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Bülent Ecevit
Prime Minister of Turkey
March 8, 1979

Turkey: test case for the European

In this section

Turkey, as a developing sector nation which has developed political institutions committed to industrial and technological progress, is a key test case of the Third World's ability to develop industrially. Turkey has an ambitious five year development program for basic industry, but it has also faced intense pressure from the International Monetary Fund to abandon that program. Last week, Turkey bowed to the IMF by adopting a stringent austerity program, after European nations, principally West Germany, failed to deliver on promises of emergency aid to tide Turkey over its debt rollover crunch. The Turkish situation has emerged as the first test for the development policy of the European Monetary System nations.

The following report, prepared by Nancy Parsons, examines these elements of the story:

- What will be the impact on Turkey's social and political stability.
- What options are still available to Prime Minister Bülent Ecevit, a strong advocate of Turkish industrialization. Plus, a report on indications that NATO circles may be contemplating a military coup in Turkey.

After almost one year of bucking International Monetary Fund pressure to impose economic austerity, the Turkish government last week finally relented by announcing a "comprehensive economic rescue program" for implementing austerity.

The plan, billed by the Turks as "our own," is in fact virtually identical to the IMF's proposed austerity program, and constitutes a strategically important, albeit somewhat belated, victory for the IMF. The fact that the Turkish government has still not formally accepted the IMF's proposals is now of little consequence to the IMF, which has nevertheless managed to achieve its aim vis-à-vis Turkey: a comprehensive austerity package, along with a tacit agreement to carry out a major currency devaluation later this year.

In adopting its austerity program, Turkey has not only come up with a plan that feeds directly into the IMF's strategy of subordinating real economic activity to debt collection; it has also bolstered the IMF's position throughout the developing sector as well as in Turkey itself. The reason: at the January Guadeloupe economic summit, Turkey became a major test case of the development approach of the new European Monetary System, the IMF's rival. At that summit, EMS leader Helmut Schmidt, the chancellor of West Germany, responded to Turkish government requests by calling for the creation of a special loan mechanism to enable Turkey to stabilize its beleaguered economy and proceed with its five-year development plan. In a Jan. 9 interview with the West German daily *Süddeutsche Zeitung*, Ecevit responded by praising

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Schmidt for his efforts to organize international support for Turkey. His statement was a signal to the Europeans that Turkey would welcome rapid integration into the new EMS as a test case for extending the EMS into the developing sector.

But since Guadeloupe, the Europeans have equivocated. At a post-Guadeloupe follow-up meeting in Bonn, it was decided that the OECD, the IMF-tainted advanced sector nations' organization, would provide the best vehicle for pulling together the aid package that Turkey had requested. West Germany reportedly backed the OECD role, viewing it as an alternative to the stated desire of the U.S. to work "in parallel" with the IMF to solve the Turkish crisis.

Dominated by the IMF, the OECD backed the IMF's austerity demands completely. Last month, Ecevit angrily postponed the visit of OECD Secretary General Emile Van Lennep to Turkey, letting it be known that Turkey had "categorically rejected" the OECD's insistence that Ankara implement the IMF's Turkish proposals. "I have no intention," said Ecevit, "of accepting prescriptions that are not compatible with the realities of Turkey. I cannot push our democracy off the precipice, neither for $50 million in credits, nor for $100 million, nor for $1 billion. I cannot throw our democracy into the fire."

This month, while on a visit to Bonn, Turkish Finance Minister Ziya Müezzinoglu was told by Schmidt that Turkey would have to go through the IMF first before any aid could flow.

Commenting on Europe's passivity in not using the EMS as an anti-IMF weapon, a high-level Turkish Finance Ministry official expressed "bitter disappointment" over Chancellor Schmidt's position that, until Turkey complies with the stringent austerity demands, no aid will be forthcoming.

Prime Minister Bülent Ecevit has been even more outspoken in his criticism of the West. Earlier this month Ecevit assailed the United States, Great Britain, West Germany and France for demanding "unacceptable conditions" for financial assistance. Ecevit complained about the "dishearteningly slow pace" of the international effort initiated at Guadeloupe to help his country. "We are disappointed," Ecevit told the press, "with the lack of concrete steps on the part of many of our allies and partners in the way of alleviating our urgent economic problems."

