third World Quarterly. Vol.30, No: 1.

12. For a strong defence of the argument concerning the premature nature of capital account liberalization in Turkey see, Rodrik, Dani. 1990. "Premature Liberalization, Incomplete Stabilization: The Özal Decade in Turkey" Center for Economic Policy Research Working Paper, No:402
13. On the consequences of financial globalization for the Turkish economy see, Selçuk, Faruk.1998, " A Brief Account of the Turkish Economy" in L. Rittenberg, ed. *The Political Economy of Turkey in the Post-Soviet Era: Going West and Looking East?* Westport Conn. : Praeger and Yentürk, Nurhan.1999, "Short-Term Capital Inflows and their Impact on Macroeconomic Structure: Turkey in the 1990s". The Developing Economies. Vol.37, No:1, pp. 89-113.
14. For a detailed documentation of the nature of fiscal disequilibrium in the Turkish economy and its relationship to the financial crisis of 1994 see Özatay, Fatih 1997, " The Lessons from the 1994 Crisis in Turkey: Public Debt (Miss) Management and Confidence Crisis". Yapı Kredi Economic Review. Vol 7,pp 21-38 and Atiyas, Ýzak and Sayın, İerif, 1998. "A Political Economy Perspective on Turkish Budget Deficits". Bođaziçi Journal. Vol.12, No: 1, pp.55-79.
15. The share of wages and salaries in total factor incomes appear to have dropped from 36.8 percent in 1992 and 35.1 percent in 1993 to 26.5 percent in 1994. See Özmucur, Süleyman. 1996, Türkiye'de Gelir Dađılımy, Vergi Yüky ve Makroekonomik Göstergeler. Ýstanbul: Bođaziçi University Press.
16. For a valuable contribution concerning the high degree of labor market flexibility in turkey see, enses, Fikret. 1994, "Labor Market Response to Structural Adjustment and Institutional Pressures: The Turkish Case". METU Studies in Development. Vol.21, No:3, pp. 405-448.

17. The annual surveys undertaken by the Istanbul Chamber of Industry concerning the productivity performance and profitability of the largest 500 industrial establishments in Turkey reveal a striking pattern. Progressively a bigger share of total profits of the largest industrial corporations in recent years has been originating from "non-industrial", namely financial, activities. Profits derived from "non-industrial activities" or interest income have accounted for 51.7 percent of total profits of such companies in 1997 and for 87.7 percent in 1998. Clearly, the ability to lend to the public sector at high interest provides an important mechanism of flexibility for large industrial firms in the short-run, but it is clearly inefficient for the economy as a whole from a longer-term perspective. For evidence concerning this issue see, Istanbul Chamber of Industry.1999, Türkiye'nin 500 Büyük Sanayi Kurulu°u. Istanbul:Istanbul Sanayi Odası Yayını.
18. The unusually large gray or informal economy in Turkey by the OECD standards is a reflection of cross-border smuggling and vibrant drug trade as well as widespread tax evasion due to the inadequate tax collection capacity of the state. The current tax reform of 1998 has been attempting to address these issues by reducing tax rates and expanding tax discipline. Estimates of the gray economy vary depending on definitions and coverage. However, typical estimates of the size of the gray economy appear to be in the region of 20-30 percent of GDP. For a good, concise discussion of the informal economy in Turkey see the United Nations. 1997, Human Development Report: Turkey. Ankara: United Nations Development Program. On the limitations of the Turkish tax system and the nature of the recent reform process see, Chan-Lee, James. 1998, " Tax Reform in Turkey Since the 1980s". Yapı ve Kredi Economic Review. Vol.9, No:1, pp.43-61.
19. For an elaboration of the argument concerning the limitations on Turkey's ability to manage its domestic debts given the small size of the capital market see, Ersel, Hasan and Kumcu, Ercan. 1996, "Ýstikrar Programı ve Kamu Dengesi " in TÜSÝAD Türkiye için Orta Vadeli Ýstikrar Politikaları. Ýstanbul: TÜSÝAD Yayınları.

