

Sübüdey Togan, *Foreign Trade Regime and Trade Liberalization in Turkey During the 1980s*, Aldershot: Avebury, 1994, pp.250.

One could trace from Anne Krueger's comprehensive study (Krueger, 1974) the evolution of Turkey's highly restrictive foreign trade regime and its macroeconomic and microeconomic impact over time. The book under review is an attempt to update Krueger's study and examine the process of trade liberalization in Turkey in the 1980s in the same fashion. In this sense, Togan covers much the same ground as Baysan and Blitzer (1991) and Krueger and Aktan (1992) (For a review of these see Şenses, 1992).

The book consists of six chapters. The first chapter aims to trace Turkey's transition to a market economy in historical perspective. However, one is instead taken through a fairly standard discussion of the basic characteristics of market economies and the highlights of Turkish economic history with much emphasis on the Ottoman period. One is hard pressed, however, to pinpoint the direct relevance of the pattern of Ottoman land ownership and legal system to trade liberalization in the 1980s.

The second chapter is devoted more specifically to the import regime and the structure of protection. Although useful historical background on the subject is also provided, the main contribution of the chapter lies in the author's calculation of the extent of nominal and effective protection in different industries. On the basis of his finding of relatively higher protection rates for export industries, Togan reaches the important conclusion that Turkey's export success was "achieved under protection". One also learns that the economy-wide rates of nominal and effective protection declined from 70.2 percent and 74.7 percent in 1984 to 28.3 percent and 38.4 percent in 1991, respectively, which was accompanied by a considerable narrowing

of the extent of protection among different industries. The author concludes that despite considerable liberalization, the rate of protection and its interindustry variation were still high.

The third chapter, as arguably the main chapter of the book, presents a thorough examination of the system of export incentives. It provides an extensive review of the main export promotion instruments such as export credits and tax rebates and presents the results of the author's calculations of the extent of subsidy. We learn that as the economy-wide nominal export subsidy rate fell from 32.0 percent in 1983 to 13.0 percent in 1990, the effective export subsidy rate declined from 37.5 percent to 12.3 percent during the same period. As in the case of protection rates, the decline in subsidy rates was also accompanied by a narrowing of their inter-industry variation.

The fourth chapter provides a detailed quantitative analysis of the Turkish export performance in the 1980s which has attracted a great deal of attention as perhaps the most successful aspect of the post-1980 policies. In his attempts to explain export performance and evaluate international competitiveness, Togan resorts to the calculation of various statistical tools such as constant market shares analysis and calculates indices of intraindustry trade, domestic resource cost and revealed comparative advantage.

The fifth chapter briefly discusses the main aspects of import performance, draws attention to the big increase in the imports/GNP ratio from 8.1% in 1979 to 20.9% in 1990, and seeks to explain the determinants of imports on the basis of an estimated import demand function. Finally, the sixth chapter of the book reviews the findings of previous chapters to assess the extent of trade liberalization and discusses issues like the gradual move away from quantitative restrictions, developments in the real exchange rate and the anti-export bias of the trade regime on a sectoral basis. Togan reaffirms that in the 1980s the real exchange rate has depreciated until 1988 and appreciated thereafter. More significantly, he finds that despite substantial trade liberalization and the provision of generous export incentives, the trade regime was still biased against exports with the anti-export bias increasing towards the end of the decade. The number of industries suffering anti-export bias increased from 31 in 1983 to 44 in 1990.

The author has gone through all the effort of carefully documenting the numerous policy changes in export and import regimes and more significantly has made an admirable attempt to quantify the effects of these policies in terms of the bias of the trade regime. Herein lies the main contribution of the book. All in all there are 114 tables in this compact book which no doubt

will be put into good use by students of the Turkish trade regime in the 1980s. Even here, however, it is pertinent to warn the reader that there are at least two reasons for not taking these results at face value. The first stems from the fact that Turkey's experiment under foreign trade liberalization was instrumental in the creation of a highly complex and volatile system of import and export policies reminiscent in many ways of the import and export regimes of the 1950s and 1960s as carefully documented by Krueger (1974). Such a complex and volatile system is obviously prone to measurement errors not least because the methodology employed rests on certain simplifying assumptions which partly accounts for the divergence of the findings of various studies on the subject. For example, while Togan bases his analysis on the assumption of no quantitative restrictions on foreign trade, Krueger and Aktan (1992) assumed import license premium rates at 30 percent in 1983 and 20 percent in 1984 and zero percent in 1988. Secondly, the emphasis on quantification may blur the picture altogether and may lead to the neglect of certain overriding factors not so easily conducive to quantification. What meaning would a simple index of anti-export bias have without taking into account the sharp change in official attitudes towards exporting so much so that there was suspicion in the public opinion that exporters abusing the system of exports and in breach of law were shielded against criminal charges by the higher echelons of power?

