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Export-Oriented Industries and Small-Scale Industries in Turkey

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Industrial Projects Department

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CURRENCY EQUIVALENTS

Prior to August 9, 1970:	US$1.00	=	TL 9.00
	TL 1.00	=	US$ 0.11
August 9, 1970 to December 1971:	US$1.00	=	TL 15.00
	TL 1.00	=	US$ 0.067
December 1971 to May 1974:	US$1.00	=	TL 14.00
	TL 1.00	=	US$ 0.67
May 1974 to September 1974:	US$1.00	=	TL 13.50
	TL 1.00	=	US$ 0.074
September 1974 to April 1975:	US$1.00	=	TL 13.85
	TL 1.00	=	US$ 0.072
April 1975 to July 1975:	US$1.00	=	TL 14.75
	TL 1.00	=	US$ 0.07
July 1975 to August 1975:	US$1.00	=	TL 14.50
	TL 1.00	=	US$ 0.068
August 1975 to August 1975:	US$1.00	=	TL 14.75
	TL 1.00	=	US$ 0.068
August 1975 to October 1975:	US$1.00	=	TL 15.00
	TL 1.00	=	US$ 0.67
October 1975 to March 1976:	US$1.00	=	TL 15.50
	TL 1.00	=	US$ 0.65
March 1976 to April 1976:	US$1.00	=	TL 16.00
	TL 1.00	=	US$ 0.63

ABBREVIATIONS

GOT	Government of Turkey
SPO	State Planning Organization
SIS	State Institute of Statistics
Halk Bank	Halk Bankasi (People's Bank)
IGEME	IHRACATI GELISTIRME ETUD MERKEZI (Study Center for Export Promotion)
KUSGEM	Small Industries Development Program at the Gaziantep Ind. Estate
MSI	Medium scale industrial establishments
SSI	Small scale industrial establishments

EXPORT-ORIENTED INDUSTRIES AND SMALL-SCALE INDUSTRIES IN TURKEY

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This report, based on the findings of an industrial sector mission which visited Turkey in May-June 1976, was originally issued under green cover (March 24, 1977). Having received Turkish Government clearance, it is now made available to the Board for information. The participants in the mission were Bertil Walstedt (Chief), Maurice Joyce and Pham van Thuyet (IBRD), Ronald G. Bowey and Gordon Warran-Smith (Consultants).

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EXPORT-ORIENTED INDUSTRIES

AND

SMALL-SCALE INDUSTRIES IN TURKEY

Summary and Conclusions

i. This report focuses on the development role and policy requirements of two sectors: export-oriented, relatively labor-intensive manufacturing industries, especially textiles/clothing and leather/leather products, and small-scale industrial establishments (SSI). To place these sectors in perspective, the report starts out with a brief summary of the present structure of Turkish manufacturing industry and Government growth targets. This is followed by a review of the present protection and incentives framework, the main policy instruments to direct and induce private industry. The textiles/ clothing and leather/leather products industries are then dealt with in detail. The mission has examined their export potential in Western Europe as well as measures required to capitalize on that potential. A final chapter deals with SSI (defined here as establishments engaging less than 10 persons). Their growth potential is examined as well as programs designed to improve their access to technology, management, markets, and funds. In terms of future growth, a more strategic segment is represented by some 4,000 medium-scale industrial establishments (MSI) engaging 10-100 workers. Although special study of this type of establishment was not included in the mission's terms of reference, the mission observed an urgent need for help to this group to bring them into the mainstream of export-led industrialization.

Industrial background and objectives

ii. Turkey has a high industrial potential in terms of natural resources, manpower, and geographical location. Industrial growth during the last three five-year plans has been steady and rapid. It has also been centrally planned. The plan is mandatory for the large public sector only, but, through a combination of import restrictions and potent investment incentives, the State also largely steers private manufacturing growth.

iii. The main thrust of industrialization has been capital-intensive import substitution in basic industries, e.g. steel, aluminium, petrochemicals, fertilizers, reflecting a long-standing policy (in effect since the 1920's) of making the country industrially independent. From a purely economic point of view, this policy has two drawbacks. First, it is very expensive in terms of investments (and foreign exchange for imported equipment) per job created. In 1973-76, the manufacturing sector, with 12 percent of the gainful employment, absorbed 30 percent of the total investments. Secondly, since it runs counter to Turkey's comparative advantage, it generates few industrial exports. The modern capital-intensive public sector has little or no export potential and few backward linkages. In contrast, the private sector is strategically placed in areas of comparative advantage

like textiles and clothing, leather and leather products, rubber and plastics manufactures, light metal fabricating and engineering, pharmaceuticals, etc. and also important backward linkages to the public sector. However, its units are, for the most part, too small, inefficient, and financially weak to leap into the export market and serve as the engine of growth. Manufacturing exports though they have grown substantially in recent years thus far entail a low degree of processing, and represent only about 3 percent of the value of manufacturing production. Apart from leather garments, Turkey has yet to develop any major manufacturing activity primarily focused on exports.

iv. Recent policies were at least feasible as long as Turkey could rely on worker migration to Western Europe to absorb its rising manpower surplus. With prospects for additional net migration severely curtailed, the country must now concentrate on exporting goods rather than manpower which is, of course, vastly preferable from a social and human point of view. Studies of market prospects in Western Europe specifically undertaken for this report show that both the textiles/clothing and the leather/leather products industries offer substantial prospects. There is every indication that similar conclusions would result from studies of other light, labor-intensive industries. Thus, in connection with its study of SSI, the mission has identified an apparently important, virtually untapped export potential in Turkish handicrafts. To foster competitive export industries will not be easy; as in any other country, it will require constructive, imaginative, and whole-hearted Government support and a new policy orientation.

Incentives System and Exports

v. Industry in Turkey is encouraged through a comprehensive system including:

(a) protection from imports;

(b) substantial investment incentives;

(c) export subsidies.

Initially, industrialization was heavily focused on import subsitution which was, to some extent, inevitable in the early phase. Particularly since 1969, however, tax rebates and other incentives have been used to promote exports. Although the system includes some measure of infant industry support for export production, much of this assistance is now needed to offset the higher input costs resulting from the protection system. This subject is discussed in some detail in Chapter III. Another drawback of the system is that it encourages capital intensive production as regards to the choice of equipment and technology within a given industry, as illustrated in the specific case of the textile industry (see para. 4.27).

vi. Some encouraging export growth has occurred, but it is relatively shallow (low value added by manufacture), and it is small in relation to the country's potential. Difficulties in developing industrial exports seem to reflect three major factors: First, as already noted, many protected industries lack comparative advantage. Secondly, even industries with a good

export potential are frozen in traditional structures and technology within the confines of narrow oligopolistic markets. They cannot change quickly without special catalytic or supportive action. Thirdly, a system which depends on incentives to compensate for built-in cost handicaps becomes very complex, costly to administer, inflexible in a rapidly changing industrial world, and uncertain as to its ultimate incidence on the individual industry.

vii. A particularly important effect of the import restrictions on Turkey's export potential is that many Turkish products are of low quality or insufficiently related to Western European standards and fashions. Thus, exports of leather products and clothing are impeded by the low quality of Turkish made accessories, such as frames, linings, trimmings, etc. Moreover, as a result of the concentration on the domestic market, the Turkish manufacturer lacks knowledge of export markets and the practical aspects of export marketing and is not subject to external competitive pressure to maintain productivity and quality standards.

viii. Turkey is at a unique historical juncture where it needs to develop manufacturing exports for industrial growth and to do so quickly while it still can benefit from an inside track to the Common Market. An export breakthrough will require close State-industry cooperation to determine the present position and required action programs for potential export spearhead subsectors.

ix. State support for an export offensive would need to encompass the following general measures:

- unrestricted entry, subject only to import duty, of imported inputs for subsequent use in export processing; the duties paid on such imports would be considered in the export incentives (see x. below).

- transformation of the present Study Center for Export Promotion (IGEME) into an active Export Promotion Agency to provice market intelligence and better marketing assistance.

x. These general measures would need to be supplemented with specific actions with respect to individual industries. Ambitious, yet realistic investment and export targets should be developed in concert with the industry. Export incentives must be revised not only to offset disadvantages from the import regime but also to give some measure of "infant" industry support for a suitable time period. Such incentives may be tied to State-industry agreements on production, export, and productivity targets and necessary restructuring ("concerted action"). Foreign investments and foreign partnerships should be encouraged where these may be expected decisively to improve access to markets and technology.

Textiles and Clothing 1/

xi. The textile and clothing industries, in 1975, contributed about 15 percent of total value added in manufacturing and about 20 percent of industrial employment. At present, the largest sectors are cotton spinning and weaving. Firm sizes differ widely; in cotton spinning and in dyeing and finishing, larger firms predominate, whereas in the production of woven cloth and in knitting and, particularly, in garment-making, there are many small firms. A State Enterprise Holding, Sumerbank, controls about one-fifth of spinning and weaving capacity in the cotton and wool sectors.

xii. Production capacity of cotton yarn more than doubled between 1972 and 1975, resulting in a large exportable surplus. Economic returns from yarn exports are, however, low. Fabric exports have not increased due, in part, to profitable home markets, but also to low quality standards and production efficiencies. Exports of garments grew from a very small base to 3,850 tons in 1975, and new investments are taking place in this field. Wool product exports are insignificant, though there is excess capacity.

xiii. Turkey's advantage in labor costs compared with European producers, although offset to some extent by lower labor productivity, gives Turkey a great potential for exports. Turkey's best access to the European market is through the labor-intensive "making-up" industry. The consultants believe that, within that sector, Turkey's best prospects are in large-volume, standard-quality items such as:

sheets and pillow slips	towels
dish towels	domestic overalls
terry cloth beachwear and dressing gowns	underwear
	cotton dresses
jeans and trousers	shirts and blouses

xiv. Production of fancy or exclusive made-up articles would be more difficult. There are as yet few local fabrics and accessories of the required quality, and there would be problems in management and marketing. Nevertheless, further study of a possible development path for the fancy make-up sector would be justified.

xv. An export oriented make-up industry needs a free choice in importing fabrics or procuring them locally. In the beginning, their main business will be contract processing of imported fabrics, using local fabrics, however, where these can be supplied at the right quality and price. Once local fabrics are incorporated in a substantial way in exported garments, it will also be easier to sell the same or similar fabrics for export. The make-up industry, therefore, will become the engine of growth for an export oriented textile industry.

1/ The conclusions in this section and the next section on leather and leather products draw heavily on two consultant's reports prepared for the mission. See references under Chapter IV and V.

xvi. There is also a large demand in Western Europe for industrial fabrics and a small though important market for both printed and knit highly fashioned fabrics - the latter are of particular interest to Turkey because of high labor content and possibilities for production in small units. The main constraint (and challenge) in both cases are the high requirements in terms of quality and delivery.

xvii. Only a highly efficient industry can produce high quality goods, and most Turkish manufacturers are far from Western European efficiencies. Even abstracting from quality, the productivities of both capital and labor in the Turkish textile industry are well below Western European standards, i.e. about 40 percent lower in the make-up trades. The weak points in the textile industry are the great number of non-integrated cotton spinning mills with inexperienced management and the SSI sector which is not yet successfully linked to the modern sector. The State textile group is strongly focused on the domestic market, and many of its plants are in urgent need of modernization. Nevertheless, the best Turkish firms are capable of competitive export production.

xviii. The following action program could transform the textile/clothing sector into a modern export industry over the next decade:

(a) Export drive. The export drive must be led by the largest and most dynamic firms with proven management resources. Foreign investments or partnerships should be encouraged to gain access to technology and markets; leading European textile firms in recent years have established manufacturing links in e.g. Brazil, Greece, Portugal, North Africa.

(b) Industry structure. In Western Europe, the small textile firms are being absorbed by large enterprises with better access to markets, management, and finance. Further concentration of production in the Turkish textiles/clothing industry is inevitable for similar reasons. For instance, increased integration between the make-up sector and the textile sector is desirable where the end product consists of relatively uniform, large-volume items. Special studies are needed to define the role of MSI and SSI in each sub-sector; this would be a task for the proposed Research and Development Center for MSI. There must be a program for aiding, expanding, and restructuring the domestic supplier industries (e.g. linings, buttons, zippers, dyes, etc.) to enable them to participate fully in the foreseen expansion and, possibly, to develop exports of their own.

(c) Technical assistance. Much of the quality and productivity gap between Turkey and advanced textiles manufacturers could be closed through technical assistance covering a range of activities; remedial action here is more urgent than any other measure. The workers need to be more closely associated with the productivity drive. Turkish lending institutions must push for expert assistance and managerial changes in those companies which are not yet well run.

(d) Incentives. The general requirements with respect to incentives (concerted action, infant industry support, unrestricted access at world prices to strategic inputs) were outlined above (paras. ix-x). The textile/clothing industry could serve as a pilot case for these revised policies.

xix. Very preliminary estimates indicate that an initial export offensive spearheaded by some 25 new garment-making units (employing some 8,750 persons in the make-up factories alone) would involve investments of the following order:

	US$ Million
Dyeing and finishing	100
Garment industry	75
Woollen and worsted	20
Filament weaving	7
Mohair industry	10
Professional services	10
	222

Based upon this type of program, exports of garments and made-up goods could reach 30,000 tons by 1982 worth about US$200 million as compared with about 4,000 tons in 1974. The net foreign exchange earnings, however, would depend upon progress in substituting Turkish fabrics for imported fabrics in this export trade.

xx. The program prepared by the consultants is intended to be realistically geared, in a 6-7 year perspective, to apparent export market constraints and existing managerial and financial capabilities. It focuses on improvements and complementation of existing capacities rather than capacity expansion. Beyond this, the mission feels it is also important to study what might be the optimum long-run path for expansion, and how Turkey should phase its future textiles exports to the Common Market. One plausible target would be to use the whole of the present spinning capacity which roughly corresponds to Turkey's prospective raw cotton production. This might require the construction of 25/40 new weaving plants and, if one-half of the fabrics were to be converted in Turkey, another 85 new make-up plants. The total investment would be on the order of $1.25 billion, of which the $0.25 billion invested in

make-up plants might create 30,000 new jobs. Much of Western Europe's textile industry, over the next decade, may migrate to developing countries, and Turkey is a logical candidate for a new regional textile center given its low wages, geographic nearness to Western Europe, Common Market link, and favorable political climate. Optimum expansion will call for close State-industry cooperation, the forging of new links with Western Europe manufacturers and traders, and foreign financial assistance.

xxi. We have focused above on the market share to which Turkey might legitimately aspire in free and equal competition with other countries and with some element of tariff and/or quota preference within the Common Market as was foreseen when Turkey signed the Association Agreement with the Common Market. Although the Common Market, in recent years, has made substantial tariff concessions to developing countries, it is realistic to expect that market access by the latter will be constrained by quotas and that Turkey would profit from its insider status. In a purely formal sense, there have been complaints that recent Turkish yarn exports have had a disruptive influence in the meaning of the Multinational Fibre Agreement. The mission would not venture an opinion of the validity of this claim or the dovetailing of the Association Agreement with the Fibre Agreement. Materially, the current industrial recession has hit the Western Europe textile industry with particular severity, a shock superimposed upon a long-run trend of increased imports and intensified "rationalization" which reduced employment in Western Europe's textile industry by about one million between 1965 and 1975. Massive imports have led certain associations of the European textiles and clothing industries to question the very principle of international division of labor as applied to their industry. Nevertheless, the prevailing opinion in Europe probably favors the access of developing countries to the European Common Market in accordance with their true comparative advantage, subject only to an orderly transition and the preservation in Europe of minimum capacities justified on strategic preparedness grounds. The Turkish Government would, of course, want to make it own evaluation of these factors before drawing up (with the Turkish textile industry) a program of supported export development.

Leather and Leather Products

xxii. The main end products of the leather industry in Turkey are footwear (about 35 million pairs per annum) absorbing virtually the entire domestic production of suitable bovine hides, and leather coats made out of sheepskins (1.8 million garments, virtually all for export, valued at over $60 million in 1975, or roughly 12 percent of Turkey's exports of industrial products). There are also small exports of various leather products, like suitcases, briefcases, wallets, etc. Turkey has a sizeable availability of goat skins but these are mainly exported in the raw state.

xxiii. Most of the production comes from many small workshops working under extremely primitive conditions (bad facilities, simple equipment, child labor, low wages, and, in the case of the tanning industry in Istanbul and Izmir, very bad pollution of adjacent waters). In footwear, the ten largest factories together produce only about 4 million pairs, of which the largest, the

State Sumerbank factory, makes about 1.5 million pairs at an average value of about U.S.$5 per pair. In leather clothing, there are about 1,500 small producers; 15 medium to large factories account for about 40 percent of the output. Tanneries are also small. The 150 members of the Turkish Leather Manufacturers Association produce about two-thirds of the output; the remainder comes from many small operators. Sumerbank is an important producer of leather, though mainly for its own shoe plants. Reorganization and modernization of the industry is overdue.

xxiv. The industry is important in several ways. Virtually the whole production value is generated domestically. It is highly labor-intensive; the leather coat industry alone employs about 30,000 people. Its most valuable asset, perhaps, is represented by the existing skills and traditions. To these, another element has recently been added: engineers graduated from the UNDP sponsored Leather Institute at Pendik will provide the cadres by whose help a modern tanning industry could be rapidly developed.

xxv. The market for Turkish leather and leather products in Western Europe is examined in a special consultant study undertaken for the present mission (See Reference under Chapter V). Market prospects are deemed to be excellent for semi-processed leather (Italy), finished leather (West Germany, U.K., France), leather goods (particularly Britain), leather clothing (where Turkey should now aim increasingly at the higher end of the market), and footwear. The export potential in footwear is illustrated in the aforementioned consultant study, by a case study of a Turkish manufacturer who has achieved success in this field. The industry possesses excellent design and making-up skills. An exporting shoe industry was born in Italy after the war from similar beginnings. Italy's example was followed by other countries like Spain and Brazil. The shortage of domestic leather need not be constraint to Turkey; Italy is a major importer of hides and leather in various stages of processing. The essential condition for success, besides skilled labor, is managerial and marketing skills. The edge of success goes to the country with the lowest wages.

xxvi. Unfortunately, the existing framework raises several obstacles to the full realization of this potential. These would need to be rapidly removed because fortune will smile only on those who act quickly and decisively to exploit the gaps left by the decline in the competitiveness of Western Europe's leather and leather products industry. The leather and leather products industry is one of the most disfavored by the present combination of protection with an overvalued exchange rate. In addition, it is wholly unreasonable that a potential export industry be hamstrung by severe restrictions on strategic imports like accessories, trimmings and buckles for footwear, dyes for leather finishing, or tanning materials and modern machinery, where these are not yet manufactured in Turkey in the desired qualities, or at prices which are internationally competitive.

xxvii. Even drastic improvements in the external environment, however, will have small impact unless paralleled by major changes in the industry's structure. These would first of all involve a resettlement of the tanning industry

from its present crowded and polluting quarters, particularly in Istanbul and Izmir, to modern tanneries nearer to the point of slaughter. Secondly, this would need to be combined with (and would indeed stimulate) drastic improvements in the present systems for the slaughter, preservation and grading of hides and skins. Grading will serve as a stimulus to quality improvement and, at the same time, guarantee that higher quality hides are reserved for uses where quality is essential and will, therefore, command a higher price for the final product. The actual location of tanneries would need to be closely coordinated with the reorganization of the meat packing industry presently underway. Thirdly, the tanning industry in Western Turkey industrial centers would need to be refocused increasingly on the final stages of processing; the necessary technical assistance would be provided by the above-mentioned Institute at Pendik. (This recommendation is contested by some Turkish experts who feel that even the first dressing should be done in close contiguity to the first tanning stage. The reasons behind the mission's recommendation are detailed in para 5.27). Fourthly, project studies should be made regarding possibilities for competitive production of supplies and machinery for the leather and leather products industries. Fifthly, targets and modalities for the necessary restructuring of, in particular, the footwear and tanning industries would need to be studied; a program along the lines of the Spanish acciones concertadas 1/ is one possible approach. Joint ventures with European manufacturers or distributors should be explored as the most rapid way of gaining a foothold in the Common Market. Investment 1977-80 in new equipment for tanneries and finishing plants are proposed at $60 million equivalent (excluding buildings, working capital, etc). In addition, substantial investments would be required for the restructuring of the leather processing industries.