Isolated and vulnerable, Turkey finally succumbed to IMF pressure and began making byzantine trade-offs with the Fund. At a meeting two weeks ago in Washington with the Fund, Central Bank and Finance Ministry officials attempted to "soften up the IMF" by telling the Fund that "Turkey has no intention whatsoever to break with the IMF," and every intention to impose austerity — with a devaluation to come later. What in fact was occurring was the softening up of Turkey. Within days of the return of the Turkish officials to Ankara, the austerity plan was announced by the government.

Thus, with no substantial support from the EMS or Europe, the Turks, after a year of fruitless haggling with the IMF, finally acceded to the IMF's demands. Forcing

Foreign currency intake and expenditures

($ thousands)

Intake	1978	1977
Central Bank	944,343	910,474
Exports	433,328	499,934
Worker remittances	511,015	410,540
Private banks	1,912,195	1,836,155
Exports	1,440,152	1,264,871
Worker remittances	472,043	571,284
Total	2,856,538	2,746,629

Expenditures	1978	1977
Central Bank	1,819,801	3,002,660
Imports	1,394,277	2,474,398
Foreign debt	425,524	528,262
Private banks	1,722,399	966,055
Imports	1,652,308	959,907
Foreign debt	70,091	6,148
Total	3,542,200	3,968,715

Turkey's hand on the matter was the fact that the IMF, with the cooperation of Western banks and governments, had cut off all financial aid flows into Ankara until the IMF's conditions were met.

The consequences of capitulation

The consequences of Turkey's capitulation to the IMF program will go beyond diplomatic bad feeling between Ankara and Bonn. The Europeans' failure to deliver on the aid package proffered in January has without doubt hurt the EMS's credibility with many developing sector nations who are faced with similar demands from the IMF, and have looked to the EMS as an alternative economic system that will enable them to restructure their obligations so as to be able to proceed with basic industrial development and meet the basic consumer needs of their populations.

In Turkey, the position of Ecevit, a natural ally of the EMS, will be severely tested. Not only is the austerity program unacceptable to most of the Turkish population, but there have been numerous indications that Turkey is targeted for the kinds of ethnic and religious destabilizations that are tearing apart Iran. And there are indications from London, which has extensive interests in the region (including its bases on Cyprus), that Britain would not be disappointed to see Ecevit ousted by a military government (see box), a development which would hasten the reorganization of the pro-London network of Middle East military alliances.

In Turkey itself, population and industry are headed for an economic wringer.

The austerity program announced by Ankara is sweeping. Oil and gasoline prices were raised a whopping 100 percent, taxes were increased, and cuts were made in government spending. In addition, government subsidies to the "uneconomic" state-controlled industries are being stopped altogether, a move that will not only lead to the rapid demise of Turkey's large state sector (which produces half of Turkey's industrial goods), but will also undermine the basis for transforming Turkey into a modern industrial nation.

The IMF has reportedly extended "grudging acceptance" of the Turkish plan on the condition that Turkey devalue its currency within the next six months. According to the *New York Times*, "Turkish officials have indicated that they found such a delay acceptable." However, Turkish Central Bank governor Ismail Hakki Aydinoglu was somewhat more circumspect. "Until we have completed a restructuring of our economy, and particularly our industry, we will not be able to determine a fair value for the Turkish lira," said Aydinoglu. "No country with an industry working at 50 percent capacity should be forced to devalue."

If Turkey does devalue, it will be another setback for Ecevit. Last month, the Prime Minister was unequivocally opposing devaluation. "The continuing insistence of the IMF for another devaluation is affecting the Turkish economy negatively," he said. "The devaluation precondition has been hanging over Turkey like the sword of Damocles for a long time. The IMF, which has failed to put forth any other proposal, should give up its push for devaluation.... Turkey is definitely not going to carry out another devaluation. The economy cannot tolerate it."

Debt obligations

For Ecevit, the situation is precarious. Totally cut off from Western credits, the Turkish economy has been fast unraveling. Inflation is more than 70 percent a year, rising at 5 percent or more each month. Industrial output has plummeted 50 percent as a result of cutbacks in imports vital for production. The import cutbacks are themselves a result of the acute foreign currency shortage: Only $540 million — or 1.5 months worth of imports — sits in Central Bank coffers. This month alone, $140 million of the currency reserves must be paid out for debt repayments. Added to these problems, more than 20 percent of the industrial labor force is unemployed, exacerbating the widespread social unrest and ongoing violence. Basic commodities are in short supply.