The book suffers from a number of other shortcomings. On a purely technical basis, one is somewhat surprised to find a considerable amount of printing and grammatical errors, repetitions, and unclear statements in the book, making one wonder whether the manuscript was copyedited at all. For example, the date of the August 1970 devaluation is given as August 1971 (p.3), sub-heading for Table 1.1 reads "real growth rate..in *current* prices" (p.4), and the current account deficit as a proportion of GNP is given as 6.5 percent rather than -6.5 percent in 1977 (p.5). It is stated that "In 1979 Turkey.. was forced to reschedule its debts. A precondition for rescheduling was the acceptance of the IMF's structural adjustment program implemented on January 24, 1980." (p.64). This may mislead the reader not only because it overlooks the major rescheduling of external debt concluded in the late 1970s by the previous social democratic government, but also because it is mistaken about the date of the stand-by agreement with the IMF (June 1980). It also erroneously links the IMF with the structural adjustment program which was very much in the domain of the World Bank in the context of structural and sectoral adjustment loans.

The book provides only a very tentative survey of the post-1980 economic program which represented perhaps the most drastic policy

transformation of Turkish economic history. As a result, it fails to discuss trade liberalization, the book's main subject matter, in the context of the series of mutually-reinforcing policy shifts that constituted this program. The lack of focus of the work with the broader macroeconomic environment, let alone the political environment, may create a false impression in the reader that all this was happening in a political and macroeconomic vacuum. The preoccupation of the author with the purely technical and quantitative aspects of his subject is reflected in statements like "...the Turkish Republic was founded with a homogenous population..." (p.1) when even official statements nowadays refer to the country as representing "a cultural and ethnic mosaic". Although the author carefully documents the frequent changes in export incentives and reversals in interest rate and exchange rate policy, he fails to link them with the instability of the macroeconomic environment. The role of the military government during 1980-83 and the World Bank and the IMF in the design and implementation of liberalization policies are not questions that are addressed in the book. Although there is a section on Turkish-EC relations, the author fails to discuss fully its implications for the evolution of trade liberalization in the 1980s. Likewise, the volatility of the export incentives system (e.g the phasing out of the tax rebate system in 1989) is not linked with Turkey's obligations under international schemes like the GATT.

Although Togan devotes one-fifth of the book specifically to the analysis of export performance, there is no mention of factors like the role of import-substitution industries set up before 1980, the availability of a substantial excess capacity in the manufacturing sector in the early 1980s, exogenous factors like the Iran-Iraq War, and the role of stabilization policies (especially during 1980-82) and the sharp fall in real wages until 1989 in restraining domestic demand, which together with exchange rate policy and export subsidies have been closely linked with export performance (see, for example, Barlow and Şenses, forthcoming). So detached is the author from such issues that the so-called fictitious exports, involving a major abuse of the system of export incentives through overinvoicing of export receipts, is not even mentioned in the text. The analysis on export performance underplays the role of market diversification towards neighboring Middle Eastern markets. Likewise, there is a lack of emphasis on the concentration of the commodity composition of exports which is heavily concentrated on several commodity groups like textiles, clothing and iron and steel. On that count alone, the author's finding that the Turkish export structure is similar to that of Korea on the basis of some simple index does not seem plausible. In fact, the author attaches too much credence to

simple indicators like low market shares in world markets without adequate discussion of the effect of various non-tariff barriers, trade links/blocks and other institutional arrangements. Similarly, he abstracts from the question of what should be done to diversify the export structure and more significantly from the question of whether the existing free trade/free market-oriented policies are conducive to such a turnaround.

The book is an important addition to the growing literature on the free trade/free markets nexus and should form a consistent trio with Baysan and Blitzer (1991) and Krueger and Aktan (1992).

References

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