Medium-Scale Industries

xxviii. Medium-scale industrial establishments are bounded at the upper end by some 500 Turkish establishments employing 200 or more workers and at the lower end by the multitude of small establishments engaging less than 10 persons. MSI, at present, appear to be underrepresented in the industrial structure; some 4,000 MSI account for only 19 percent of total employment. (See Diagram II, p. 47). There are some indications that this could be due to a hiatus in investment incentives and financial support. Yet, as Turkey turns to labor-intensive production for export, there would be an important role for MSI both as direct manufacturers for export and as subcontractors and suppliers of ancillary materials and services. Their potential and structure is insufficiently known, however. The mission recommends the establishment of a Research Institute for Medium Industries which would undertake sector studies to define the opportunities and constraints on MSI in each sector and also promote the necessary project and market studies, structural rationalization, etc.

1/ For definition, see para 6.3

xxvix. If such an expanding role can be identified for MSI, their potential financial needs would be substantial. These needs could be satisfied through TSKB extending their lending towards somewhat smaller borrowers than normally financed through that institution and/or SYKB initiating a new lending program specifically focused on MSI to be disbursed through its bank shareholders and/or Halk Bank extending its range to somewhat larger borrowers than presently served. These options are not mutually exclusive, and the domains of the different institutes could become defined through experience and mutual adaptation. However, for SYKB, this could become a major focus rather than a subsidiary activity not organically related to their present operations as would be true for the other two institutes.

Small-Scale Industries

xxx. Small-scale industries mostly employ 1-4 workers; the segment of 5-9 workers is less prominant. SSI account for 42 percent of the employment and 17 percent of the value added in the manufacturing sector. In footwear and clothing, metal products, wood processing, furniture, and leather products, they provide a much higher volume of employment than large manufacturers, and they are more or less equal in electrical machinery and transport equipment. They are located mainly around the large cities; certain trades are concentrated in certain regions.

xxxi. In many cases, SSI lack economic competitiveness, surviving only by making low quality goods for local (as distinguished from national) markets and by paying substandard wages to juvenile labor working in confined premises under unhealthy or unsafe conditions. Many SSI will not be able to make the transition to modern industry, others can be brought into the mainstream only by industry-wide structural changes and by technical assistance, including the development of suitable "intermediate" technologies. The main asset of SSI is the natural skills, determination and specialized experience of those working in the industry. These productive forces must be utilized, even where SSI integration with modern industry would change their functions, organization, size, and very essence drastically.

xxxii. Successive five-year Plans pay little attention to SSI. The Third Plan explicitly states that increased use of capital-intensive technologies in industry may increase urban unemployment until 1987. The major State action has been in the promotion of industrial estates and low-interest loans through the Halk Bank (People's Bank). A proposal for a National Centre for SSI, included already in the First Plan, has not been implemented. Handicrafts, according to the Third Plan, have a better potential than SSI (it looks at the latter as smaller, less viable copies of the larger prototype). A credit program for handicrafts and a carpet making training program have been implemented. However, a comparison with e.g. Tunisia suggests that much more could be done, particularly in export marketing (including sales to tourists) and in artistic rejuvenation of the old designs. Administrative and financial organizations dealing with SSI are highly politicized with frequent changes in personnel. The Central Confederation of SSI has been unable to promote the types of programs required.

xxxii. Since 1964, the Turkish Government has helped financing a large number of industrial estates spread all over the country. Their success has been somewhat constrained by the failure to allow for the expansion of the original workshops and the paucity of common facilities. A UNDP supported pilot project at Gaziantep provides a full range of extension services; the economic returns from this type of project are still to be evaluated.

xxxiv. With a guarantee from their credit cooperative, to which most SSI must belong by law, SSI can borrow limited funds at highly subsidized rates from the Halk Bank which has offices all over Turkey. The Halk Bank lending program for 1976 includes TL 1 billion for SSI and a similar amount for the lower range of MSI. There are various proposals to increase financial assistance to SSI. However, the mission believes that the answer is not so much subsidized finance (some of which will tend to be diverted to non-productive purposes) as technical and project assistance, aid in restructuring and aid in retraining and relocation of those displaced by the onward surge of modern industry.

xxxv. A program allowing SSI to make their maximum economic contribution to industrial growth might include the following elements:

(a) Sectorial studies identifying the economic potential and development problems of SSI within those industries where they are most important. Incorporation of the findings of such studies in the future national five-year development plans.

(b) Reexamination of the incentives system to determine whether it might not contain an unwanted bias in favor of large industries and whether sufficient weight is given to employment creation.

(c) Reinforcement of extension services (particularly in the field of technology) and research on appropriate technologies for SSI.

(d) Encouragement of restructuring of production and/or marketing etc. where such restructuring is deemed imperative.

(e) Upgrading of industrial estates, particularly by providing more ample facilities for expansion of individual units and a stronger technical assistance and common services component. Recasting of the estates into autonomous, profit-making corporations; this would not necessarily rule out pre-determined State subsidies.

(f) An improved Halk Bank contribution through additional sector and feasibility studies, increased aid in project preparation, and stricter control that subsidized finance is used only where needed for directly productive purposes.

(g) A greatly intensified program for the development of handicrafts production and exports.

xxxvi. The proposed National Center for SSI development (administration of estates, assistance packages for certain industries, technical extension services) should probably be replaced by a smaller institute for SSI research and extension services with a majority of SSI representatives on its board, though with an initial State or Halk Bank contribution. Its task would be "trouble shooting" rather than administration. Its main purpose would be to find new roads for SSI, new linkages with modern industry, new facilities, and new technologies. Some of the detailed services envisaged for the National Center could be undertaken in connection with the industrial estates or through the Halk Bank.

I. INTRODUCTION

1.1 This report focuses on development potential and policy requirements in two sectors: export-oriented manufacturing industries and small industries. These sectors were selected for the following reasons.

1.2 Industries with an export potential. In the past, Turkish industrialization has been focused on import substitution with capital and technology-intensive industries in the foreground, often in the State sector. The limitations of import substitution as an industrialization policy and Turkey's decision to join the European Common Market have created new opportunities for developing export industries and a new urgency in exploiting these opportunities. The present report examines two industries (textiles/clothing and leather/leather products) deemed to have a great export potential in the Common Market framework. These are industries where Turkey would have a comparative advantage, with differentially high balance-of-payments and employment benefits per unit of investment. Historically, these industries have been relatively neglected in Government planning, and they are now faced with major structural problems and loss of growth momentum. Although the mission focused particularly on those two industries (now accounting for about 38 percent of manufactured exports), it is convinced that the situation faced by other labor-intensive industries with an export potential (e.g. metal manufacturing/engineering, or, on a smaller scale, handicrafts) is very similar.

1.3 Small and medium industries. The main reason for singling out small and medium industries for special treatment is the notion that (a) they suffer from special constraints in their access to management, technology, market or finance, (b) that these constraints are often institutional and remediable rather than due to genetic flaws. Furthermore, these weaknesses have become critical at a moment when Turkey's integration with the Common Market calls for a radical transformation in marketing (exports rather than local), technology (e.g. stepped-up quality requirements) and finance (larger, better equipped units). Viewed in this perspective, most Turkish establishments are small or medium. However, the handicaps described are relative, and we shall draw a further distinction between medium establishments (MSI), say those employing 10-200 workers and really small establishments (SSI) employing less than ten workers. 1/ Another reason for paying special attention to SSI (this argument does not necessarily apply to MSI) is that they tend to provide more employment per unit of investment.

1.4 The exact borderline between SSI and MSI could easily be disputed. Some SSI partake of the quality of MSI and vice-versa. Nevertheless, our conception of the two groups is as follows. SSI work mainly

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1/ These categories are adapted to the Turkish situation. By Western European standards, the appropriate borderlines could conceivably be 50 workers for small establishments and 500 workers for medium establishments.

for the local market, with small capital investment and little specialization of functions. In this group, many barely manage to hang in by paying subnormal wages, by employing child labor, by working under unsanitary and polluting conditions and/or by subsisting in oligopolistic and inefficient markets. The MSI, in contrast, would far more frequently be connected with the national market and have a potential for export production. At the same time, they would tend to have professional management and employ engineers, accountants, etc. specializing in their respective functions.

1.5 This also means that the specific needs of the two sub-groups are different. The SSI need services which would make it possible for them to perform their present functions more effectively (technical assistance, training, better organized industrial estates). The MSI need assistance to bring them into the mainstream of increasingly export-oriented modern industrial activity, where management has to be professionalized and its tools sharpened, functions like marketing and quality control exphasized, a flexible attitude taken to industrial restructuring and regrouping.

1.6 In accordance with its terms of reference, the mission devoted special attention to SSI. This was inspired by the Bank concern for involving the urban and rural poor in the productive growth and transition of the economy. However, the problem of MSI is of equal importance and greater economic urgency. As this report will show, the MSI have fallen between two chairs. Neglected, in part, by the planners, they do not share in the special facilities available to SSI nor fully in the generous incentives available to large industries. There seems to be a corresponding hiatus in the financial framework making it difficult to obtain fixed assets financing in the range of, say TL 5-25 million.

1.7 To give added depth to the exposition, our study starts out with a brief summary of the recent growth of Turkish manufacturing industry and of Government industrialization objectives and growth targets for industry. This is followed by a review of the present protection and incentives framework. More than official declarations and plans, this largely determines how industry will grow: which industries, inward-oriented versus export-oriented, large versus small. Apart from its possibly more general interest, there are two reasons for reviewing the protection and incentives framework in this context. First, as the reader will find, it is necessary to unravel the incidence of protection and incentives before an estimate can be made of the economically relevant (shadow) exchange rate, and an idea gained regarding the present competitiveness of specific industries. Secondly, it is also necessary to determine whether existing incentives and the existing institutional framework as well are adequate to promote the desired development of fledgling export industries. The final three chapters deal with, respectively, the textiles/clothing, leather/leather products, and small industries (with a brief comment on medium industries).

II. INDUSTRIAL GROWTH AND EXPORTS

A. Industrial growth

2.1 Turkey has a high industrial potential. The country has a good climate, a strategic location (e.g. near the Middle East oil transit lanes), substantial agricultural and mineral wealth, and a vigorous population. The domestic market is large enough to support the development of many industries which, in smaller countries, would be constrained by economies of scale.

2.2 The growth of industry during the last fifteen years (coinciding with three successive Five-Year Plans), has been rapid. According to official figures, the growth in real GDP in industry (at 1968 prices) averaged slightly above 10 percent per year for the Second and Third Plans. Even if allowance is made for a certain statistical upward bias (growth was more rapid in industries where Turkish prices exceed world prices), this production growth was above average for developing countries (see Diagram I, p. 4, and Table 2.1). The share of manufacturing in GNP at constant prices increased from about 14 percent in 1963 to about 20 percent in 1975.

The Growth of Manufacturing Industry in Turkey

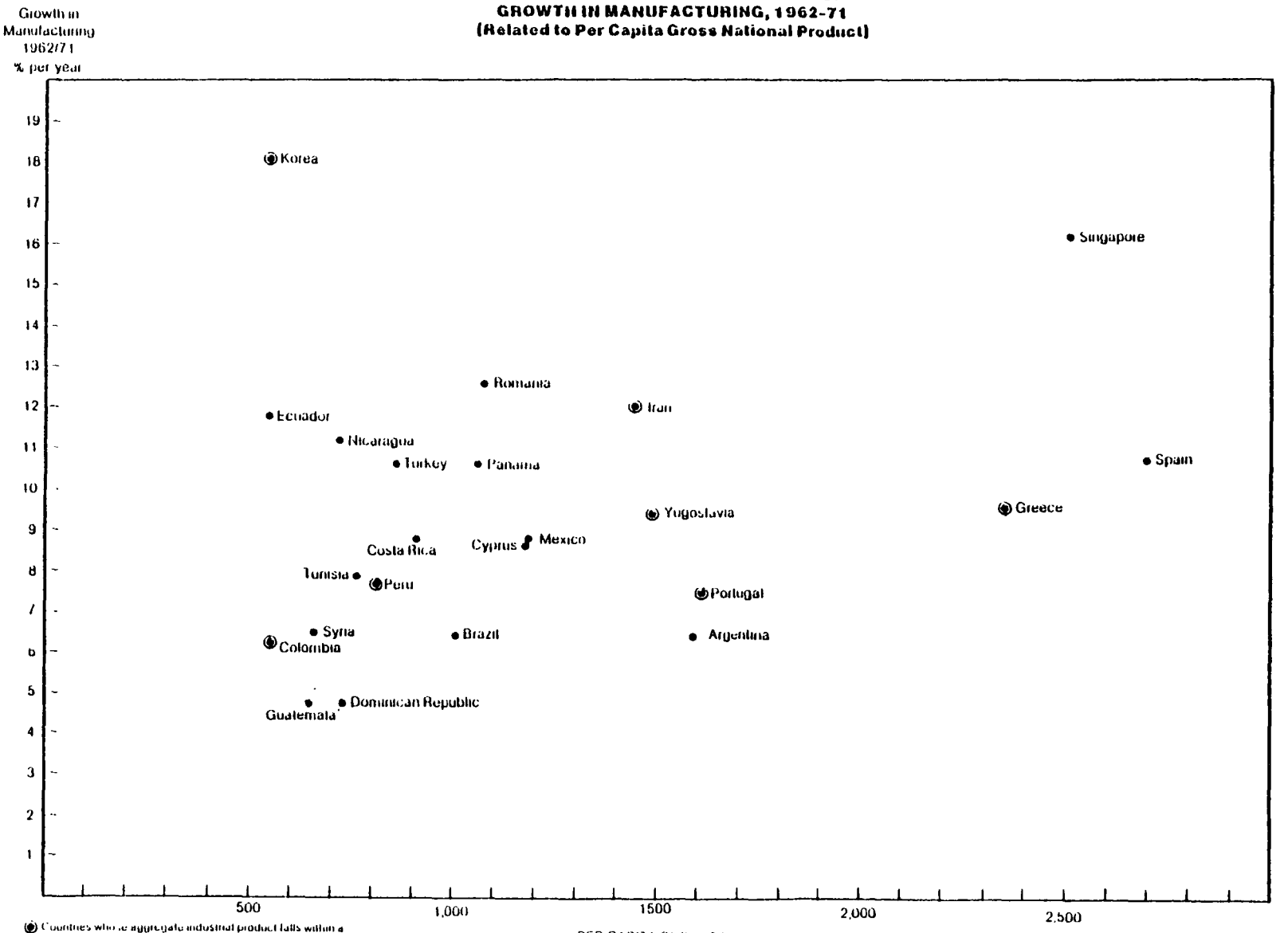
	1962	1966	1970	1974	1975
Gross domestic product at factor cost (Million 1968 TL)	68,964	90,351	112,037	147,022	160,017
Gross domestic product in manufacturing (Million 1968 TL)	8,732	13,636	19,684	29,954	32,379
Share of manufacturing in GDP (Percent)	12.7	15.2	17.6	20.4	20.2
Employment in Manufacturing (Thousand)					
large and medium est.		411	506	638	(1973)
small est.			325		
Share of industry a/ in economically active population (Percent)	8.3	9.2 (1967)	11.1 (1972)		12.7

a/ Includes mining and water, gas and electricity which account for roughly 5 percent of the total for "industry".

Source: State Institute of Statistics, S.P.O., Turkish Industrialists and Businessmen's Association.
OECD, Labor Force Statistics, 1963-1974

DIAGRAM 1

SELECTED DEVELOPING COUNTRIES: GROWTH IN MANUFACTURING, 1962-71 (Related to Per Capita Gross National Product)



◉ Countries whose aggregate industrial product falls within a range of 0.4 to 1.7 times the Turkish industrial product

Sources

United Nations, The Growth of World Industry (1972 Edition), Vol. I

World Bank compilation of Gross National Product data

The share of manufacturing in total employment is relatively low. Small establishments make an important contribution since, according to the 1970 industrial census, they accounted for nearly 40 percent of total manufacturing employment.

2.3 Growth in recent decades has been heavily focused on capital-intensive production of basic industrial and agricultural inputs ("intermediate goods"); their share of total industrial value added increased from 21 percent in 1950 to about 40 percent today. In contrast, there has been only moderate growth in lighter, labor-intensive consumer goods and engineering industries (Table 2.2).

2.4 One aspect of this pattern of industrialization common to many industrializing countries of a similar size and stage of development as Turkey is the thrust towards import substitution to the relative neglect of industrial exports. Manufactured imports represent only about 7 percent of the total consumption of manufactured articles, a proportion that has, moreover, declined from 16 percent in 1963, and manufacturered exports only 3 percent of manufacturing production. Curiously, though there is relatively little trade in manufacturing, manufacturing accounts for a very high proportion of total trade: the vast bulk of the import bill which is heavily weighted with machinery and transport equipment, steel and chemicals (Table 2.3) and about 38 percent of total exports (1973).

2.5 Encouraged by measures which will be described in Chapter III, exports of manufactures grew five-fold between 1970 and 1975, measured in US$ equivalent (probably a little more than one-half that rate measured at constant prices). Exports include processed foods, non-ferrous metals (copper, ferro-chrome, boron products), some lumber, and marginal quantities (i.e. marginal in relation to the industry's capacity) of refined petroleum products, cement, glass, and sugar. In recent years, the most rapidly growing industrial exports have been from the two industries singled out for study in this report, with leather garments and cotton yarn showing prominently (Table 2.4). With the exception of boron products and leather garments, however, Turkey as yet has no true export manufacturing industry in the sense of an industry mainly dedicated to sales to the world market.

B. Government strategies

2.6 Turkey's pattern of industrialization is only, in part, an economically determined response to resource endowment and market forces. It reflects a long-standing policy (in effect since the 1920s) to make the country industrially independent. According to this concept, a nation's industrial power is closely correlated with the development of its basic industries. Interwoven with this theme is another theme, namely that the State should be responsible for the development of basic industries whereas private industry should concentrate on lighter (i.e. more labor-intensive) industrial processing industries. Up to a point, this division of labor is predetermined: the investments and risks in large metallurgical and chemical complexes are too large for private domestic entrepreneurs to undertake. A

major role for the State is, therefore, accepted by all political parties. At the same time, as we shall see in Chapter III, attempts have also been made to accelerate capital formation in private industry in order to achieve balanced growth.