At the root of these problems is Turkey's foreign debt, which totals upwards of $13 billion, half of which is short-term. The situation is described as the gravest debt repayment problem in international finance.

The restructuring of Turkey's debt to facilitate repayment is the number one issue between Ankara and the Western bankers, who, bowing to IMF pressure, have refused to extend fresh credit to Turkey until the IMF's austerity terms are met.

Most controversial is Turkey's $6 billion in short-term debt, whose restructuring has been called "one of the largest such operations in financial history." Broken down, this amount involves $2.4 billion in convertible lira deposits owed to 220 banks, primarily in the U.S. and Europe, $1.4 billion in arrears on imports guaranteed by governments belonging to the Organization of Economic Cooperation and Development, $450 million in Turkish Central Bank debt, and $1.4 billion in unguaranteed trade arrears to suppliers.

The rescheduling of the $2.4 billion in convertible lira deposits is the most serious of Turkey's debt difficulties. The convertible lira program was set up in 1975 by Ecevit's predecessor, Süleyman Demirel. Under the program, foreign investors deposited dollars in Turkish banks for 12 to 18 months at extraordinarily high interest rates. Attracted by these rates, money flooded in, and was then conduited into financing the $4 billion trade deficit rung up between 1975 and 1977. By 1977, reserves had fallen so low that it was impossible to repay the convertible lira deposits, now falling due. The banks refused to refinance the deposits and told the Turks to work out a "stabilization program" with the IMF before asking for help from them.

In April 1978, an agreement with the IMF was signed for the release of $450 million — plus the IMF's "stamp of approval" — in exchange for a 23 percent devaluation and other austerity measures that the Turkish government had "independently" carried out in March — in a fashion similar to the "independent" austerity measures announced by the government last week. However, as the IMF began presenting demands for continually increasing levels of austerity, the $450 million tranche was never released. As a result, refinancing negotiations with the banks have faltered, despite a plan put forth by Turkey that would convert the convertible lira loans into seven-year money and provide Ankara with $400 million in additional funds.

The dilemma for Turkey—and the West—is the following: Even if Turkey does restructure her debts successfully, there remains the problem of providing the fresh funds needed to keep Turkey's economy alive. Without new money, and relying totally on export earnings, nearly half of Turkey's future export earnings will have to go for servicing the rescheduled debt. However, as matters stand now, all of Turkey's export income is being spent on oil imports. In the words of one Finance Ministry official, "our debt payments are all overdue. We are trying to postpone these payments. If we don't succeed, Turkey's export income for the next two years at least will be held hostage."

International bankers estimate that what Turkey needs, at minimum, over the next five years is $10 billion in new credit to keep the economy going. At the Guadeloupe summit $1 billion was discussed. Observers report that now the rescue effort has been whittled down to an inadequate $500 million: $300 million from the IMF under last April's standby agreement, and $200 million from the OECD. In assessing the situation, a leading banker candidly admitted that the IMF is demanding from the Turks "not just a pound of flesh but the last drop of blood too".

Turkey's Debt Structure

$ millions	**At 9/29/79**	**After planned rescheduling**
Short-term		
Public sector		
Bankers' credits	458	—
Third-party reimbursement claims	200	—
Dresdner Bank scheme *	292	292
TPAO oil debt to Iraq	322	322
Petrol Ofisi Acceptance credit	150	150
Others	268	268
Private sector		
Acceptance credits	874	874
Arrears to suppliers †	1,600	900
Convertible lira deposits ‡	2,967	560
Total		
Medium and long-term debts §		
Public sector		
International organizations including IMF	1,944	1,995
Bilateral credits		
Participating OECD countries	2,526	3,226
Others	159	159
Euroloans	367	367¶
Rescheduled bankers' credits	—	458
Third-party reimbursement claims	—	200
Convertible lira deposits	—	2,407
Loans to be syndicated by banks	—	400
Private sector	281	281
Total medium and long-term	5,277	9,493
Total external debt	12,408	12,859

* DM deposits by non-resident Turkish workers.
† Excludes up to an estimated 600m of unlicensed imports.
‡ $560 held by non-resident Turkish citizens or maturing after
December 31, 1980, and not being rescheduled.
§ Figures for June 30, 1978.
¶ Excludes undisbursed loan of 125m replacing Petrol Ofisi acceptance credit.