20. For evidence concerning the serious increase in the deficits of social security institutions in Turkey in the second half of the 1990s and the underlying causes of this process see, Tûrel, Oktar.1999, “ Restructuring the Public Sector in Post-1980 Turkey: An Assessment”. METU Economic Research Center Working Papers in Economics, No: 99/6.
21. The Russian Federation has emerged as the fifth major market for Turkish exports in the second half of the 1990s reaching a peak in 1997 with a share of 7.8 percent in total Turkish exports. The Russian Federation has managed to retain its relative position in 1998. The share of the Russian market in Turkish exports, however, has dropped to 5.0 percent during the same year. Prior to the Russian crisis , the number of Russian tourists reached a peak of one million per annum with a sharp decline thereafter. For evidence on these issues see, in the undersecretariat of Foreign Trade. 1999, Foreign Trade of Turkey, 1998. Ankara: Undersecretariat of Foreign Trade publication.
22. For an elaboration of the argument by Ajay Chibber (the World Bank economist responsible for Turkey) that Turkey has adjusted better to external shocks than many other emerging markets in the latter part of the 1990s see, Chibber, Ajay. 1999 "Emerging Markets: Is Turkey Different?". Ýktisat, Ýhteme ve Finans. Vol. 14, No:155, pp. 22-32
23. The human development index is a composite index developed by the United Nations, which attempts to measure performance with respect to several indicators including per capita income level, degree of relative income inequality and capacity to alleviate absolute poverty. For a detailed elaboration and measurement of the "human development index" see, United Nations. 1999, Human Development Report, 1999. New York: Oxford University Press.
24. An important issue that needs to be emphasized, however, is that the current coalition government rests on a precarious balance. DSP, the major partner in the coalition government, is thoroughly dominated by its leader, Bülent Ecevit, who is by now an old

man in the final stages of his career. Given that no serious contenders exist within the party for the Prime Ministerial position, a serious leadership vacuum in the post-Ecevit era is certainly a possibility. This, in turn, might be a source of political instability.

25. On the advantages provided by NAFTA to the Mexican reform process see, Aspe, Pedro. 1993, Economic Transformation: The Mexican Way. Cambridge MA.: The MIT Press.
26. For a valuable discussion of the Customs Union Agreement with Europe from a broad, historical perspective see, Balkýr, Canan. 1998, "The Customs Union and Beyond" in L.Rittenberg, ed., The Political Economy of Turkey in the Post-Soviet Era: Going West and Looking East? Westport Conn: Preager Publishers.
27. For detailed analyses of the complex issues and interests surrounding "pipeline politics" see, Winrow, Gareth. 1998, "Pipeline Politics and Turkey: A New Great Game in Euroasia?". Paper presented for the conference titled "Russia-China-Central Asia: From Geo-politics to Geo-economics in Eurasia" organized by the Center for Euro-Asian Studies, Reading University, England and Kemp, Geoffrey. 1997, Energy Superbowl. Strategic Politics and the Persian Gulf and Caspian Basis. Washington, DC: Nixon Center for Peace and Freedom.
28. The information concerning Turkish-U.S. economic relations has been taken from the two recent reports published by "The Council on Foreign Economic Relations". DEIK. "Turkish-U.S. Economic Relations", November 1998 and September 1999. Ýstanbul: Dýþ Ekonomik Ýliþkiler Konseyi.
29. The information is drawn from World Bank, World Development Report 1999-2000. Pp. 230-231.
30. For a penetrating discussion concerning the importance of transparency for the efficiently functioning of the Turkish economy, in general, and for improvement of public sector performance, in particular see, Atiyas, Ýzak. "Governance, Transparency, and Economic Development". 1999. Paper presented at the Bođazici University Center for European Studies Conference on "Turkey in the European Union: A Question of Image or Governance? "