2.7 The above industrialization philosophy is reflected in the Five-Year Plans which are mandatory for the public sector. To a large extent, the Plans also govern investments in the private sector since these are steered through import controls on equipment and very sizeable investment and production incentives. 1/ Notwithstanding Turkey's accession to the Common Market, the Third Five-Year Plan continued the emphasis on (for the most part capital-intensive) intermediate and investment goods industries which were planned to grow at 14-15 percent and 16-17 percent respectively, while consumption goods, where the best immediate export prospects lie, were scheduled to grow at 6.5-7.5%. Production of chemicals, iron and steel, and non-ferrous metals, machinery and electrical equipment was to be doubled between 1972 and 1977. Though the share of industrial exports in total exports was scheduled to grow from 25 percent to 40 percent, these exports, for the most part, are only a marginal element in industrial production.

2.8 In economic terms and in a medium-run perspective, the focusing on capital-intensive import substitution was expensive. Adoption of alternative, more export oriented and more labor intensive industrialization policies, at identical levels of investment, would presumably have been associated with substantially higher growth rates in industrial production and employment.2/ This is obviously a subject deserving close examination; some of the policy issues are briefly touched upon in the next section.

1/ For the purpose of this guidance, it does not matter that the incentives, to a large extent, only compensate for an overvalued exchange rate. The point is that, without the incentives, new investments would not be profitable.

2/ According to a study by Professor Anne Krueger (see Annex H), a postulated alternative, more labor intensive and export oriented industrialization pattern, would, in both the First and the Second Plans, have been associated with a roughly 115 percent increase in manufacturing output instead of the actually achieved 65 percent. In spite of the higher rate of growth, requirements of imported capital equipment and intermediate goods would actually have been lower under the alternative path, and over 300,000 more jobs would have been created over the ten-year period. It is true that Professor Krueger has not demonstrated the feasibility of this alternative path (in terms of markets, competition, etc.). Yet, our study of the textile/clothing and leather/leather products industries in Chapters IV and V indicates the existence of a substantial underdeveloped potential, and the same would probably hold true for other light industries.

C. Some issues of industrial policy

2.9 The farmers of Turkish industrialization are faced with certain hard choices. They are committed to achieving economic integration with the Common Market by 1995. The Market offers vast opportunities for Turkish industries in areas where they have a comparative advantage. The difficulty, one senses, lies partly in defining areas of comparative advantage. In fact, one of the major reasons advanced for the heavy emphasis on certain capital-intensive and technology-intensive industries is that Turkey wants to be prepared to meet competition in these industries before its trade barriers are lowered. A related problem lies in Turkey's ambivalent, historically determined attitude towards foreign investment. Foreign investors are viewed essentially as would-be providers of new technology rather than partners of development in competitive export industries, the only areas where foreign investors would have a really major interest and where, by the same token, they could make a real contribution to the upgrading of the Turkish industrial potential and the creation of new employment opportunities.

2.10 The choice between export-led industrialization and the creation of a more powerful position in basic industries is complicated by the different position, structures, and objectives of the public and private sectors.

- The public sector is represented, principally, by 13 major State Manufacturing and Mining Enterprises or Holdings with assets ranging between $80 and $580 million (1972). These probably account for about one-half or more of the industrial investments but less than 20 percent of the manufacturing output. They also represent a substantial accumulation of managerial and technical know-how. However, by their very nature (capital-intensive and technology-intensive), these represent industries which have very little employment potential and, at Turkey's present stage of development, little export potential. Moreover, their lack of any corporate links with advanced world industries creates major problems in keeping abreast of technological and market developments.

- The private sector is strategically placed in industries where Turkey has a comparative advantage (textile and clothing, leather and leather products, rubber and plastic manufactures, light metal fabricating and engineering, pharmaceuticals, etc.). Yet, for the most part, these units are too small, inefficient and financially weak to leap into the export market. Many of the larger units in the private sector, like cement plants, glass and ceramics factories, or even the newly created motor vehicle and alloyed steel industries are essentially focused on the domestic market with no foreseeable export potential.

2.11 In our view, industrial exports, in Turkey's case, are a necessary condition for balanced, self-sustained dynamic industrial growth. It is not only that development of certain light, labor-intensive industries is in line with Turkey's competitive advantage. Export growth in these areas would also tend to increase the demand for basic industrial materials (like steel, non-ferrous metals, plastics, synthetic fibres, and equipment). The reverse, however, is not necessarily true: downstream industries will be thwarted where major inputs, although produced domestically, are not made available at the right price, in the right quality and at the right time. The main objective of Chapters IV and V is to identify the export potential of two important industries, which, today for the most part, have a low production efficiency and a weak structure, and to examine what action is required to bring their potential to bear more fully. Before doing so, however, it is important to provide some background regarding the protection and incentives framework which will guide manufacturing investments. This is the object of the next chapter.

III. THE INCENTIVES FRAMEWORK AND INDUSTRIAL EXPORTS

A. Introduction

3.1 The policy of industrialization in a mixed economy has been pursued systematically through the Development Plans that direct investments in the State sector. In the private sector, the Plans are indicative, and investment is not directly controlled. However, through protection and incentives, the Government has a decisive influence on private investment decisions.

3.2 A firm planning a new investment will normally be given investment incentives, including exemption from tariffs on capital equipment and a tax holiday with respect to profits. Its output will be protected against import competition, irrespective of its price disadvantage and, if it wishes to export, it will be assisted by preferential credit and rebate of taxes and duties on inputs. The total impact of the incentives is difficult to follow. The system, as a whole, is complex and its impact varies widely from project to project.

3.3 Historically, main reliance was placed on protection against imports through tariffs, quota restrictions and State Trading Monopoly in imports (in e.g. steel, fertilizers, paper). Gradually, other incentives were introduced (particularly exemption of duties on imported equipment) to raise private investment in manufacturing and to offset disabilities arising from the import regime. Although the combination of State industrial enterprise and State support of manufacturing induced rapid industrial growth, fully protected growth was associated with certain structural weaknesses and inefficiencies. In particular, Turkish industry suffered from a lack of export competitiveness which was bound to interfere with future growth.

3.4 In the 1960's, incentives for export production were introduced in the form of rebates of taxes and duties paid on inputs. These rebates had little initial effect because they were insufficient to offset the combined effect of excess input costs (high domestic prices for certain basic materials) and the overvaluation of the Turkish lira. In 1970, however, the lira was devalued by 67 percent. Since then, the incentives have played an important role in promoting industrial investment and exports.

3.5 In the long run, however, export incentives are of limited value unless the industry itself is suitably structured and inherently or potentially competitive. The experience of Western Europe before and after the creation of the European Economic Community demonstrates that most enterprises become stunted when confined to small national markets and can attain their full potential only under the stimulus of large markets where they have to measure up against the best in the field. In Turkey, highly autarchic, protective policies have led to the development of many industries which either lack comparative advantage or are frozen in an oligopolistic structure. These industries have imposed a high cost structure on much of Turkish industry, and have attracted resources at the expense of other industries that are inherently more competitive and can use Turkey's resources most efficiently in the long term.1/

3.6 Turkey's agreement to enter the EEC (according to which all customs duties and quotas on imports from, and on Turkish exports to, EEC countries would be eliminated over the next two decades) will mean that the protected industries will be forced to adjust to a competitive position, and will open new and varied opportunities for manufacturing exports. It also creates an urgent need for identifying areas of comparative advantage, and for expediting structural change. However, the transition to an open economy must be a gradual process, and, in the interim, it is essential to ensure that the system of incentives is designed to meet new needs and opportunities, particularly in the development of exports.

3.7 To this end this chapter reviews the present protection and incentives framework. Particular attention is paid to its impact upon the perceived expansion potential in textiles/clothing and leather/leather products industries. However, what is said about these industries is believed to be applicable to a range of other industries like light metal fabricating and engineering industries, plastics processing, handicrafts, etc. More generally, the Report also questions whether the system is sufficiently supportive of medium enterprise in a way that would allow them to make their potential economic contribution to Turkey's growth and development. Before examining these specific impacts, however, it will be necessary to scrutinize the more general objectives and structure of the existing framework. Further detail is provided in Annex A.

1/ See Annex H and, for a full description of the impact of the import regime, Anne Krueger, Foreign Trade Regimes and Economic Development: Turkey, National Bureau of Economic Research, New York, 1974.

B. The Incentives Framework and the Exchange Rate

3.8 A few words need to be said about the interrelationship between the exchange rate and the protection/incentives framework. These instruments in practice are always used together to adjust the relationship between domestic and world prices. In Turkey, there are a large number of taxes and other charges on imports in addition to tariffs which differ considerably between various commodities. There are also subsidies (rebates and various incentives) on exports. As a result of these taxes and subsidies, the Turkish prices for traded goods tend to be higher than world market "border" prices converted at the official exchange rate. The weighted average effective exchange rate for all traded goods (the weights being the respective trade volumes) is 22 percent higher than the official exchange rate.

3.9 Diagram II (p. 12) is a partial illustration of the actual Turkish situation in the past three years. The horizontal lines refer to the situation at (a) the present nominal exchange rate, (b) the effective exchange rate. The comparisons shown are between the landed cost of imports and the domestic price of the equivalent items, i.e. they refer to the actually utilized protection rather than the theoretically available protection.

3.10 The unevenness of actually utilized gross protection is quite striking. On the one hand, we have very high price differences for petrochemicals, fertilizers, and paper which are all highly capital intensive. On the other hand, a number of industrial products are priced at or below the world market at the effective exchange rate. Items produced by the industries in which we are particularly interested, namely textiles/clothing and leather/leather products, are all in the latter category, i.e. they appear to be price competitive with respect to imports at the effective exchange rate in spite of the fact that some of their inputs, notably artificial and synthetic fibres, are very expensive.

3.11 The price relatives shown in the diagram cannot be taken as a final measure of protection or support. To measure the total impact of the exchange and trade control systems one needs to calculate the net effective protective rates which would also need to take into account the prices paid for inputs as well as any subsidies or discriminatory taxes. Although detailed calculations have not been made, it appears that the effective protection, if any, on cotton textile products and leather footwear is low (most cotton textiles sold at a lower premium over the world price than the price premium on domestic cotton; prices for domestic leather footwear are cheaper than the cost of equivalent duty free imports). On the other hand, we believe that the gross protection rates for items like petrochemicals, fertilizers, and paper are broadly indicative of (and do, in fact, underestimate) their lack of competitiveness. These industries receive domestic materials at prices which, for the most part, show a far lesser differential in relation to border prices than the prices for the finished product. This means that, in fact, the percentage protection of their conversion margin is considerably higher than the protection of the finished product price.

3.12 One additional point should be made regarding protection. If a product is imported at an effective exchange rate 22 percent higher than the official exchange rate, this does not necessarily mean that the product would become competitive if the official exchange rate was adjusted accordingly. This would be true only where the domestic conversion cost (the sum of "factor" payments for capital and labor and taxes) remains constant which, in turn, would happen only where all charges against capital were for locally made, non-tradeable assets. Where production is highly capital intensive and most of the assets are tradeable, conversion costs could, at the limit, rise nearly pari passu with the exchange rate. A calculation for the Erdemir steel project indicates that an exchange rate adjustment by 22 percent might raise the conversion cost by 19 percent. 1/ In contrast, the competitiveness of industries with a high labor content in their conversion costs is very sensitive to assumptions regarding the exchange rate.

3.13 Since the protection system is associated with an official exchange rate lower than the average effective rate, it discourages exports in the absence of compensatory export payments. Some agricultural and mineral industries export without assistance and are, in fact, taxed through the existing exchange and trade regime. For many industrial products, on the other hand, the Turkish export rebates offset the exchange rate disadvantage, in some cases generously.

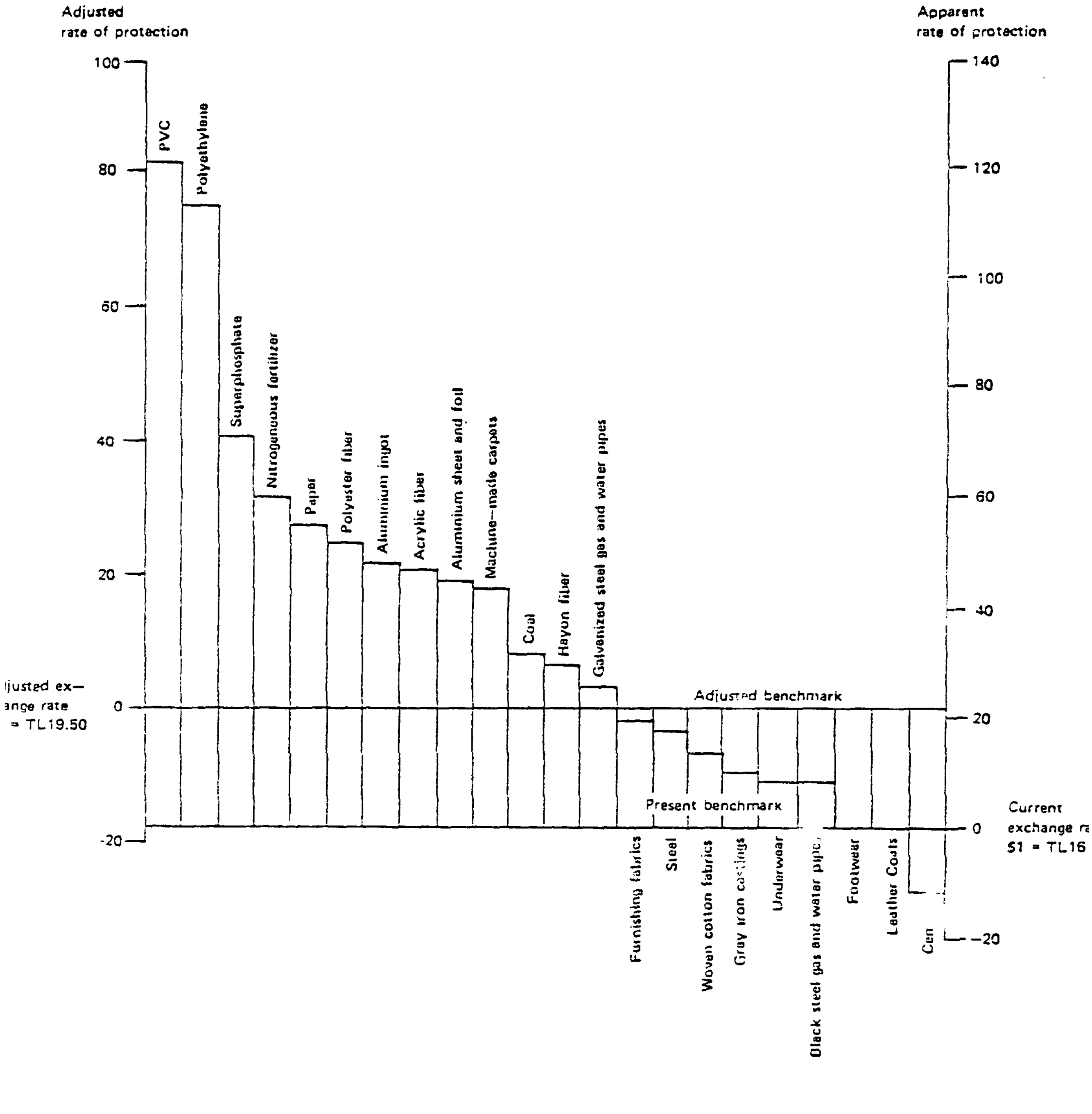
C. Investment Incentives

3.14 Investment incentives are a key policy instrument for directing private industrial investments in accordance with the Government's Five-Year Development Plans. The incentive measures available to each industry are specified in the Annual Plans. Each project sponsor is given an investment certificate, indicating incentives for which he is eligible. It also specifies the commitments he has undertaken, particularly with a view to exports. Because of the over-valuation of the currency (in the technical sense defined above) and the need for infant industry support, few projects are viable without such a certificate. By far the most important investment incentive is the exemption from customs duties and other taxes on imported equipment. Other incentives include prominently a holiday from payment of corporate profit taxes, and medium and long-term credits at concessional rates of interest. Both private and state enterprises are eligible for investment incentives. These incentives are described in detail in Annex A.

3.15 The exemptions from duty have been most useful to the chemicals, textiles and power industries, which in 1974 used 55 percent of the TL 8.3 billion duty exemptions, worth 40 percent of total fixed investment. The tax holidays, which are worth about TL 900 million per annum in income tax foregone, were of most value to the chemicals, textiles and cement industries, which accounted for 62 percent of the TL 11.8 billion investment eligible for this incentive in 1974.

1/ We are talking about the economic cost; the financial cost would rise at the same rate only if all assets were revalued in proportion to their tradeable element, and the contractual returns of creditors and expected returns of shareholders were revised upwards in the same proportion.

RATES OF PROTECTION
BEFORE AND AFTER HYPOTHETICAL EXCHANGE RATE ADJUSTMENTS



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3.16 The design of the incentives encourages capital-intensive production, particularly that with a high degree of import content. Such production can then be sold on the protected domestic market, and receives high effective protection, because of the duty free equipment imports. The incentives have a further, more general effect on exporting industries. The bias towards capital-intensive industries means that labor-intensive industries, for example clothing or leather goods, receive less benefit; in effect, the design of the incentives acts against industries that have potential in export markets because of low labor costs. Of equal importance is the risk that a distorted relationship between capital charges and manpower charges may lead to the adoption of overly capital intensive methods of production. This observation is highly relevant to the recent and planned development of the Turkish textiles industry (para. 4.27).

3.17 The investment incentives affect exports in several other ways. The exemption from customs duties and taxes on imports of equipment gives Turkish industry access to such goods at world prices (indeed subsidized prices, if the effect of the "overvaluation" of the currency is considered). In addition, medium-term credits are made available for export-oriented projects (i.e. projects with planned exports over a five-year period of at least 25 percent of output or more than US$1 million, or 12 1/2 percent/US$1/2 million in underdeveloped regions). These credits have a 4 percent interest subsidy and are exempt from the Banking Transaction Tax of 25 percent of interest and commission charges. The amount of such credit was TL 3.9 billion in 1974, and TL 5.9 billion in 1975, giving a total subsidy and tax exemption of about TL 440 million in the latter year. In 1974, TL 2.5 billion, 64 percent of the credits, were supplied to the textile/clothing industry.

3.18 In spite of these incentives, most export commitments have not been met. In 1974, the only exceptions were textile and clothing projects with planned exports of $21 million and actual $35 million. For other projects, exports at $4 million were well below the target of $17 million. In 1975, no industry met its commitments; actual exports were only $41 million compared to the target of $112 million. Firms have been optimistic in their export projections, and most of the export-oriented credit has really benefited production for the domestic market. In some cases, firms may have deliberately overstated future exports to obtain cheap medium-term credit. The tying of cheap credit to a promise of export is not an efficient way of encouraging exports. It would seem better to give an interest rate subsidy related to the extent to which exports do, in fact take place.

D. Protection

(i) The System.

3.19 A restrictive import regime has been a cornerstone of Turkey's economic policy, both as a means of conserving foreign exchange and of protecting domestic industry. Imports are controlled mainly by quantitative restrictions, but also by customs duties. All imports are licensed. Subject to foreign exchange availability, licenses are issued freely to

goods on "liberalization lists", which are, however, subject to customs duties. Other goods are restricted to annual quotas by value. Finally, imports of many goods, especially consumer goods, are not permitted. Annex A describes the import regime in detail.

3.20 The liberalization lists include raw materials, chemicals, medicines, spare parts and some investment goods, where import is considered necessary to achieve development plan targets, and domestic capacity is unavailable or insufficient. The quota list is more protective and restrictive, covering commodities of which there is some domestic production, or which are considered less essential to development. When domestic production of a good on the liberalization lists starts, the manufacturer can apply to have this good either transferred to the quota list if domestic capacity is inadequate for domestic demand, or to be prohibited if capacity is sufficient to meet demand.