Source: Turkish Central Bank

Britain out to topple Turkish government

Are the British and United States preparing a coup option to topple the government of Turkish Prime Minister Bülent Ecevit? Ecevit was visited last week by both NATO Supreme Commander Alexander Haig and British chief of staff Sir Neil Cameron, who urged him to bolster Turkey's ties to NATO. But the British press has also been mooting some form of replacement of the Ecevit government — in the context of London and Washington objections to German and French proposals for a solution to Turkey's problems — and in some circles these articles are seen as signaling that a coup option against Ecevit is in place. This appeared in the Feb. 26 Financial Times *of London:*

The West Germans and French appear to put considerable store on Mr. Ecevit staying in office. The Americans and British, however, seem less committed, being concerned about his "multilateral foreign policy," even if it is one within NATO. They also look askance at his rhetoric about a "new defence concept" — an unidentified phrase which appears to give focus to the growing reservations about the West within the Turkish armed forces and bureaucracy, not least because of the recent U.S. arms embargo on Turkey.

The U.S. and the UK thus would not be disturbed if a grand coalition emerged between Mr. Ecevit and his predecessor, the opposition leader, Mr. Suleyman Demirel — even if Mr. Demirel's mismanagement of the economy in the 1960s led to the economic crisis of 1969 and his failure to prevent even more serious profligacy between 1975 and 1977 is largely responsible for the country's present plight.

The U.S. now states publicly that Turkey must comply with the IMF's demands and that there is no such thing as money without strings — a view privately espoused by the British....

But the West Germans go somewhat further. In private their diplomats argue that a major mistake has been made in presenting the aid programme in terms which make it seem that the Turkish Government will have to capitulate before aid can flow.

Included in the IMF's demands — many of which have now been satisfied by the Turkish government's newly installed austerity program — are a hefty 40 percent devaluation, increased taxation of the population, and a sharp cut in public spending. The IMF is also out to cut state subsidies to state-controlled economic enterprises. Another target is Turkey's latest five-year plan, which, much to the ire of the zero-growth-oriented IMF, foresees a national growth rate of 8 percent. The IMF wants to trim this goal down to 4 or 5 percent. According to a State Department desk officer for Turkey, this would in effect mean no real growth, if Turkey's population growth rate is taken into account.

For years, the IMF has been the main stumbling block for Turkey and other developing countries which seek to become modern industrialized nations. With its often outrageous demands for austerity, devaluation, and backward "appropriate technologies," the IMF has repeatedly prevented Turkey from pursuing its ambitious economic development policies, by going so far as to topple Turkish governments that resisted IMF austerity dictates. In the present situation, Ecevit has been threatened with the "Iran treatment" if he continues to resist the IMF.

Now, with the declaration of his new austerity plan, Ecevit faces the wrath not of the IMF but of the Turkish population. "The IMF's ... conditions ... would be highly unpopular and could topple the government of Prime Minister Bülent Ecevit," wrote the March 7 *New York Times*. By creating the impression that the new austerity plan is his own, Ecevit hopes to save face and shield himself as much as possible from charges by the population that Turkey capitulated to the IMF.

The fact remains, however, that the Turkish government, isolated internationally by the IMF and pressured from inside by pro-austerity groups such as the Turkish Industrialists and Businessmen's Association, did capitulate. And, unless the government is able to turn its situation around, the result is likely to accelerate the disintegration of the Turkish government.

Violent terrorist incidents and clashes between extremist left and right-wing groups — which have plagued Turkey for months — continue unabated. Martial law, activated in December in 13 provinces, was recently extended for another two months.

On Feb. 23, the *Daily Telegraph* of London predicted major upheavals in Turkey as a result of insurrections by Kurd tribesmen in the impoverished southeastern part of the country. The Kurds, who have been manipulated for decades by British intelligence, and more recently by Israeli intelligence, to oppose centralized authority, are demanding "autonomy" in concert with the Kurds of Iraq and Iran. And there are also efforts to stir up long-dormant rivalries between Turkey's Sunni Moslems and Alevis (Shi'ite).

Bigger NATO role?

A high Israeli military official last month told the Israeli Parliament in a private briefing that "Turkey will fall as Iran did." At the same time, Palestine Liberation Organization spokesman Hani al-Hassan predicted a "fundamental change" taking place in Turkey soon in the wake of the Iran crisis.