3.21 Examples of tariff rates are shown in Annex Table A.2. Tariffs are generally lower on raw materials than on semi-finished and finished products. Rates vary widely with very high levels on many consumption goods -- 100-150 percent on clothing and leather products -- and lower rates on industrial materials and equipment -- 50 percent on PVC and 40 percent on sewing machines. As already indicated, the waiving or deferral of import duties on equipment reduces the cost of items presently not produced in Turkey.

3.22 In addition to tariffs, other charges on imports include guarantee deposits, municipal taxes, stamp duties, a wharf tax and, for certain products, a "production tax", levied on both domestic production and imports. These additional charges on imports have an important effect in escalating the degree of protection. For example, addition of municipal tax, stamp duty, wharf tax and guarantee deposit can increase a tariff of 35 percent to 64 percent and one of 60 percent to 94 percent. For those commodities subject to production tax, (e.g. steel, cement, rubber) import charges are increased further. With a production tax of 25 percent, the 35 percent duty is increased to 101 percent, and the 60 percent duty to 139 percent.

3.23 A major effect of the customs duties and quantitative restrictions has been to allow the price of Turkish products often to be set above international levels. Price differences are high for products such as plastics, paper and aluminium; on the other hand many textile, clothing and leather products sell at prices, on average, not far above world prices for similar products (see Annex A).

(ii) The Import Regime and Exports

3.24 Turkey's barriers against imports have disadvantaged exports in several ways. Since Turkish manufacturers do not have to worry about import competition, they have less incentive to cut costs, increase productivity or maintain quality standards. In many cases, manufacturers are inward-looking and produce mainly for the profitable domestic market without attempting to export. They often lack knowledge of export markets and the practical aspects of export marketing.

3.25 Those industries which do export or have export potential are put at a disadvantage in international markets when import restrictions raise input costs or force them to use materials which are below acceptable quality for export production. The high prices in Turkey for basic inputs such as aluminium, plastics, synthetic fibres, and pulp and paper make the development of export industries based on these materials difficult. It is true that, in several cases, special support for industrial exports have reduced, or more than offset these higher input costs. This will be examined more closely in our analysis of the textiles/clothing and leather/ leather products industries. However, the problem of inputs is a matter of quality equally, or even more than a matter of price. Moreover, the pervasive effect of the restrictive import regime extends beyond basic materials to items which, though they form a small part of total cost, have an important impact on export capabilities. In the industries which this report considers in detail, exports of leather goods are hampered by the low quality of accessories, such as zippers, studs, frames and lining materials. Clothing manufacturers complain of the poor quality of Turkish-made accessories such as linings and buttons, and the difficulty of obtaining cloth of a type not made in Turkey.

3.26 There are currently two procedures which attempt to mitigate these problems. The Ministry of Commerce can arrange meetings between Turkish suppliers and users following complaints about the price and quality of inputs. However, this ad hoc procedure has been of limited use to date. Secondly, there is provision for temporary imports of raw materials for subsequent re-export. Duties paid on such imports are refunded on export. Such temporary imports, however, are difficult to obtain when there are equivalent, domestically produced goods.

3.27 To counter the problems of poor quality inputs and inability to obtain imported materials, new procedures are necessary to allow exporters to import raw materials with a minimum of red tape. Imports of goods to be used for export production could be admitted temporarily, without limitation by quotas or other quantitative restriction. In many cases, it would not be difficult to ensure with legal sanctions that raw materials imported under such conditions were actually used for export processing.

3.28 While admission of goods for export processing should not be subject to quantitative restrictions, such as quotas or prohibition, domestic suppliers of raw materials and components for export production could still be protected by the tariff. The effect of the tariff in raising costs could then be offset by an export subsidy, so as not to penalize exporters (see next section). Thus, local suppliers of raw materials would not be at a disadvantage on price grounds; however, if their product was not of sufficient quality to be used in export production, exporters could import suitable materials free of import restriction. This would put pressure on domestic manufacturers to increase their efficiency, leading to lower costs and better qualities on the domestic market as well as on the export market.

3.29 The minimum tariff would need to be 22 percent to compensate for the difference between the official exchange rate and the shadow exchange rate (See Annex B). Some consideration should be given to a higher rate, i.e.

a positive stimulus or possibly special incentives to suppliers of materials eventually used in export production. For example, provision of export subsidies to suppliers of woven cloth used in clothing for export would encourage the maintenance of quality standards and would lead suppliers to seek customers who could export. In fact, in Korea, a country with an enormous success in exports, export incentives are extended to domestic producers of intermediate inputs.

3.30 The introduction of a broad drawback and quota-free entry scheme for imported inputs for use in export production would entail additional administrative complexity, in setting wastage allowances, refund rates, etc.; however, the Ministry of Commerce has a large staff administering the present system of import control and export incentives, and should be able to handle any administrative problems that arise.

3.31 While the mission considers that broad provision for unrestricted import for export processing is the preferred policy, another, much more limited approach, would be to establish export-processing zones. Raw materials and capital equipment would be freely imported into such a zone under bond for export processing, thus cutting redtape considerably.

3.32 From a purely technical point of view, it would be necessary to consider this proposal only if a broader scheme cannot be introduced. Nevertheless, it seems likely that foreign investors would be more attracted by the export zone alternative. Foreign investments in export industries (preferably in participation with domestic investors and with a long-run commitment, as distinguished from so-called "foot-loose" industries) could provide much additional foreign exchange and employment, and could demonstrate new technology and management concepts to domestic entrepreneurs. It is recognized that the approach to foreign investment is partly determined by political value judgements. Here, only the economic aspects are considered.

3.33 The aim of the above suggestions is not to radically change the thrust of present policies but rather to make them more effective. Nevertheless, both drawback and export processing zone arrangements intrinsically involve considerable red tape and are to that extent inimical to the development of exports. They should, therefore, be reserved for situations where the domestic supplier industries have a vital domestic market position to defend, and where it is necessary to make a distinction between imported inputs used for export production and those used in products intended for the domestic market. Where this is not true, it would be far simpler and more efficient to replace quantitative restrictions and prohibitions with up-dated import duties. Such selective shifting of protection from quantitative restrictions to tariffs could be quite flexibly integrated within the framework of the Association Agreement with the Common Market.

E. Export Policy

3.34 The main incentives specifically related to exports are tax rebates, assistance in export marketing, and export credits on preferential terms. These incentives are described in detail in Annex A, Part C.

(i) Export Rebates

Rebates are paid on exports as a percentage of the export price. Rebate rates vary between products, and range from 5 to 45 percent of the f.o.b. price. In 1975, TL 1351 million were paid in rebates, 18.6 percent of the value of manufacturing exports. The amounts paid to different industries vary markedly; for example, 1975 rebates to the textile industry were worth 27 percent of export value, whereas the leather industry received rebates valued at 17 percent (see Annex Table A.5).

Export Rebates - Manufacturing Sector, 1973-75

Year	Total Manufacturing Exports (TL Million)	Exports Eligible for Rebate (TL Million)	Share in Total Exports (percent)	Value of Rebates (TL Million)	Average Rebate (percent)
1973	6090	4396	72.2	889	14.6
1974	8373	5971	71.3	888	10.6
1975	7274	7099	97.6	1351	18.6

Source: Ministry of Commerce, Ministry of Finance

3.35 The official reason for the rebates is to offset (a) the domestic taxes incurred in the manufacture of the product, and (b) import duties and related charges.1/ However, the incidence of the rebates varies widely, and, in some cases, the rebates more than offset tariffs and excess taxes on inputs (although they cannot overcome the problems of input quality described in paras. 3.22-3.25 above). Rebates that more than offset tariffs on inputs and excess taxes can be justified as (a) a means of compensating exporters for the overvaluation of the exchange rate arising from the import regime, and (b) additional short-term assistance to industries that have export potential, but need time to develop export markets. 2/

1/ A need to compensate export manufacturers for domestic taxes arises only insofar as the incidence of these taxes on export conversion is higher than their average on total domestic prodution. Where there is no discriminatory incidence, export rebating should be regarded as a subsidy.

2/ At present, for developing countries, direct export subsidies must be notified to the Contracting Parties of the GATT, and may invite retaliation through countervailing duties. In principle, direct subsidies appear justified for developing countries trying to establish industrial export markets, whereas they would seldom be justified for exports from the developed countries.

3.36 The export rebates have widely varying, often fortuitous, impact on different exports, and the mission considers that this impact could with advantage be reviewed by the Government to ensure consistency, i.e. that processes with similar value added are, in general, afforded the same degree of effective assistance (see Annex A), sufficient to compensate for the exchange rate disadvantage, and with any desired additional infant industry assistance clearly visible. The easing and removal of import restrictions to which Turkey is committed in the long run will gradually remove any anomalies in assistance and, at the same time, allow the appropriate adjustment, if any, of the exchange rate. However, at this juncture, it is a matter of some urgency to adjust the incentives system in line with Turkey's long-run comparative advantage and to allow industrial investments to be guided accordingly.

3.37 In the specific case of the textiles/clothing and leather products industries the level of export assistance appears to be of roughly the correct order of magnitude. Woven cotton cloth is eligible for a rebate of 40 percent or 45 percent if a firm's exports of all products exceed $1.8 million per year. The respective rebate figures for cotton yarn are 20 and 25 percent, and for leather products, including leather clothing, 15 and 20 percent. After allowing for excess input costs and the exchange rate overvaluation, processes in these industries receive positive effective rates of assistance (see Annex A, page 8); the highest rates apply to woven cotton and knitted underwear with effective rates estimated at about 33 percent. Positive assistance to weaving, garment and leather goods manufacture is reasonable, given their export potential and their underdeveloped status in comparison to Western Europe. The current level of assistance is generous and the poor export performance of these industries (apart from leather garments) is not due to inadequate financial assistance, but to structural, productivity and quality problems. Policies to overcome these difficulties are described in the Textiles and Leather Chapters of this Report. At the same time increased emphasis must also be placed on export promotion, a subject discussed in the next section.

(ii) Export Promotion

3.38 Government assistance for export marketing in Turkey is limited. Commercial counsellors attached to Embassies in overseas countries (about 42) provide general information on market trends and opportunities for exports. However, their remoteness from Turkish exporters limits their effectiveness. The Study Center for Export Promotion (IGEME) established by Law in 1960, is financed by contributions from the individual chambers and export associations and from the Government. Its functions are to advise the Government on export promotion and to provide services to exporters, such as studies of export markets and intelligence and seminars on export procedures and incentives. IGEME's budget for 1976 is TL 14.6 million, a relatively small amount.

3.39 In fact, IGEME's budget is not large enough to permit it to hire a suitable number of experts and consultants with experience in international marketing. And, while its broad desk studies can point to general opportunities, they are of little help to an individual firm wishing to develop

overseas markets. Clearly, Turkey needs to devote more of an effort to export promotion and marketing - more in line with what has been done in other countries, both industrialized and developing. This need is particularly acute for two reasons. Because of past policies of import substitution focussing on the domestic market, Turkish businessmen lack familiarity with overseas markets. Secondly, a concentrated push is needed to establish quick recognition of Turkish products in Western Europe, at a moment when the Common Market has opened up new opportunities for Turkish export.

3.40 Towards this end, it might be appropriate to transform IGEME into an Export Promotion Center which would mount a co-ordinated export drive and support program along the following lines:

- establish a network of trade commissioners and agents in overseas markets. These representatives should have commercial experience and would actively seek export markets; their performance would be judged on a commercial basis, mainly by the amount of new business created;

- participate in trade fairs; as a general principle giving only broad assistance, for example through subsidized travel or rent of stands. Business firms themselves should be free to arrange the exhibits;

- develop exhibition centers in Turkey and in key overseas markets;

- advise exporters on marketing techniques and market opportunities;

- formulate new policies to assist exporters, for example, the institution of credit insurance facilities, or the provision of improved transport links;

- organize visits to Turkey by foreign importers and investors.

The proposed center might also be given the task of assisting would-be foreign investors, particularly in the export industries, in clearing the administrative hurdles with respect to their operations in Turkey. The evolution of the center's activities would, of course, be harmonized with the development of the various industries export potential. It would be futile to oversell export products before they could be delivered in the necessary volume and quality.

3.41 The exact organization and financing of the center would be a matter for further study. One could envisage a semi-autonomous corporation (i.e. outside the civil service), with both public and business representatives

on its board. The board (or "council") should clearly be headed by a person of considerable political influence with easy assess to the Council of Ministers.1/ In the early stages, a high proportion of the financing should be provided by the State; certain budget receipts might be earmarked for this purpose. Eventually, some of the services performed by the center should be put on a self-financing basis, or paid in part through membership fees.

3.42 The Export Promotion Center might have a special wing concerned with developing exports by MSI or SSI. IGEME has already begun to assist small exporters by advice on the formation of export co-operatives. Some success has been obtained, e.g. with an export order for shotguns from a local village co-operative.

(iii) Export Credit Policy

3.43 Credits for industrial exports are normally available only for short-term financing, say up to nine months. The lack of longer-term financing is of course a substantial hardship for would-be exporters of capital equipment. On the other hand, short-term financing of industrial exports is subsidized in several ways. First, export credit rates are lower than on normal credits. The maximum rate of interest on export credits is 10.5 percent (the commercial banks rediscount such credits at the Central Bank at 9 percent). This compares with the general maximum interest rate for short term credit of 11.5 percent. Secondly, export credits are exempted from the 25 percent Banking Transaction tax normally payable on interest and commissions. Since commissions often exceed 3 percent, the total tax saving will correspond to about 4 percentage points. Thirdly, all export credits are eligible for a Government interest subsidy of 3 percent. Altogether, the cost of credit excluding commissions will be about 7.5 percent for export credits, as contrasted with a minimum of about 14.5 percent for domestic credits. Total export credits (excluding agriculture) increased from TL 1763 million in 1971 to TL 5,199 million in the 10 months to October 1975. The supply of export credit appears reasonable. Certainly, in the textile and leather industries, access to export financing on reasonable terms raises no serious problem.

F. Conclusion

3.44 An aggressive strategy of export expansion is essential. Such an effort should (a) overcome the disadvantages to export imposed by the import regime, and (b) encourage a more outward-looking and positive approach to export by Turkish businessmen. The mission believes that the following broad export policies should be considered by the Turkish Government:2/

1/ In other developing countries, similar bodies have been headed by the Minister of Trade, the Minister of Economics or even the President of the Republic.

2/ Specific recommendations for projects in the textiles/clothing and leather/leather products industries are made in Chs. IV and V.

- Revision of the system of export rebates to ensure that they cover disadvantages arising from the import regime, and provide some degree of infant industry protection for developing export industries.

- Unrestricted entry of imported inputs for subsequent use in export processing.

- The formation of an Export Promotion Center to provide market intelligence and direct marketing assistance.

3.45 Most importantly, the streamlining of incentives must be coordinated with studies of individual industries with an export potential. Based on these studies, programs should be developed which would assist these industries to achieve an efficient structure by rapidly improving production and marketing efficiencies. The next three chapters are devoted to this topic.

3.46 The above suggestions do not address themselves to the major bias in the incentives system - the encouragement of capital-intensive industries and capital-intensive means of production through the waiving of import duties on imported equipment and the availability of finance at subsidized rates of interest. It could be argued that Turkey's industrial orientation is not greatly affected since this is fixed through the Five-Year Plans. Yet, as a minimum it would seem desirable to change the system in such a manner that the implicit burden on the economy is made explicit and a matter of public awareness.

IV. THE TEXTILES AND CLOTHING INDUSTRY 1/

A. Introduction

4.1 The textile industry, including clothing, in 1975, contributed about 15 percent of the total value added in manufacturing, about 20 percent of industrial employment, and about 25 percent of industrial exports. Turkey is virtually self-sufficient in textile manufactures though imports of textile fibres (wool and artificial and synthetic fibres or intermediates) are fairly important.2/ The industry has grown rapidly in recent years as indicated by the increase in employment from about 80,000 in 1960 to about 140,000 in 1973 (excluding establishments with less than 10 persons in both years). Employment among SSI also increased; the number engaged in SSI in footwear, other wearing apparel and make-up textile goods" rose from 29,000 in 1963 to 80,000 in 1970, presumably reflecting urban growth and replacement of man-made clothing by the work of small tailoring shops. Nevertheless, the share of the textile industry in manufacturing value added has been consistently declining from 22 percent in 1963 to 20 percent in 1970 and 15 percent in 1973 (again excluding establishments with less than 10 persons). Even the striking increase in exports from less than $10 million in 1968 to $150 million in 1974, at closer inspection, provides only modest scope for encouragement. It consists mainly of cotton yarns where the value added by manufacture is only about 15 percent higher than the value of the cotton used in its manufacture. Moreover, during the last two years, exports have had to be heavily subsidized 3/ in a fiercely competitive market, and the prognosis is not too favorable. Nevertheless, the mission believes that there is substantial unexploited potential for Turkish textile exports to the European Common market.

B. Present Structure of the Industry

4.2 In Turkey's textiles and garments production, small establishments predominate. In number of establishments, the make-up sector vastly outranks the textile sector; the latter, however, employs more than twice as many workers.

1/ This chapter of the report draws mainly on a comprehensive study carried out for the mission. See Werner International, Survey of the Turkish Textile Industry and Its Export Potential, Vol. I and II, July 30, 1976 (393 pps). Valuable inputs for this report were also provided by a recent study by the Turkish Industrial Development Bank (TSKB): The Turkish Cotton Textile Industry (June 1976).

2/ Imported artificial and synthetic fibres totalled 43,530 tons in 1975 and imported (fine) wools 9,000 tons.

3/ To avoid misunderstanding, we should add that the subsidy is intended mainly to exonerate exports from various local taxes and other charges, a procedure practiced by the Common Market countries as well and approved by GATT.

Establishments and Employment

in the Textiles and Make-up Industries

		1963		1970	
		Establ.	Empl.(th)	Establ.	Empl.(th)
Textiles	L	711	104.7	926	130.7
	S	10,197	31.5	7,856	18.6
Make-up	L	25	0.7	98 a/	6.3 a/
	S	32,700	60.8	(38,000)b/	(50.5)b/

L - Establishments employing 10 or more persons

S - Establishments employing less than 10 persons

a/ Figures for 1973

b/ Rough estimate on the assumption that the share of footwear establishments in the combined "Footwear and Clothing" group was the same in 1970 as in 1963.

4.3 In the textile industry proper, according to the 1963 Census, the cotton sector 1/ accounted for nearly 60 percent of total employment as compared to 18 percent for the woolen and worsteds subsector. The remaining 22 percent were divided fairly evenly between silk and synthetic fibre textiles, knitting, carpet-making, and sundry activities (finishing, rope and cordage making). Though 1970 Census details are not yet available, it is clear that, relatively speaking, the importance of cotton (in relation to wool) has increased, the knitting sector has expanded, and the carpet trade is stagnating.

4.4 SSI, typically employing three persons or less in this trade, are said to account for one-quarter of the total production in cotton weaving and in knitting and one-half of the wool fabrics produced.2/ Employmentwise,

1/ The cotton industry is defined in a wide sense to include the spinning, weaving and finishing of cotton-type (artificial and synthetic) fibres.

2/ Consultant's report, op. cit., p. 11. According to the 1963 Census, the small establishments were important in knitting but relatively unimportant in the weaving of cotton and wool fabrics. Although there may have been a far-reaching structural change during the last decade (e.g. through the sale of used looms to small manufacturers as observed by the mission, particularly in the Istanbul area), the production share attributed to SSI by the consultants could conceivably be on the high side. It should be noted that the SSI share in the total cotton and woolen sector employment is far lower than their share in weaving since SSI only seldom engage in activities like cotton ginning, wool scouring, cotton and wool spinning, or textile finishing.

small establishments predominate in carpet-making and rival large establishments in knitting. However, in the 1963 Census, they accounted for only 18 percent of the total employment in the cotton sector (including silk and synthetic fibres) and 8 percent in woolen and worsteds; since then their share has no doubt declined.

4.5 The textile industry has first call on a vast domestic supply of cotton. Production of raw cotton grew from 200,000 tons in 1960 to 400,000 tons in 1967 and a record 600,000 tons in 1974. Most of this increase was due to improved yields; compared to a tripling or production, the cultivated area expanded by only 50 percent. Typically, about one-half of the production was exported except in 1974, when due to the world textile depression, exports were cut in half. The woolen industry is largely dependent upon domestic materials (coarse wool and a rapidly increasing proportion of man-made fibres). Imports of merino wools are strictly controlled, and there is a consequent shortage of better quality fabrics. The industry also uses an estimated 20,000 tons of man-made fibres. Turkish production or rayon was discontinued in 1974. Turkey has an export surplus in polyester yarn and staple. In nylon and acrylic fibres, domestic production covers only about one-half of the requirements, and prices are exceedingly high by international standards (see below, para 4.21).

4.6 The Turkish cotton spinning industry is going through a period of revolutionary change. Between 1972 and 1977, it is expected that capacities will have increased about 2.5 times, i.e. more than enough to process the present cotton crop. The number of mills would grow from 75 to 102, i.e. by 36 percent; their average size from 21,000 spindles to 34,000 spindles (60 percent). The proportion of spindles belonging to integrated mills (weaving or knitting) would fall drastically from nearly 75 percent in 1972 to only 45 percent by 1977. In fact, integrated mills in the private sector are not expected to add to their spinning capacity between 1975 and 1978. There will be great pressure on independent spinning plants (many of whom are new and relatively inefficient) to find a market for their output, either locally or for export.

4.7 In cotton weaving, there are more looms in the small industry sector (23,800 looms, typically operated by small units owning a handful of looms and employing mainly family labor) than among registered firms. The latter are always integrated; all have their own spinning mills and, in many cases, also dyeing, printing, and other finishing departments. In the five-year period 1972-77, the weaving capacity of non-registered firms is expected to decline as their production becomes less competitive. In the end, total weaving capacity would grow by only about 25 percent.

4.8 Because of a large population and the climate, Turkey has a large woolen and worsteds industry. Small weavers account for two-thirds of the total number of looms and one-half of the total production. The capacity utilization as compared to a normal standard is about 65 percent. The consultants describe the industry as fragmented and inefficient.

4.9 Apart from fabrics, there is a substantial production of hand-made carpets, mainly in cottage industries. The largest plant, operated by the State Sumerbank Holding, accounts for less than one percent of the total production of carpets estimated at about 6 million sq. m., of which the rapidly increasing production of machine-made carpets now accounts for about 25 percent. Carpet exports are about 500 tons per year, corresponding to roughly one percent of the wool clip. Exports of other wool products are negligible.

4.10 The public sector (the textile mills administered by the Sumerbank Holding), in 1963, accounted for about 29 percent of industrial-type employment in the textile sector (establishments employing 10 or more people). This proportion has lately been declining. Though the number of spindles in the public cotton sector is expected to increase from about 400,000 in 1972 to 500,000 in 1977, its share in the total number of spindles is expected to fall from 31 to 17 percent.1/ Similarly, though the public sector is also planning to replace a number of narrow looms with wide looms (with more than twice the output per loom), its share in the total cotton weaving capacity of registered firms expected to fall from 44 to 36 percent. In the woolen and worsteds sector, Sumerbank accounts for about 14 percent of the weaving capacity and 19 percent of the spinning capacity, i.e. it is a major supplier of yarn to the small independent weavers.

4.11 The Turkish knitwear industry operates about 3,000 knitting machines in 187 establishments; about one quarter of the latter are SSI. Only one company is backward-integrated with spinning and finishing departments. Production in 1975 is estimated at about 21,000 tons, mainly underwear and finished knitwear garments. Production is only about one third of the available one-shift capacity.

4.12 The make-up sector, especially the cotton and cotton-type garments, is the fastest growing sector of the Turkish textile industry. In 1963, there were only 25 registered establishments. By 1976, there were about 500; half of these were located in the Istanbul area. The industry at present is believed to be processing about 80,000 tons of fabric. Many of the larger units are subsidiaries or departments of weaving and knitting enterprises, particularly the latter.

C. The Export Picture

4.13 Imports of textiles into Western Europe are governed by the Multinational Fibre Agreement covering the four-year period 1973-1977. This would seem to restrict primarily imports from the Far East and Eastern Europe. Turkey, as an associate member of EEC, and certain other developing countries in the Mediterranean basis and Africa have had free access to the Common Market (no quantitative restrictions). On the other hand, tariff duties have been payable on all imports above certain small tariff-free quotas. These tariffs are presently 3-6 percent ad valorem on cotton yarn and 9.7-11.2 percent on

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1/ TSKB, op. cit. - According to the consultants (p. 46), Sumerbank now controls 20 percent of the cotton spinning capacity and 28 percent of the cotton weaving capacity.

fabrics, but, under the terms of Turkey's agreement with the Common Market, these will be gradually eliminated, reaching zero by 1985. Made-up goods are completely exonerated from both duties and quotas. As far as the mission knows, there is no way in which the EEC could unilaterally abrogate these preferences. On the other hand, the textile industry in Western Europe is smarting, and there is always the possibility that the Community might want to negotiate an adjustment in the textile trade as a link in some wider economic and political agreement.

4.14 The main textile exports at present are cotton yarn ($35.8 million in 1975) and fabrics ($18.5 million). Cotton products exports in 1975 totalled 44,000 tons; over four-fifths by weight were in the form of yarn and less than 10 percent each in fabrics and made-up goods. Wool fabrics exports were negligible, whereas carpet exports totalled 500 tons. Exports of mohair (fibre) were approximately 3,000 tons valued at $10 million. Although cotton yarn exports doubled between 1970 and 1975, production is no longer profitable, the world market famine in cotton yarns having, at least temporarily, changed into a surplus. Cotton fabrics exports reached a peak of about 5,400 tons in 1972 and 1973 and, inspite of substantial incentives, declined to 4,000 tons in 1974 and 1975. The proportion of grey goods has fallen while terry/chenille goods have emerged as somewhat of a specialty. The rapid increase in garments exports, according to the consultants, is due mainly to active enquiries by European buyers/distributors; the Turkish industry has shown little initiative in canvassing export markets.

4.15 It is somewhat anomalous that the main Turkish textile exports should be in cotton fibre, the coarse grades of cotton yarn, and mohair. Turkey's advantage in pushing towards a higher degree of fabrication is evidenced by the fact that cotton in 1975 sold at about $1,300 per ton, whereas the average export price for yarn was about $1,600 and the average export price for fabric about $4,500. Exports are mainly to Common Market countries. As we shall see in the next two sections, there is an enormous market in Western Europe, and Turkey has a good chance of grabbing a substantial share of that market.

D. Opportunities in the European Common Market

4.16 The best opportunities for Turkish exports exist in the cotton sector as distinguished from the woolen and worsted sector. The breakdown of the Western European import market for products made of cotton and cotton-type fibres, according to different stages of processing, was as follows in 1973/75:

Net Imports 1975 1/

	Tons (th.)	US $ (million)	Imports/Consumption %
Yarn	1,243	-	24
Grey fabrics Industrial fabrics Finished fabrics	660	-	37
Apparel & household textiles	57 2/	3,302 3/	25 4/

1/ Excluding intra-EEC trade, except as noted.

2/ Data for 1973; cotton garments only. Total imports of made-up goods were about one-third higher in 1974 than in 1973.

3/ Total imports of made-up goods in 1974, including intra-EEC trade. Imports by other Western Europe countries (e.g. Sweden, Switzerland), which have generally followed less protective policies, were almost as high as imports by the EEC countries.

4/ Figure applies to West Germany only.

Looking at the original six EEC members only, the apparel and knitwear market is by far the most dynamic one, with total imports growing from $0.8 billion equivalent in 1970 to $3.3 billion in 1974, i.e. they roughly quadrupled. In West Germany, where import dependence is perhaps the heaviest, imports of made-up goods in 1974 accounted for about one-quarter of the total consumption by value. In contrast, EEC fabrics imports over the same period only rose by about 65 percent. They fell between 1974 and 1975 from 362,000 tons to 319,000 tons, accounting in both years for about 35 percent of total consumption (Table 4.1). The consultants expect fabrics exporters in developing countries to push Western Europe competitors against the wall, taking advantage of lower wage rates and more modern machine parks and gradually learning to supply quality cloth and quality market service. As Western Europe demand picks up, they even predict some increase in direct fabric imports, i.e. over and above an increase in the foreign fabrics content of imported made-up goods. Consumption of cotton and cotton-type yarn in the six EEC countries in 1970/75 oscillated within the narrow range of 1.25-1.30 million tons; between 1974 and 1975, countries from outside the area increased their share in total consumption from 13 to 24 percent, and the European industry sounded an alarm requesting stricter import controls. Over the last five years, Turkey has emerged as one of the most aggressive exporters of cotton yarn, as may be seen from the following summary:

Some Trade Data for Cotton Yarn

(th. metric tons)

	1971	1972	1973	1974
EEC imports	147.7	198.3	223.5	227.5
EEC exports	84.6	92.9	105.6	109.0
Net imports	63.1	105.4	117.9	118.5
Major world exporters				
Pakistan	109.6	160.7	163.3	77.3
Egypt	42.1	46.6	45.3	45.0 (Est)
Brazil	6.5	16.0	29.3	35.0 (Est)
Portugal	22.6	29.4	28.1	22.3
Turkey	20.9	23.6	32.8	33.4

4.17 The recent tendency is for the Western Europe garments industry to migrate to close-by developing or semi-industrialized countries with a decisive advantage in labor costs, e.g. Portugal, Tunisia, or Yugoslavia. This is being done either by creating subsidiaries or partnerships, or sometimes by concluding long-term arrangements with suppliers in those countries. In the beginning the new suppliers may be processing fabrics made in the country from which garments production was transferred, but gradually they will come under strong pressure to buy fabrics on the world market or initiate their own production of fabrics.

4.18 The decline in clothing production in industrial countries consequently leads to some shrinkage in fabrics consumption. This contraction of the market militates against import of fabrics. Moreover, European weavers and finishers have an advantage in the availability of cheap yarns and grey cloth on the world market and in quality, product development, and delivery.

4.19 Yarn production originally appeared as the easiest sector for quick entry by developing countries like Turkey (establishments of smaller size, less market and technical know-how, lesser importance of nearness to markets). In many cases the incentives structure in developing countries may also have favored yarn exports. But it is not clear that this is their major area of medium-run comparative advantage.

E. Turkey's Comparative Advantage

4.20 Turkey's main assets as a textile exporter to the Common Market are relatively low wages and geographical nearness. Her development strategy for the textiles sector might, therefore, be inspired by the following considerations:

(a) Priority emphasis on an export-oriented make-up sector focused on the nine EEC countries which between them represent 40 percent of the world imports of textiles. Present Turkish exports (1974) account for only about one percent of this expanding import market. The Bank's consultants feel that a proper vehicle for such development would be make-up factories employing about 350 workers, and that 3-6 of these factories might form joint marketing organizations. They also feel that the main export offensive should be in high volume items (household articles 1/ like bedsheets and towels are prominently mentioned although opportunities also exist in more labor-intensive items like raincoats, overalls, jeans, cotton dresses and blouses, terry-cloth beachwear, and underwear. Marketing would be done preferably by foreign agents for the Turkish firms. Though paying homage to the achievements of a few Turkish pioneers in the production of fancy or exclusive made-up articles (particularly with reference to their stylish design), the consultants do not recommend Turkey to push this sector of the make-up trade. Apparently, their main doubts are about the quality of fabrics and accessories. They may be secondary doubts about the quality of management and marketing arrangements. The mission agrees that this type of industry will require a longer period of development. Moreover, the total volume is low in relation to the market for ordinary items. Yet, its economic potential is still very high. The designing skills and flair of the pioneers could be turned to advantage in larger markets; skilled workers are available or could be trained, the cost of making up exclusive items to individual design in a limited number of copies would be a fraction of the cost in Western Europe. While costs in certain Far Eastern countries are even lower, Turkish proximity to the fashion centers and major markets could be turned to a major advantage. Turkey has already made

1/ Household textiles in Western Europe are typically made up within the same concern manufacturing the fabric or are imported in made-up form. In other words, there appears to be only a relatively small market for towelling or sheeting, etc.

a mark in leather garments (see para. 5.14) where it should now move increasingly to more highly priced and exclusive items. The leather coat fashion is not necessarily a durable one, and the country as well as the entrepreneurs and workers in the leather garments industry would benefit from greater diversification. If Istanbul could be developed into a fashion capital, this would also attract a large additional volume of tourism. The State, therefore, has every reason to encourage an export-oriented fashion industry; this support should be geared to the expected employment and other benefits.

(b) Exports of woven fabrics will be difficult. The consultants base this judgment on the following considerations. The most fundamental conditions for success are high quality and absolute adherence to set delivery dates. The Turkish textile manufacturers, with a few exceptions, have not yet attained that level. It also calls for scientifically conducted market surveys and long-range planning, normally with outside professional assistance.

In standard grey goods, competition is fierce and prices for good qualities closely calculated, while prices for off-qualities are severely depressed. Presumably, the same situation exists with respect to simple dyed fabrics.

In principle, the production of printed and knit more highly fashioned fabrics is of particular interest to Turkey. This type of product has a very high labor content. It is suited to manufacture in small units, say 100-200 operators, and would, therefore, fit the present structure of the industry, particularly in the Istanbul area. Yet, at the same time, high and flawless quality and close continuous communication between the weaver and his industrial customer are crucial. According to the consultants (p. 335), it is an axiom that only a highly efficient industry can produce high quality goods.

There is a huge market for industrial fabrics 1/ at generally favorable prices. Within that sector,

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1/ The range of industrial fabrics is enormous, including a vast variety of constructions and end uses, such as abrasives, awnings, bags and bagging, belting, bookbinding, carpet backing, carpet underlay, substrates for coating, surgical cloths, electrical insulation, filtration, flags, hose, industrial wipes, labels, sails, saturated wovens, sleeping bags, tents, tobacco cloth, industrial tape, zipper tape, foundation auto fabric, air supported and related structures, casket fabrics, backing for quilted bed-spreads, backing for tufted bed-spreads, interlinings, window shades.

consumption of non-woven fabrics has been expanding at a geometric rate. Quality standards are extremely high. The needs for consistent high quality and constant product development dictate a close, long-term manufacturer-consumer relationship. Considering also the long development time, the costly marketing investment, and the high quality demands, the consultants recommend against Turkish entry into this market. Nevertheless, two exceptions to this conclusion occur to us. Could not production of industrial fabrics be initiated by a foreign manufacturer already in this line who would be looking for the edge provided by low Turkish wage rates or, alternatively, by a consumer anxious to develop a rival source of supply in partnership with one of the premier Turkish textile manufacturers? The latter, in turn, would be motivated by a desire to upgrade his own product line and might eventually be willing to subcontract a portion of his existing line to some other manufacturer or possibly to cede it to him.

Turkey has an export potential in articles of mohair; a feasibility study for this branch is recommended.

(c) Opportunities for knitwear production and exports remain to be explored. Substantial expansion has taken place in recent years in Turkish knitwear manufacture (including some exports), and a considerable export potential exists. Knitted fabrics are, for the most part, produced by leading knitwear manufacturers. In 1975, knitwear already accounted for about 10 percent by weight of Turkey's textile output. The consultants feel that the opportunities for exporting standard articles of knitwear are somewhat constrained by competition from low-wage, efficient exporters, particularly in the Far East. The opportunities for exporting more fashion-oriented garments made from acrylics, wool, or textured polyester are noted, but it is suggested that these markets be actively canvassed only after the Turkish textile industry had established a reputation for reliable quality and reliable delivery in other less sophisticated segments of the textile trade.

(d) Yarn exports should be gradually deemphasized. The yarn market, for the most part, is a bulk market where yarns of standard quality are sold. The consultants expect this market to remain severely competitive and possibly depressed. Even in medium yarns (let alone fine yarns), the quality demanded is higher than the typical product of the Turkish spinning mills. In coarser yarns, price competition is fierce. Nevertheless, some Turkish plants have

attained a high standard, and the consultants believe Turkish yarn could be sold at a profit based on the present tax refund which apparently provides some "infant industry" support, corresponding to about 12 percent of the value added. They recommend that a continued effort be made to market medium yarns in Western Europe. This effort, however, would be geared towards the improved utilization of existing capacities; no capacity additions are recommended. The Mission accepts the plausibility of the consultants' argument that Turkey should not plan an export surplus in yarns. In the interim, i.e. before the domestic market can absorb the present production of the spinning mills, the position of independent spinning mills is particularly vulnerable, and business failures among these in a near future are said to be inevitable. Integrated mills are in a better position because of the wide profit margins in the protected weaving sector. TSKB could play a role in an eventual financial restructuring of the most exposed mills.

F. Transition to a Successful Export Industry

4.21 The problems of the industry and the ways to their solution may be diagnosed as follows:

(a) Productivity and quality. The consultants repeatedly stress (e.g. p. 316) that quality and productivity go together and that low quality either rules out certain markets altogether or forces a manufacturer to disproportionate price concessions. The best Turkish manufacturers have already achieved Western Europe productivity, but the typical productivities are low, i.e. only about 40 percent of Western Europe productivities in the making-up sector. Much of the gap can be closed through outside technical assistance covering a wide range of activities: planning and start-up of new installations, improvement of existing installations, intensified in-plant training (and retraining), quality improvement, installation of management controls, etc. The consultants believe that remedial action in this area is more urgent than any other measure. There may also be a need to revamp th industry structure (see below). Finally, the workers need to become closely associated with the productivity drive. They have a right to share in the benefits of increased productivity but the textile industry can no longer be looked upon as a protected home market industry, and textile workers should not expect their wages and living standards to deviate drastically from wages in other trades for similar skills.

(b) Marketing. In an export-oriented industry, proper intelligence on market trends and proper organization of marketing are crucially important. Research in depth should reveal trends in demand (volume, designs, qualities) as well as strengths, weaknesses, and market strategies of major competitors. This type of information will help in defining both long-term strategies and short-term adjustments of marketing and production. It will document (or disprove) hypotheses advanced in the previous section regarding the opportunities and constraints with respect to Turkish textile exports to the Common Market. The main burden of developing appropriate marketing and sales strategies would necessarily fall upon the larger enterprises in the industry. Much could be done as well by groups of medium-sized and small enterprises associated for this purpose and hiring expert assistance. The vast majority of medium-sized and small enterprises would, in all likelihood, play a more passive role, processing on commission for the export leaders.