With these threats hanging over Turkey, NATO commander Alexander Haig arrived in Turkey last week on a surprise visit. Haig, portrayed as a "sympathetic broker" for Turkey, pledged to secure aid for Ankara in exchange for Turkey's loyalty to NATO. Immediately prior to Haig's visit, Britain's chief of staff, Sir Neil Cameron, also arrived in Turkey.

Turkey has been estranged from NATO in the wake of the Cyprus conflict, but with the demise of the CENTO alliance and the emergence of a new military alliance between Israel and Egypt, maintaining and reinforcing Turkey as a bastion against Soviet influence in the Middle East has become a top priority for NATO policymakers in London, Brussels, and Washington.

Reports the Turkish daily *Hürriyet*, "NATO has quietly begun to establish a new 'defense belt' " composed of Greece, Turkey, Cyprus and Israel. The centerpiece of this defense belt is to be Cyprus. According to several sources, U.S. military installations in Iran are being transferred to the two British bases in Cyprus, one of which is known to house nuclear weapons. Personnel facilities at both bases are being readied for at least 8000 additional men.

Taking the bait, high-level government spokesmen have repeatedly stressed Turkey's geopolitical importance to the Atlantic Alliance recently, in an effort to cajole financial aid from the West, while at the same time, the Islamic fundamentalist National Salvation Party is calling for formation
place the defunct CENTO.

But other officials fear that Turkey may be drawn into involvements which may jeopardize its recent, carefully nurtured relations with its large neighbor, the Soviet Union. Declared Deputy Prime Minister Faruk Sükan last week: "It appears that Turkey has been made an important battlefield over which the superpower and imperialist forces are fighting for control. Newly developed conditions require Turkey to review its alliance and agreements. The Turkish state is a nation loyal to its friendship agreements. But I would like to point out that this loyalty does not imply unconditional surrender."

Options for Ecevit

Despite Turkey's problems and the international pressures she faces, the nation's best bet still appears to be the independent, development-oriented course that Ecevit was pursuing prior to last week's austerity announcement. Despite the setback administered to those plans last week, it is still possible that Ecevit may be able to salvage his development program.

Among his principal assets: his party, the prodevelopment Republican People's Party, was established by the founder of modern Turkey, Kemal Atatürk, precisely on the premise that Turkey must become a modern, industrialized nation committed to scientific progress and technological advancement. Although the party has changed substantially over the years, largely as a result of growing Second International influence over the leadership and "leftist" factions, the nationalist, progrowth orientation of the party remains relatively intact, making the RPP — and hence the government of Turkey — a natural ally of the French and West Germans in their efforts to launch the EMS.

As well, in the overriding interest of bolstering the Ecevit regime and ensuring regional stability, the Arabs — Saudi Arabia, Libya, and Iraq, in particular — are committed to coming to Turkey's aid. According to the Feb. 21 Turkish daily *Cumhuriyet*, Ecevit is currently negotiating with the Saudis, Iraqis, and Libyans to set up a new "currency basket" to provide Turkey with badly needed credits for imports and development projects. Other Arab countries are similarly investigating the possibilities of investment in Turkey. Likewise, a number of development-oriented U.S. firms are privately looking into setting up joint ventures with Turkish construction companies for projects in the Arab world. "Turkish engineering expertise is little appreciated by most American companies," commented an officer of a major Midwest corporation interested in working out triangular development projects with Turkey and the Arabs.

In January, Ecevit visited Libya, where he signed an agreement which provides for Libya to increase its oil exports to Turkey by 1 million tons annually, from 4 million tons in 1979 to 5 million tons in 1980. Another agreement provided for the launching of emergency aid initiatives by Libya in coordination with other Islamic countries to help solve Turkey's balance of payment problems.

Turkish-Soviet relations also continue to improve, with an interesting Arab component. In exchange for wheat and other Turkish products, the Soviet Union has agreed to sell Turkey oil. Iraq, at the Soviet Union's request, has agreed to pipe the oil, which was originally purchased from the Iraqis for delivery to the Soviet Union for Soviet use, directly into Turkey via the Turkish-Iraqi pipeline.

The relationships being cultivated by Ankara with her Arab, Soviet, and Balkan neighbors provide the perfect environment for the EMS should the Europeans move to extend it to Turkey.

— *Nancy Parsons*