The consultants' report (chapter VI) dissects the weaknesses of the present marketing methods. In yarns, where considerable quantities have been exported, Turkey is regarded as a "risky supplier": delivery dates are not regularly adhered to, quality is frequently suspect, and contracts are not universally honored. Yet, exporting staple products like yarns or grey goods is probably easier than exporting made-up articles and certainly easier than exporting printcloth or industrial fabrics. The obvious prescription is, therefore, as follows: When exporting to the Common Market, be sure that your effort is highly professional. Begin with a careful market survey and identification of distribution channels. Once contact has been established, bend every effort towards a substantial volume of business under a long-term marketing arrangement. Customer service and deliveries are strategically important; they must be impeccable.

(c) Raw Materials. Although domestic prices for cotton fibre have at times been below world prices, they are now some 20 percent higher. Similarly, prices for rayon staple, acrylic and polyester fibres, at the present exchange rate, are respectively about 45, 60, and 70 percent above the world market level.

RAW MATERIAL PRICE COMPARISON - T.L. PER Kg.

TYPE	TURKEY	INTERNATIONAL
Cotton grade I	29 (delivered)	24 (C.I.F. Liverpool)
Rayon staple	23	16
Acrylic "	35	21.60
Polyester "	36	21.0

It is true that, to some extent, these cost disadvantages are compensated by export subsidies. But this is a very messy system. Certainly, it would be better for the Turkish textile industry to be supplied with raw materials at world prices and for the domestic suppliers of these materials, whether of agricultural or industrial origin, to be assisted in line with criteria appropriate for their industry. It may also be appropriate to support the textile industry. This topic is discussed, in a general way, in Chapter 3 and more specifically in Section G below.

(d) Domestic suppliers of parts and accessories. Quality, reliability, and quick response to market forces and customer special requirements are essential conditions for success in every sector of the textile industry. To ensure competitiveness, the textile manufacturer must be in a position to procure his cloth and accessories from as wide a supply base as possible. A well-styled and properly manufactured garment will not gain market acceptance if the material or accessories are inferior. The Turkish weaving industry has limited experience in weaving certain types of fabrics since the local market until recently was mainly supplied with very simple and cheap fabrics. This will not change until superior fabrics are used in volume by a true export industry. In accessories, the most common failing is in zip fasteners, but deficiencies in buttons, buckles, and linings are also common. The consultants recommend the installation of a modern efficient filament weaving plant specifically for linings, but this industry will not develop properly unless it has access to the right quality of yarn and the right dye-stuffs.

The only way to liberate the Turkish textile and clothing industry from the bondage of inefficient supply industries is to allow free imports of all inputs

which are to be incorporated into exported articles (cf para 3.25). To protect domestic supplier industries, as is now done, is to put the cart before the horse. Before there can be export supplier industries, there must be export industries. Such export industries will have a natural interest in developing their domestic sources of supply even to the point of providing technical assistance or financing. The Government can help by making investment incentives available for new or modernized facilities in this area.

G. The Need for Restructuring

4.22 In designing a modern textile industry for export, one would need to consider at least three dimensions: approach to export marketing, size of individual production units, and degrees of vertical integration.

(i) Export marketing

4.23 With respect to exports (and the reader is reminded of the master design of expanding exports of made-up goods and relying on these to pull the rest of the industry along), the consultants feel the best strategy would be to set up a garment export organization (representing some 30-50 factories) responsible for both market research and sales. This export organization would have offices in major European centers, and there would be no need for local agents. The concept of an independent, partly fashion-oriented make-up industry (including such simple articles as domestic overalls) is inspired by the thought that make-up establishments need flexibility in buying both cloth and fashion designs rather than being subject to the constraints of an intra-concern weaving department. At the same time, it is recognized (p. 348) that where the final product is relatively uniform (sheets, jeans, towels, underwear), there is a good case for the make-up unit to be integrated with the textiles concern.

4.24 In contrast, industrial fabrics should normally be marketed through established traders in the export markets; this is because of the critical importance of continuous customer contact and servicing, the need for a considerable development and marketing effort, etc. In this area, foreign investments or partnerships should be considered in order to gain access to the market. In grey goods and yarns, efficient marketing would require individual companies and groups to establish an export marketing division to keep constantly informed of fluctuating demands and to permit prompt response to traders and converters. It was indicated before that productionwise these are markets where it will be difficult for Turkish manufacturers to establish a permanent foothold.

(ii) Structuring of domestic industry.

4.25 An expanding modern Turkish textile industry could be built on the following foundations:

(a) A rapidly expanding make-up and knitwear industry focused on exports to Western Europe with complete freedom to buy either imported or local fabrics, yarns, and accessories.

(b) An efficient domestic spinning, weaving and finishing sector supplied with basic inputs at world prices and qualities. Although, at least initially, geared primarily to the expanding needs of the domestic make-up industry, it should be encouraged to establish contact with the Western Europe market as a spur to competitiveness in price and quality and to entering the European market, where good opportunities exist. This flow would be greatly facilitated by foreign partnerships in the Turkish textile industry.

4.26 A look at the international structure of the industry suggests that the attainment of these objectives would eventually call for large integrated units in weaving and spinning operated according to the most sophisticated modern management methods. The weak points of the present Turkish structure are (a) the great number of new non-integrated cotton spinning mills with inexperienced management and of doubtful long-run viability; (b) the SSI sector which, the reader will recall, accounts for one-quarter of knitwear and of cotton weaving and 50 percent of wool weaving and is not yet successfully linked to the modern sector; and (c) the dualism between the private sector and the Sumerbank Holding with mutual mistrust and a minimum of cooperation. The most objective and realistic policy would clearly be to put one's money on the largest and most dynamic private firms with proven management resources and, for the Turkish lending institutions, to push for expert assistance and managerial changes in those companies which are not yet well run.1/ The "industry leaders" have the possibility of drawing MSI and SSI into the mainstream of modern export-oriented industry as suppliers, possibly through equity participation; it is difficult to conceive of any special incentives towards this end over and above their own self-interest. With respect to action by MSI and SSI themselves, we indicate elsewhere in this report that special studies are needed to define the potential role of such establishments in each subsector, that different types of programs are needed for the MSI and the SSI, and that the MSI might be well advised to intensify and probably institutionalize (the proposed Research and Development Institute) their adjustment to the completely new situation which will be created by Turkey's economic integration with the Common Market.

H. Choice of technology and equipment

4.27 One important consideration in the future development of the textiles industry is the choice of technologies and equipment. We have already

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1/ We are referring here exclusively to private firms. The managerial problems of the State Economic Enterprise sector are well recognized in Turkey. They represent a vast subject outside the scope of this report.

stressed the importance of foreign technical assistance in this area (para. 4.21). Consultant's recommendations will inevitably take into account the existing incentives system which favors capital intensive methods of production. Yet creation of export oriented textiles industries in developing countries could be based on either of two rival conceptions:

- Advanced methods of production using a small component of highly qualified personnel and large supplies of semi-skilled labor;

- Simpler, more labor intensive methods involving an important investment in manpower development.

Not only would the choice of appropriate labor intensive technologies contribute to the absorption of Turkey's manpower surplus, it would also strengthen her export competitiveness. 1/

H. Production Targets and Investment Requirements

4.28 The consultants are strongly of the opinion that the immediate priority is not new investments but rather measures to increase the efficiency and quality of production and to plan new projects well. They recommend a range of mainly complementary investments which would be spread over several (say five) years (million US $ equivalent):

Technology and organization	10
Woolen and worsted (one fully integrated unit)	20
Mohair industry (one 2,000 t cloth-making unit)	10
Linings (one man-made filament weaving unit)	7
Weaving	see below
Knitting	"
Spinning	"
Dyeing and finishing (increase in existing facilities plus one new installation)	100
Making-up (25 new units)	75
Total	222

4.29 These investments are in addition to certain projects already approved which will presumably be implemented. Given reasonable increases in productivity, the existing cotton-type fabrics capacities should be nearly sufficient and the yarn capacities more than sufficient to meet the expected increases in domestic consumption plus potential export growth up to 1982.

1/ On this point, see e.g. Jaques de Bandt, Les industries textiles dans le processus d'industrialization du Tiers - Monde in Mondes en Development 13/1976 and, for some specific illustrations on the cost impact of alternative technologies, several articles in Cotton and Allied Textile Industries 16/1975 (published by the International Federation of Cotton and Allied Industries).

The following balance is based upon an illustrative increase in the Turkish demand for fabrics by 5 percent per year cumulatively. This figure, while reasonably agreeing with recent consumption trends, is merely illustrative. There is scope for a careful survey of future demand which, to the mission's knowledge, has not yet been conducted.

FABRICS

Supply			
Present fabrics capacity (1975)	182.5		
Approved capacity (1977)	204		
Capacity with 30% improved productivity (1982)			265
Demand			
Present domestic consumption (1975)	178.5		
Domestic demand (1982) 1/		250	
Proposed exports of made-up goods		30	
Fabrics exports		5	
Total Demand			285

YARN

Supply			
Present yarn capacity (1975)	497		
Approved capacity (1977)			562
Demand			
Fabrics, present (1975)	194		
projected 2/		302	
Knitwear, present (1975)	21		
projected		42	
Yarn exports, present (1975)	36		
projected		45	
Total Demand			389

1/ Assuming 5 percent per year cumulative increase, or roughly 10,000 tons per year.

2/ Total domestic demand for fabrics plus export demand for fabrics and made-up goods, adding 6 percent for conversion losses.

Even on optimistic assumptions with respect to productivity, there would seem to be a shortfall in fabrics production by about 20,000 tons (about 80 million meters per year or roughly the output of 4 weaving plants of 600 looms each). The investment in such weaving plants with matching finishing facilities may be estimated at about $85 million (excluding working capital) which should apparently be added to the above total of $22 million.1/

4.30 The consultants have presented a program realistically geared to apparent export market constraints and the financial and managerial ability of the Turkish textile/apparel industry to expand over a span of 5-6 years. It is worth pointing out, however, that, under this program, the cotton spinning industry, even at the end of the period, would be operating at only about 70 percent capacity and would be using a similar portion of the country's cotton crop projected at 640,000 tons per year.2/ The investments required to use the country's entire crop and to process an additional 170,000 tons of yarn into fabrics and/or made-up articles may be roughly estimated as follows:

Yarn production: 170,000 tons @ 290 days = 586 tons per day

Average weight of fabric: 0.234 kg per m 3/

Required weaving output: 2.5 million m/d

Number of looms required 4/: $\frac{2.5 \text{ million}}{103}$ = say 25,000

Investment in weaving and finishing facilities: $1.0 billion equivalent

This total does not include additional investments in making-up facilities. Making up one-half of the projected availabilities of 170,000 tons of cotton cloth into garments and other articles might require an investment on the order of $0.25 billion.

4.31 If the expansion needed to use Turkey's cotton crop were added to the investments already proposed by the consultants, the total investment requirements would correspond to about ten percent of the likely total investment budget for Turkish manufacturing industries 1977/81. We are not arguing in favor of such a high target which would imply the creation of 25-40 new weaving finishing plants and up to 85 new make-up units. The consultants

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1/ Another alternative would be to import fabrics for the make-up trade.

2/ Based on the assumption of 850,000 hectares available from land and average attainable yields of 770 kg per hectare.

3/ Assumed cloth construction: 150 cm wide, 20/20 yarn, 24x24 density.

4/ Assuming 215 rpm, 85% efficiency, 22.5 hours working day.

obviously feel that the next five years should be a period of consolidation and of the creation of capabilities which might eventually be used as a launching base for a more solid export offensive. But this is hardly intended as a final word; there is every reason to pose the question what would be the optimum schedule for Turkey's entry into the European textiles market. The employment implications of a more ambitious program would be highly favorable; production of 85,000 tons of made-up goods might create some 30,000 new jobs in the make-up sector alone, and expansion in weaving would save a great number of jobs that would otherwise be lost through rationalization and might also create some additional jobs. Proponents of major expansion point out that high costs of labor combined with labor shortages are forcing Western Europe's textile industry to migrate just as New England's textile industry moved to the South of the United States at the turn of the century. Turkey, in terms of wages, geographic nearness, Common Market link, and political climate is certainly one of the most logical candidates for a new textile center. Some of the Turkish mills have attained efficiencies which make them internationally competitive at a correct exchange rate. Since the future is not in yarn and grey cloth, there is every reason to forge closer links with those Western Europe manufacturers who are now being slowly forced out of the market, but who possess a wealth of manufacturing and marketing know-how. To frame realistic targets, to define the necessary instruments and to coordinate the efforts of entrepreneurs, financial institutions and Government agencies clearly must exercise the highest level of industrial leadership.

4.32 We have focused above on the market share to which Turkey might legitimately aspire in free and equal competition with other countries and with some element of tariff and/or quota preference within the Common Market. Although the Common Market, in recent years, has made substantial tariff concessions to developing countries, it is realistic to expect that market access by the latter will be constrained by quotas and that Turkey would profit from its insider status. In a purely formal sense, there have been complaints that recent Turkish yarn exports have had a disruptive influence in the meaning of the Multinational Fibre Agreement. The mission would not venture an opinion of the validity of this claim or the dovetailing of the Association Agreement with the Fibre Agreement. Materially, the current industrial recession has hit the Western Europe textile industry with particular severity, a shock superimposed on a long-run trend of increased imports and intensified "rationalization" which reduced employment in Western Europe's textile industry by about one million between 1965 and 1975. Massive imports have led certain associations of the European textiles and clothing industries to question the very principle of international division of labor as applied to their industry.1/ Nevertheless, the prevailing opinion in Europe probably favors the access of developing countries to the European Common Market in accordance with their true comparative advantage, subject only to an

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1/ See Bulletin 76/4 issued by Comite de Coordination des Industries Textiles de le CEE (Comitextil), The European Textile and Clothing Industries and the Internation Division of Labour.

orderly transition and the preservation in Europe of minimum capacities justified on strategic preparedness grounds.1/ The Turkish Government would, of course, want to make its own evaluation of these factors before drawing up (with the Turkish textile industry) a program of supported export development.

1/ See Paul Wurth, Chairman, Textiles Surveillance Body (GATT), The Arrangement regarding International Trade in Textiles, (Geneva, 1976).

V. THE LEATHER AND LEATHER PRODUCTS INDUSTRY 1/

A. The Industry in Turkey

5.1 Turkey is a traditional leather producer. Its animal population provides a ready source of hides and skins for footwear, leather clothing, and other leather products. The industry encompasses a wide range of structures varying from primitive one or two-man establishments to large, modern factories, producing for the European and US markets. The most successful segment of the industry is the leather garments trade (based mainly on domestic sheepskins) where an important export trade has developed over the past five years.

5.2 The industry is small, accounting for 3 percent of employment in manufacturing industry. State participation is limited, with most State production concentrated in one large factory at Beykoz, producing both leather and footwear.

Supply of Hides and Skins

5.3 Supplies of goat and sheep skins are sufficient for present domestic needs. As recently as 1967, about 5 million raw sheep and goat skins were exported as compared with perhaps 15 million processed locally. Today, exports of raw skins are insignificant, the previous surplus having been absorbed by the leather garments industry. Since 1969, exports of leather garments have grown from about 140,000 to about 1.4 million pieces. The leather garments industry buys about 90 percent of some 19 million sheep and goat skins processed locally. Supplies of bovine leather, however, presently fall short of domestic needs, and 20 percent of all upper leather is made from imported hides. On the other hand, domestic PVC soles have rapidly replaced leather soles. Continuing imports of bovine hides or leather will be necessary if exports of tanned bovine leather or leather manufactures are to be developed.

5.4 The quality of Turkish leather is generally of medium to low grade. Poor rearing conditions, malnutrition and low standards of animal husbandry, and skin defects resulting from diseases or insects, all contribute to poor quality. These problems are intensified by inefficient handling and processing of hides and skins. Bad and careless flaying often damages the hide or skin reducing both the quantity and quality of leather yielded.

The Tanning Industry

5.5 Tanning is a traditional industry, consisting mainly of family firms. The number of tanneries in 1975 is estimated at 700 with 7,500 workers, mostly unskilled. Some 150 members of the Turkish Leather Manufacturers

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1/ This chapter of the report draws mainly on a comprehensive study of the prospects for Turkish exports of leather and leather products carried out for the mission. See Economist Intelligence Unit, Prospects for the Development of the Export Potential of the Turkish Leather Industries, London, September 1976 (222 pp). Valuable support to the mission was also extended by the Research Department of the TSKB. Recently, TSKB published the English version of a study entitled The Leather and Leather Products Industry.

Association produce about two-thirds of the leather; the rest is contributed by small tanners employing less than 10 workers. The scale of production varies widely even among the "registered" tanneries. For sole leather, the largest of these produces 2,600 tons per annum and the smallest 120 tons. For bovine upper leather, the corresponding figures are 2,000 and 300 tons per annum; and for sheep/goat skin leather, 2,800 and 300. It is estimated that, at the most, 10 tanneries are in the larger size category.

5.6 In 1975, the estimated Turkish production of leather was as follows:

Sheepskin leather	70.1	million	sq.	ft.	value TL 1,081 million
Goatskin "	32.0	"	"	"	384 "
Bovine upper "	70.1	"	"	"	1,157 "
Bovine sole "	5.9	"	"	"	236 "

Eighty percent of the tanning industry is located in Istanbul and Izmir; sixty percent is concentrated in the Kazlicesme district of Istanbul alone. The industry is presently suffering from outmoded methods in every stage from raw material collection and handling to selling and marketing. Material grading and sorting and modern quality control methods are rarely used. Facilities are housed mainly in old, overcrowed factories with poor access. This prevents good production layout. Pollution control is non-existent, and the filthy conditions of the tanneries are the source of much pollution in Istanbul and Izmir. Machinery is outmoded, and modern machinery is difficult to import. Trained technologists are rare; however, new graduates of the Leather Institute at Pendik and of other leather training colleges in Western Europe will improve this situation by the end of 1977. The result of these factors is low productivity; a modernized European tannery can produce twice as much per man hour as the current norm in Turkey.

5.7 According to the TSKB study, the supply of both hides (from cattle) and skins (from sheep and goats) is projected to increase by about 200,000 pieces per year from an estimated 1975 level of about 2.7 million hides and 19 million skins. However, these are gross figures. Particularly in the production of skins, it should be possible to obtain an increase by perhaps 20 percent by value in the total supply if the inefficiencies mentioned in the previous paragraph are corrected.1/

5.8 According to the recent TSKB study, existing plants may be divided into three broad categories:

1/ Our own guess based on estimate in the TSKB study indicates that losses due to slaughter errors in 1971 totalled TL 175 million. See TSKB, op.cit., p. 12.

(a) Some 350 traditional plants ("karatabak"), generally small family enterprises, typically produce semi-processed sheep and goat skins and some calf skins, using only vegetable tanning materials and manual labor. Located in four provinces of Western Turkey, they are responsible for about 4 percent of the total leather production.

(b) Mechanized tanneries, using power-driven equipment according to outmoded technology (e.g. sole leather production, which takes three weeks in Western Europe, may take up to eight months in Turkey) actually increased in number between 1958 and 1972. Many of the smaller ones are located in the Kazlicesme district of Istanbul in old buildings. The combined capacity of these tanneries is sufficient to process the entire Turkish output of hides and skins. It may be possible to modernize some of the plants or to convert them to finishing plants using semi-processed leather as their raw material, but for the most part relocation of production would appear to be the correct solution. In the TSKB study, it is assumed that most of the small mechanized tanneries would have disappeared by 1980.

(c) Modern tanneries, housed in adequate buildings, equipped with modern machinery and located near the supply of hides have been given certificates of encouragement since 1972. In 1974/75, three such plants started production. There are another 24 projects with valid certificates of encouragement which would have processing capacity for 11.4 million skins and 1 million cattle hides, i.e. 57 and 27 percent respectively of the expected supply. The appropriate size for modern tanneries in Turkey, according to the TSKB study, would generally be 400 cattle hides or 2,000 sheep and goat skins per day; the plants are expected to operate for about 250 days. Not all the above projects are likely to be implemented, however.

Footwear Manufacture

5.9 Total production of leather footwear is estimated at over 35 million pairs per annum, a per capita consumption of about one pair. Most of this production comes from about 5,000 very small units, half of which are in Istanbul. The 1973 State Institute of Statistics Industrial Survey lists 27 footwear firms with more than 10 employees; the ten largest firms together produce about 4-5 million pairs of shoes per year. The largest plant, the State Sumerbank factory, makes about 1.5 million pairs at an average value of about US$5 per pair, i.e. shoes for the mass market. The small firms produce on

average only 180 - 200 pairs a week, which is not enough to maintain an adequate export performance. The extremely fragmented pattern of artisanal workshops - desperately badly housed, staffed to high proportion by juvenile labor, under-financed, occupied for only 8 months a year - cannot be looked to for some years for progress towards industrialization which is vital before viability, efficiency and good commercial performance can be achieved. However, this should not be taken in any way as adversely commenting on shoe making skills: workmanship is of the highest quality and properly coordinated, adequately housed and, with some modern equipment, the industry can produce shoes to compare with the best.

5.10 The three largest manufacturers do not currently produce exportable consumer footwear; they make only cheap, standard designs for domestic consumers, and heavier types for military and industrial use. Apart from the lack of suitable export organization, there are other barriers to footwear exports. Plant is outdated, and new machines are needed. Export growth is also contingent on entry of hides free of import restriction, (see para. 5.3 above). Future export development will depend critically on assistance in improving both productivity and marketing capabilities (improved design, and an adequate distribution system). Some Turkish firms, however, have immediate potential for export in specialized lines, such as sporting shoes, where fashion is not as important.

Leather Goods

5.11 Leathergoods production, like footwear, is fragmented. There are an estimated 5,000 small producing units in Turkey, about 2,000 in Istanbul. The estimated employment is about 5,000 workers. Current production is as follows:

Suitcases	150,000
Document cases	150,000
Attache cases	30,000
Handbags	1,000,000
Travel holdalls	100,000
Small leathergoods	2,000,000

5.12 A high standard of skill exists in the industry, but experienced trained labor is short. Much equipment would have to be renewed if exportable volume production and product range are to be reached. Also the present range and quality of domestic accessories, such as fittings, trims and linings are below export standard and have to be improved, or ready access to import granted, for any export success in leathergoods.

5.13 Some small export trade has been initiated by firms serving individual customers, and interest and awareness is growing on what is needed to tap export markets. The Consultants believe that, given the ability to provide required volume and customer service, Turkish made leathergoods such as wallets, purse notebooks, and certain styles of handbags will find a ready market.

Leather Clothing

5.14 The leather clothing industry has grown rapidly. Production increased from 443,000 pieces in 1969 to 2,000,000 pieces in 1975. Considerable new capacity is planned; five new factories will be producing 400,000 new garments by 1978. Since, on the average, it takes seven skins to produce one leather garment, this would absorb 80 percent of the expected availability of skins. Hence, unless alternative exports of finished leather or other leather articles can be developed to greater advantage, there would be scope for the construction of a few more large modern plants. Moreover, there is a clear need for modernization of small plants presently accounting for over one-half of the industry's output. About 75 percent of production is exported (see Table 5.1). In 1975, leather clothing exports were worth US$62 million, 12 percent of Turkey's exports of industrial products. Roughly, 80 percent of 1974 exports by volume went to West Germany. The unparalleled success of this industry would appear to be due to a combination of factors: eminent suitability of Turkish sheepskins (large size) for garment manufacture, export embargo and low price for sheepskins, integration of tanning with garments manufacture in several cases, and, finally, vigorous entrepreneurship. In 1971, there were 5 large units, producing 50-100,000 pieces per annum, 10 medium units with a production of 20-50,000 pieces, and 1,300-1,400 small units with less than 20,000 pieces. This pattern has not greatly changed. In 1974, the large and medium units contributed 40 percent of production; these are all modern and efficient. Some of the existing and planned larger garments factories are integrated with tanning plnts. Generally, this would appear advantageous both from a commercial and economic point of view. In contrast, the small plants suffer from high costs and problems of quality.

5.15 While the recent export record is outstanding, some problems are imminent. The industry's exports have concentrated on standard, popular price, high volume lines; from now on, for reasons indicated in para 5.21, the industry should turn increasingly to the higher priced quality segment of the market. In the course of this transition, problems of quality and uniformity, which are now a cause of customer complaint, will become a serious problem. A similar constraint arises from neglect in producing premium priced specialty leathers, such as the top grade aniline drum-dyed leather and more and better "double face" (lamb fur skins, sueded on the flesh side). Methods of achieving these improvements are discussed below.

5.16 A further difficulty in moving to the quality end of the market is that the linings, trimmings and accessories are generally of poor quality.

While acceptable on popular-priced articles, this will not be the case for higher-priced articles. Domestic quality of these accessories must be improved or imports permitted for use on garments for export.

5.17 Finally, the move into the quality end of the market for leather clothing will require an intensified marketing effort, and increased skill in cutting, designing, and styling; the resources of the Leather Institute at Pendik could be used to advantage in this respect.

B. Markets in the EEC

5.18 The Economist Intelligence Unit, on behalf of the mission, carried out a study of markets in four EEC countries; Italy, West Germany, France and the UK. Detailed analysis of each market is included in the EIU's separate Report. Imports of leather and of standard lines of footwear, leather clothing, and leather goods into Europe have been generally increasing, as labor costs put European manufactures at a disadvantage. In 1974, these imports were valued at over $2 billion equivalent. The Turkish share of these imports was negligible except in leather clothing where it was about 18 percent (Table 5.2). Tanning is a declining industry, due mainly to the decrease in footwear production and also to increasing value of land for alternative uses. Opportunities for leather and leather product exports from developing countries to Europe, are, therefore, excellent. Turkey's supplies of raw material, its traditional skilled workmanship in leather, its proximity to European markets and the absence of European tariff barriers on Turkish leather exports, give Turkey bright prospects of gaining a share of the increasing import market. Opportunities and problems in different types of products are reviewed below.

Part-Processed Leather

5.19 Prospects are good for exports of part-processed sheep and goatskins, particularly to Italy and France. Present supplies of part-processed leather, particularly from India, are considered unreliable, and tanners/finishers in Europe are keen to develop alternative sources of supply. Once Turkish leather is available in exportable quantities, exports to Europe should present no further problem. However, such exports will be made easier by developing good relations with importers and finishers, and by strict adherence to contracts, in both delivery date and quality. Such a market for part-processed leather would also be a useful safety valve if export markets for leather clothing were to decline.

Finished Leather

5.20 There is a large market for finished leather in UK and West Germany. The market in France is smaller, and non-existent in Italy, with the strength of its current tanning industry. The best prospects are in sheepskin clothing leather, with limited possibilities in lining and upper leather. Opportunities also exist for exports of goatskin leather, such as lining leather, industrial glove leather, and small first-selection quantities which can be made into

leather for fashion shoes and wallets and notecases. Marketing finished leather is better done through importers than directly to manufacturers of leather products. In the field of clothing leather, it is important that Turkish suppliers be receptive to fashion changes and, as is the case with part-finished leather, orders must be filled in time if markets are to be maintained.

Leather Clothing

5.21 Leather clothing is already a successful export to Europe. Exports to Europe increased from $32.5 million in 1973 to $62.1 million in 1975. The best long-term prospects for leather clothing are in the UK and West Germany. In the short term, however, there are some problems. Until now Turkish clothing exports have concentrated mainly on standard lines of coats and jackets. Other low cost countries, such as South Korea, Hong Kong and Taiwan, have entered the European market for such lines, and exports from Turkey will be subject to increasing competition. Improvement of leather quality and design would permit a shift towards the better quality segment of the market, and would permit Turkey to maintain, or possibly to increase, her export earnings in this field.

Footwear

5.22 To break into consumer markets in developed countries, one must match existing supplies in quality, design and reliability of service. More importantly, new supplies should be price-competitive. Turkey cannot break into these markets in the near future; the present small-scale industry structure is not suitable for exports. However, in the long term, there are some prospects for developing exports. In Europe, imported footwear is taking an increased share of the major markets, and Turkey has some potential, although larger, more efficient firms are needed before any continuing export business can be generated. In the initial stage, manufacturers would well be advised to concentrate on non-fashion leather shoes (mainly men's shoes) and on specialist footwear (for example, training shoes). Turkish suppliers in the longer term, should try to take over part of the European market presently held by countries such as Italy and Spain and by overseas imports. This will require the development of design expertise.

Leather Goods

5.23 The good design and excellent workmanship of Turkish leathergoods, such as wallets, notecases, purses and handbags point to bright export prospects for these products. The Italian, German and French leathergoods industries remain strong and fairly competitive at present, but their high manufacturing costs must eventually lead to increased imports. The British industry has experienced a decline recently and Britain is the best initial market prospect for Turkish exporters among the four countries studied.

5.24 The Export Promotion Center discussed in Chapter 3, could play an important role in helping Turkish manufacturers of all types of leather products, footwear and clothing to break into export markets, by assisting in marketing techniques, and promotion and design.

C. Prospective Lines of Development

Quality Improvement In Leather

5.25 Much structural change is necessary for Turkey to achieve export competitiveness in leather and leather products. An important factor hindering export potential in both leather and leather products is the low quality of much of the present leather production. Several measures are recommended to improve this quality.

- Official action should be taken to form a "Hide and Skin Improvement Society". This society would institute educational programs, covering methods of flay, improved animal husbandry and feeding, proper drying and curing after flay, good, clean storage at collection centers, and the correct use of preserving salts. Recruitment of skin and hide dealers into this program will be important.

- A crucial input into quality improvement must be made through the sorting and grading of hides as early as possible after flay; this will enable sales to be made based on graded "selections" forming a reliable basis for quality control in tanning.

- More skilled management and technicians are necessary. The program of training at the Pendik Leather Institute and at Leather Technology Schools in Europe must be continued, with additional attention to the final stages of processing.

Restructuring of Leather Tanning

5.26 In addition to quality and technical improvements, the Mission also recommends a geographical restructuring program in the leather tanning industry. Animal herds and flocks are distributed throughout Turkey, and hides and skins must be transported up to 2000 Km to the tanning centers (mainly Istanbul), after being wet- or dry-salted or cured. It is desirable that hide or skin processing be carried out close to the source of skins and hides. This will avoid the serious deterioration in hide and skin quality while in transit. The program entails building adequately sized part-processing or "dirty work" tanneries, strategically located near sources of animal production, and ideally abbatoir-linked. Such dispersed, medium-size tanneries would minimize pollution.

5.27 In addition, the mission also recommends the introduction of two-stage processing, i.e. the geographical separation of the "dirty" or wet work processing from the leather finishing as is now the worldwide trend. The part-processed hides would then be carried to leather dressing plants situated, as today, close to the major leather markets and commercial centers.

There, existing tanneries would change their pre-tanning and tanning sections into post-tanning and finishing sections. Each of the revamped dressing plants would process partly finished hides and skins from 3 to 4 of the "Stage I" tanneries. Retraining would, to some extent, permit absorption into the finishing plants of labor displaced from tanneries in Istanbul and Izmir. Moreover, far less labor would be displaced under two-stage processing than if the finishing sections as well were relocated. The adaptation of existing finishing sections rather than the construction of new facilities elsewhere would also mean a saving in capital costs. Large, modern finishing plants would have lower costs, and concentration of production would make it easier to produce a uniform quality, particularly important in filling large export orders. Nearness to major markets and commercial centers would make it easier to react quickly to fashion changes. These considerations are further elaborated in the consultant's report (op. cit., pp. 29.1, 30.3, and 54-57). In Turkey, several recently planned tanneries include a finishing section; here implementation may already have proceeded too far to make two-stage processing a viable alternative. Though two-stage processing was discussed at a general meeting with the Tanner's Association, where it found a generally appreciative response (consultant's report, p. 30), some objections have subsequently been raised. Further analysis and discussion is, therefore, in order. In this connection, the desirability of continued corporate linkages between the primary wet work tanneries and the finishing plants and between finishing plants and leather processing plants would need to be carefully and objectively examined.

5.28 The exact siting and number of the tanneries and finishing plants has to be studied. The TSKB study examines the regional distribution of the cattle, sheep, and goat populations and the projected new regional slaughterhouses. The study concludes that the encouragement certificates for new tanneries do not conform to a geographically desirable distribution of the output. For this reason, their study draws up a tentative schedule indicating the timing, location, and capacities of additional tanneries which might be completed by 1980. This study take into account delays necessary to reorganize the supply of hides and skins and to establish new regional slaughterhouses. It projects new tanneries for the processing of about 0.9 million hides and 9 million skins by the end of 1980. This total excludes renovation of existing tanneries at Istanbul, Izmir, and Bursa.

5.29 The Bank's consultants have suggested a more ambitious program which would involve replacement of virtually all traditional and "mechanized" tanneries by 1980. This program would involve building around 16 plants to process 1,000 cattle hides per day by 1980, and either 20 plants to process 25,000 sheep and goatskins per week, or 40 plants processing 12,500 per week by 1980. Some 9 to 12 finishing plants would also be necessary. While this program has been costed in rough terms only, it is estimated that the equipment component alone would come to $60 million equivalent. Today, only a small portion of the equipment can be procured in Turkey, but further study may reveal additional possibilities. Whether or not the consultants' program should be implemented in its entirety would be a matter for more detailed

study and planning along the lines already initiated by TSKB. Such planning would need to take into account both economic and social considerations, i.e. problems involved in relocation or transformation of existing small units or the retraining and absorption of their manpower into other activities.

Restructuring in Footwear

5.30 Restructuring is also necessary for the footwear and leather goods trades to create export capabilities and to take advantage of the improved quality of leather expected to be made available. The major objective of restructuring would be to create units offering a large enough output to attract European importers and which could also support certain common services of design, market research, quality control, etc. In the restructuring of both the tanning and leather products industries and in the organization of export sales, Turkey might find considerable guidance in the success of the Spanish industry. One possible approach would be a program along the lines of Spanish acciones concertadas.1/

Joint Ventures

5.31 In footwear, leather goods and, to some extent, in leather clothing as well, joint ventures with European manufacturers should be explored as the most efficient and most rapid way of gaining a foothold in the Common Market. In this way, Turkish manufacturers would obtain speedy intelligence on fashion changes, assistance on design and production methods, and access to retail outlets (such as the retail chains operated by certain major shoe manufacturers).

1/ For definition, see para 6.3

VI. SMALL SCALE INDUSTRIES 1/

A. Structural Characteristics of SSI

(i) Definitions; role of medium and small establishments; focus of this chapter.

6.1 The terms large, medium, and small will be applied to establishments (technical production units) as distinguished from enterprises. The actual distribution of manufacturing industry in Turkey by size of establishments is illustrated in Diagram II below which shows employment by size classes:

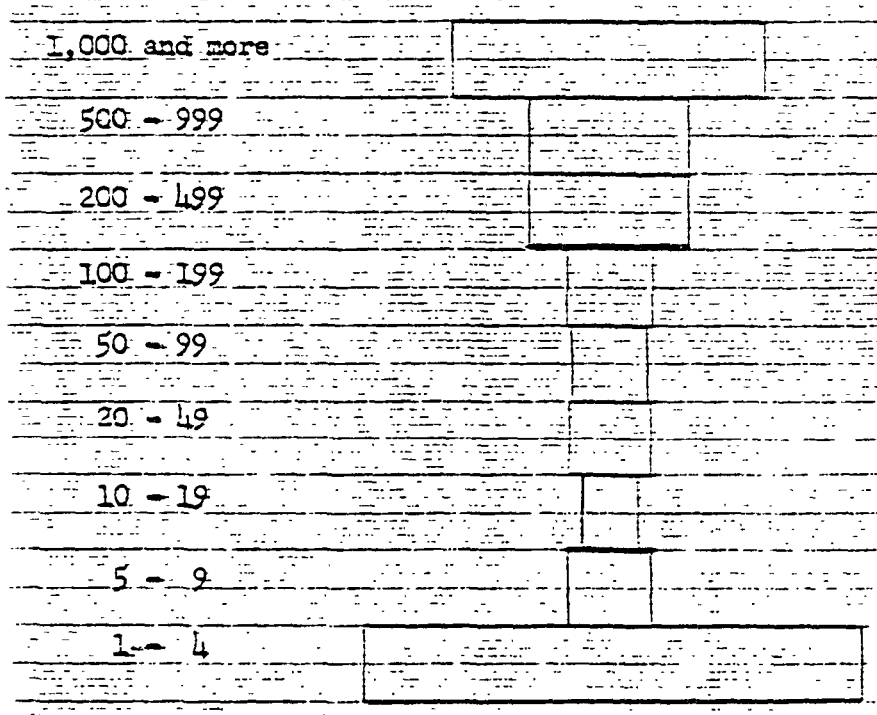
1/ With a brief comment on medium-scale industries.

DIAGRAM III

STRUCTURE OF MANUFACTURING INDUSTRIES

1970

EMPLOYMENT DISTRIBUTION BY SIZE OF ESTABLISHMENT



Note:

Unit: ▭ = 5 percent = 42,000 employees

Source : See Table 6.1

At the top of the structure in 1970, there were less than 500 "large" establishments employing 200 or more persons. Next below came a group of some 4,000 "medium" units employing 10-200 persons. At the base lay some 170,000 small workshops (SSI) employing less than 10 persons. Employmentwise, the shares of large, medium, and small establishment were respectively 42, 19, and 39 percent. In addition to the 328,000 persons engaged in small industrial establishments, some 500,000 persons may have been engaged fully or part-time in handicrafts etc. 1/ The focus of this chapter, in line with the mission's terms of reference, is mainly on the small industrial establishments. However, a few comments will be made with respect to the prospective roles of medium establishments and handicrafts (see respectively paras. 6.3-6.4 and 6.46-6.49).

6.2 A question should be raised how we arrived at the borderlines between large, medium, and small. This is briefly discussed in Annex C. The main generic difference between these categories is their relative ease of access to management, technology, markets, and finance. The small establishments typically work for a local market; at the other end, large, truly viable establishments normally have established a nexus with the international market. The definition of "small" establishments as those employing less than 10 is firmly established in Turkey by statistical custom and institutional framework. The line drawn between medium and large - at 200 persons employed - is more subjective. The diagram above suggests that medium establishments are underrepresented in total industrial employment as if, in most instances, they would represent a transitional and less viable form. Annex C shows that the adopted upper limit for SSI is very consistent with the definition proposed in the Draft Bank Staff Issues Paper on SSI. It also suggests that the underrepresentation of MSI in the Turkish industrial structure could be due, in part, to a hiatus in the availability of investment incentives and financial support.

1/ TSKB has suggested the following borderlines between small-scale industries and the related categories of handicrafts (artisans), small crafts, village (cottage) and household "industries". Small-scale industries are like large and medium industries in the sense that there is a division of labor in the enterprise, and the share of machinery and equipment in production exceeds the share of professional skill and dexterity. In small crafts as well, there is sometimes division of labor, but it is mostly professional rather than technical division of labor.

The latest estimate of the number of workers engaged in handicrafts is 580,000 for 1965. See Country Statement, Republic of Turkey, presented by Delegation of the Government of Turkey at UNIDO Conference on promotion of Small Industries in the RCD countries, Teheran, Iran, 11-17 April, 1971; UNIDO mimeograph ID/G, 93/14 10 April, 1971.

(ii) Brief comment on medium-scale industries (MSI)

6.3 Although it would take further study to prove the point conclusively, it seems clear that many of the basic capital-intensive industries on which Turkey's industrialization effort has thus far been focused (e.g. steel, fertilizers, petrochemicals) lack strong backward linkages to other manufacturing activities. In contrast, to the extent that Turkey turns to labor-intensive export production in textiles, clothing, leather products, metal manufacturing, and engineering, there would be an increasing role for MSI both as manufacturers for export and as subcontractors or suppliers of ancillary materials and services for export industries. The situation of MSI is briefly analyzed in Annex D and Table 6.2. The most important conclusion is the need to study MSI at the individual industry level: to define their development potential and the measures which would permit them to attain that potential. The lack of knowledge regarding the distribution, working conditions, competitiveness and development potential of existing MSI and the consequent lack of realistic goals has created a vacuum for decision making. To that end, the mission recommends the creation of a Research Institute for Medium Industries 1/ focussed on the following tasks:

(a) Industry studies defining the prospects and potential of each industry, the role and viability of different types and sizes of establishments and possible links between them, whether by way of equity participation by larger firms or "horizontal" combinations, or cooperatives, or subcontracting.

(b) Promotion of necessary follow-up in the form of project studies, market studies, internal and external rationalization studies, necessary legislation, or new institutions, etc.

Specific measures to assist MSI might include industrial restructuring (somewhat along the lines of the Spanish acciones concertadas) 2/, intensified assistance in market and project studies, upgrading of management capabilities, improved availability of engineers and other technical specialists, and the closing of an apparent financial gap. Finally, there would seem to be some scope for rearrangement of incentives. It is not that MSI are discriminated against per se (in any given industry) but rather that better support should be provided for those (generally labor-intensive) industries where MSI can make a major contribution.

1/ Further details regarding the objectives, organization, and finance of such an institute are given in Annex E.

2/ The essence of the concerted action program is agreement between the Government and the industry on certain objectives (production and export targets, cost reduction, quality improvement, wage levels, restructuring in the form of mergers, export sales organization, etc.). Those establishments, which agree to participate in this type of program, are then granted various favors such as time-limited protection or subsidies, investment financing, technical assistance, etc.

6.4 If the above analysis is at all correct, it has certain important connotations. First of all, in an industrial economy, which must progress mainly through export growth, the large enterprises are the engine of growth, typically supplying medium-sized establishments with technology, finance, and a market. Hence, they are the critical element and the first priority. Secondly, it is among the medium establishments, perhaps, that growth would need to be most vigorous. These suffer from limited technical and managerial know-how and limited access to finance. In many cases, they would need to abandon their traditional independent pose and forge new links with other similarly situated firms or with large enterprises.

(iii) General situation of the SSI sector

6.5 The situation of SSI is the most difficult one. In many cases, SSI lack true economic competitiveness, surviving only by making low quality (and low price) goods for a restricted market and by paying substandard wages to juvenile labor working in confined premises under unhealthful or unsafe conditions. In certain segments, i.e. in the production of traditional handicrafts, they may progress if extended forceful and imaginative support by the State. Among SSI proper, one might distinguish broadly between two categories. For certain traditional SSI, transition to modern industry is simply too broad a leap. Those active in this sector need help through retraining (and possibly relocation) to find jobs in other establishments or other industries. In other cases, the opportunity exists (apparent or latent), but possibly can be seized only through industry-wide structural changes and/or the development of new technologies. The solutions will vary greatly from one industry to the next; the studies which would define the role of SSI in major industries and sub-industries, for the most part, have not been undertaken in Turkey. This therefore remains an urgent priority.

(iv) Structure of the SSI-sector

6.6 According to the 1970 Census of Small Industries, the SSI sector employed 328,586 persons. It accounted for 42 percent of the employment and 17 percent of the value-added in the manufacturing sector. Within the SSI sector proper, 82 percent of the employment was provided by seven major groups of industries:

	Number of persons engaged	Percent to total SSI work force
Footwear and clothing	80.342	24.45
Metal products	49,616	15.09
Food processing	42,660	12.98
Wood and cork	33,139	10.08
Transport equipment	30,058	9.14
Textiles	18,552	5.64
Furniture and fixtures	13,573	4.13
	267,940	81.51

Source: Computed from Census of Industry and Business Establishments, Small-scale Manufacturing Industries 1970, published by State Institute of Statistics, Ankara. For further details, see Tables 6.3a, 6.3b, and 6.4. Tables 6.3a and b, in line with the customary Turkish definition, provide a single breakdown between large and small. In Table 6.4, we have further subdivided the large establishments into "large" and "medium"; for definitions, see para. 6.1.

6.7 In 1970, the net output (value added) of SSI was about TL 3.9 billion. The above seven major groups of SSIs accounted for slightly more than 75 percent of this output. Five groups of SSI provided a much higher volume of employment than the corresponding larger establishments (Table 6.5). They were by order of importance: footwear and clothing, metal products, wood and cork products, furniture and fixtures, and leather products except footwear. In addition, in electrical machinery and appliances and in transport equipment, the numbers of persons engaged in SSI and larger units were almost equal. In three industries (clothing and footwear, furniture, and woodworking), SSI also generated a higher aggregate value added than the larger establishments.

6.8 The great bulk of small manufacturing and service activities are located in and around the larger cities, such as Istanbul, Ankara, Izmir, Bursa, Gaziantep, Eskisehir, and Konya (Table 6.6). There is often a tendency for concentration of certain types of SSI to certain cities or regions, e.g. weaving in Istanbul and Central Anatolia, silk weaving in Bursa, leather and leather products in Istanbul and Izmir, metal manufactures in Gaziantep, Bursa, Konya, and Polatli (gun-making). According to a recent study, 1/ employment in SSI declined between 1963 and 1970.

1/ Turkiye Sinai Kalkinma Bankasi A.S. "The Small-scale Industries in Turkey", mimeograph.

(v) The small industrial workshop 1/

6.9 The SSI sector in Turkey is in a transitional period. It is not a wholly traditional, economically inefficient sector of units such as small blacksmiths or carpentry shops. But neither does it comprise a sizeable proportion of units with characteristics usually found in a modern factory although small. As shown by Diagram 1 (p. 3a) most SSI units in Turkey are very small, employing 5 workers or less. Though trying to break away from tradition, e.g. by the use of more machinery and power, they are quite "artisanal" in outlook and slow in adapting themselves to a changing world. In all industries, except three (wood and cork, furniture, and transport equipment), SSI use less machinery as measured by horsepower per worker than large and medium-scale industries. It may, therefore, be inferred that the investment per job and the capital-output ratio are considerably lower in SSI than in medium-sized and larger industries financed by TSKB where the fixed investment per job was normally in the range of $10,000 and above.

6.10 The owners of SSI workshops are typically self-made men who started out as boy apprentices. All of the SSI units visited were still organized on a master and apprentice basis, i.e. with no clear specialization of tasks; the owner is also manager and often a principal worker. Virtually without exception, there were children working. While "normal" working hours in SSI are long (10 hours), wages and productivity of labor are low. At TL 6,100 per year in 1970 (about US$380 equivalent), the average wage of an SSI worker was little over 40 percent of the amount his colleague in large and medium industries earned. No doubt, this was partly a function of age and skills; yet the impression remains that, generally speaking, workers in modern industry were paid substantially more and worked under incomparably better conditions than their SSI colleagues.

B. Potential for development of SSI

6.11 The overall low productivity of SSI does not mean that most of them are lacking in economic viability or development potential. In the first place, there are a vast number providing for local needs for reasons of transport economies (e.g. sawmills or brick works, etc.) or for speed, convenience and service (auto and agricultural equipment repairs, printing establishments, etc.). Secondly, the present underutilization of equipment is a challenge to a more rational management of that capacity.

6.12 The main asset of SSI is clearly the great natural skill, determiniation and specialized experience of the people working in the small shop. Many are capable of entrepreneurship. Moreover, many small-scale

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1/ For a more detialed account, see Annex F, "The Small Turkish Industrialist and His Workshop".

industries are regionally concentrated, like metal fabricating and engineering in Polatli or Gaziantep and leather processing and weaving in Istanbul and many parts of Anatolia. This pool of experience, "informal technology" and worker skills needs to be integrated with the growth of large, modern industry. Though this will often necessitate a great leap forward in technology and markets, the example of Japan and other industrialized countries shows that the transition can be made if the effort is supported by the State. In the course of this effort, the functions, organization, working methods and, in many cases, even the size of SSI may change drastically. In fact the very concept of SSI, in terms of size and capital investment per worker, is different in advanced industrial nations from what it is in Turkey today or from what it was in those countries at an earlier stage of industrialization. It would be dangerous, therefore to think of the growth and progression of individual SSI's as a continual process. Many of them are in a blind alley, others need guidance and institutional support to advance.

C. Problems and constraints

6.13 The Turkish SSI sector suffers from all the difficulties usually associated with this sector in other countries at similar stages of development, namely limited access to technical know-how, markets, and finance, as well as some managerial limitations. Government policy towards SSI is uncertain, and the incentives system, rightly or wrongly, may favor large, capital-intensive industries. However, the nature of support to large/medium versus small industries is so different that it is difficult to make an objective comparison in that respect. In the following, we shall explore what could be done, in a constructive manner, to bring SSI into the mainstream of economic activity and enable them to make their maximum economic contribution to growth.

(i) Government strategy

6.14 The First Five-Year Plan (1963-67) contained a rather substantial discussion of strategy towards SSI. In view of their effect on employment, small industries would be encouraged to develop as auxiliary and complementary industries. "Planned development" of SSI and handicrafts would be promoted through a "Naitonal Centre for Developing Small Industries and Business" which would provide assistance in all fields: credit, establishment of cooperatives, supply of raw materials and equipment, marketing outlets, etc. Low interest financing and industrial estates would be particularly stressed. The Second Five-Year Plan (1968-72) reaffirmed these policies; the need for "integrated" development of small and large establishments was again emphasized.

6.15 Implementation of the first two plans took the form mainly of establishing an extensive network of industrial estates and of introducing special low-interest credit lines. The carrying out of a more comprehensive, integrated program was impeded in part by frequent changes in government. The main obstacle, however, was probably second thoughts among policy-making

officials regarding the wisdom of assigning a major role to SSI in the overall growth strategy. These doubts still remain, and have possibly become accentuated. Thus, the Third Plan (1973-77) has no special program for SSI, although it explicitly recognizes and accepts that increased use of capital-intensive technologies in industry will increase urban unemployment until 1987, a condition that has become accentuated since the plan was written because net migration of workers abroad will apparently be substantially lower than assumed in the plan. The Third Five-Year Plan views manufacturing primarily in terms of (two digit) sub-sectors e.g. steel, textiles, or electrical engineering, without considering the respective roles within each sector of large - medium vs. small establishments or how the latter could be drawn into the industrialization process. In the four pages dealing with SSI, the Third Plan document makes a distinction between handicrafts and SSI. Handicrafts are considered important, but no specific policies are prescribed. It then makes a further distinction "in principle" between SSI's having growth potential (mainly ancillary industries) to be promoted and those outmoded products, industries, or crafts that should not be promoted - without, however, listing the latter industries. In consultation with Government officials, one came away with the impression that though they were anxious to develop ancillary industries, SSI in general were regarded more as a problem than a potential for development.

6.16 An increasing neglect of SSI in planning is also reflected in administration and plan implementation. The Ministry of Industry is primarily responsible for SSI and does carry out substantial programs with respect to industrial estates (discussed in paras. 6.34-6.38 below) and the special workers training for SSI. 1/ Within SPO, only one man is working on SSI in the Division of Sectoral Programs under the Department of Economic Planning. The decision not to go ahead with a National Centre for SSI may have been fully justified (see below para. 6.55). Yet, since the creation of such a centre has been an objective of successive plans, one wonders whether this project has not been allowed to drift because of the lack of an effective monitoring process which would systematically uncover implementation problems and adjust programs and projects accordingly. Had monitoring been effective, the proposed centre would either have been abandoned or, more likely, a more viable concept developed. Before considering what Government action should be, it is convenient to examine the problems and constraints which interfere with the development of SSI.

(ii) Incentives and SSI

6.17 Government policies and incentives have favored large capital-intensive subsectors where small industry is underrepresented, and lent far less support to labor-intensive exports in e.g. metal manufacturing and

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1/ The training programs are briefly discussed in para. 6.26. The sources given are listed in Table 6.7.

and engineering products, plastic products, clothing and footwear. In these latter industries, the bias in favor of import protection (over export support) helps SSI by conserving traditional structures and reducing competition in price, quality, marketing and new tehcnology. By the same token, it postpones the inevitable and desirable transition towards modern, dynamic enterprise - integrated with the export sector or with new competitive home market industries as suppliers, subcontractors and ancillary industries.

6.18 SSI access is constrained by (a) criteria for qualified investments (export orientation, modern technology, adequate scle); (b) minimum size limits for eligible investments (TL 250,000 for normal area and TL 150,000 for development regions); and (c) the considerable red tape involved in obtaining an investment certificate. 1/ In fact, out of 840 projects granted investment incentives in 1975, only 12 involved equipment investments of TL 5 million or less, i.e. could conceivably have fallen in the category of SSI.

6.19 The GOT recognizes that SSI do not fit into the standard inventives scheme. Yet, they receive (or are scheduled to receive) support through a different set of instruments, namely technical assistance (under preparation), industrial estates (or possibly, in the futures, industrial centers), and subsidized finance (through Halk Bank). And while small industries are unable to obtain special export incentives and export credits, they may benefit indirectly by acting as suppliers to export industries. In the end, it has not been proven that the net incidence of industrial incentives and institutional support is biased against SSI. In fact, several observers have argued that the opposite is true, and that SSI are overly favored in relation to their economic contribution.

1/ Because of time constraints, the mission could acquire only minimum knowledge of the detailed working of the system. Apparently, it requires a substantial amount of paper work to process each case. For example, beginning with 1975, large projects and SSI projects alike pass through two stages of approval for incentives: first an "Incentives Certificate" (roughly an approval in principle) and second, and "Implementation Certificate" (to determine which particular incentives are granted to the project). Before 1975, SSI could obtain an implementation certificate directly. The procedure for getting custom duty exemption on imported capital equipment involves a set of papers that may be routine, but is complicated even to a large company: an import program for each year of implementaton, a guarantee regarding the financing of the project to make sure that the project will not be abandoned in the middle for lack of funds, a certificate by the Directorate of Industry establishing that the items to be imported are not produced in Turkey. In addition, applicants must submit an estimate of the CIF value of the equipment (supported by pro-forma invoices), details of customs and related taxes normally payable, catelogues, technical literature, etc.

6.20 Considering wages and working conditions, economic returns in SSI are clearly lower on the whole than in medium and large industries. On the other hand, SSI at first sight appear to be significantly less capital-intensive. In 1970, the average horsepower per worker in Turkish manufacturing was about 7 in large and medium establishments and 2 in small establishments. Only in 3 out of 17 manufacturing industries, did SSI have a higher installed horsepower per worker than medium and large establishments (Table 6.8). Installed machine-power, however is only a first crude approximation of capital intensity. In particular, it does not take into account shift-work which permits industrial-type establishments to utilize their equipment more fully.

6.21 Detailed industry studies paying special attention to the position of SSI are necesary to determine whether, in a given sector, SSI are inherently inefficient or whether they only need more institutional support, either to transfer the existing skills and equipment to more viable units in the same industry or to some other industry, preferably in the same region. In the industries specifically studied by the mission, the verdict is unambiguous in the tanning industry; production should be shifted to large, higher technology units and, in part, geographically relocated. In the clothing industry, the consultants have indicated that units of 300-350 workers would be an appropriate size for export production. One would assume that once efficient ready-made clothing manufacturers have been established these would eventually crowd out the smaller sewing shops focussed on the domestic market. 1/ However, many of those engaged would find new jobs in the export trade, and some of the better entrepreneurs would be able to redirect talents into new fields opened up by this export trade and by the general progress of the economy.

(iii) Technology and technical assistance

6.22 Technology encompasses production techniques and processes, product designs and tools and equipment. In Turkish SSI, technology varies greatly even within the same industry. It may be very primitive, virtually unchanged since ancient times as seen in small tanneries. Or it may be very modern such as adjustable wrenches, cutters and presses brought back by Turkish workers abroad for their metal workshops. In the SSI textiles sector in Istanbul all looms operated are powered, whereas most of the SSI looms in Antolia are manually operated.

1/ However, the mission was told that in the small clothing workshops visited in the garment district in Istanbul, less time was apparently required to perform the sewing operations (30 minutes for men's shirts, 45 minutes for women's dresses and 90 minutes for men's jackets) than for comparable operations in large establishments. It might be argued that savings in production would be offset by more time-consuming and costly distribution but this would be a matter for empiric verfificiation. For present methods of distribution, see para. 6.31 below.

6.23 Relatively high machine power among small production units may reflect several factors. First, SSI often acquire old vintage machines as opposed to modern machines utilized in large industries; some of the very modern and expensive machines may be energy-saving. Secondly, the small industrialist, basically a skilled worker and largely a self-taught man, may start out his workshop by picking up machines from various accessible sources without sophisticated selection procedures. He may also develop a taste for owning more and more machines, some of which may not be of immediate use, but "might come in handy". In the end, he finds himself with a colleciton of sundry powered equipment clearly excessive to his needs. This situation was observed in many of the metal shops and turner's shops in Polatli and Gaziantep. Such a situation, of course, is not unique to Turkey; it may be observed in SSI establishments in many parts of the world.

6.24 Quite apart from overinvestment in machinery, there are many indications that the small industrialist in Turkey is not working with an appropriate technology, i.e. the kind of technology that would fit not only the country's factor endowment but also his own workshop. To make a correct decision he needs knowledge of the most suitable technology available from advanced countries and, equally important, successful adaptations and innovations made in other industrializing countries. Nor should one rule out the development of a native technology where special circumstances make such an approach promising. In fact, in Annex F (para. 10) we cite examples of successful Turkish innovations. 1/

6.25 For most SSI's, however,improvement of existing machines, more rational workshop layout and selection of more suitable equipment would probably make a greater difference than introduction of new technology. To improve the situation several kinds of measures may be envisaged: (a) an extensive formal training program to introduce the small industrialists to better ways of product improvement and better use of their existing equipment; (b) a network of extension service units to help with on-the-job training and/or on-the-spot problem-solving technical advice and (c) a system of buying cooperatives to help secure suitable equipment on favorable terms. All three measures were actually introduced in Turkey with a program initiated in 1963. However, the program is very limited in scope and/or ineffective (cooperatives in particular).

6.26 The most successful part of the program is probably represented by short-term courses to upgrade basic management and technical skills, financed and operated jointly by the Ministry of Industry, Ministry of Education, the Halk Bank, and the Turkish Confederation of Artisans and

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1/ In this context, it is interesting to note that SSI use relatively little directly imported equipment. Many imported machines are bought through dealers, including second-hand machinery. Yet, much equipment is locally produced; several workshops visited had built their own machine tools, particularly lathes.

Small Tradesmen. Generally, these courses are well structured, and they should probably be extended as industrialization progresses to smaller provincial centres. Extension services, providing technical and administrative "problem solving" advice and support, have been introduced more recently, focused on a few industrial estates. In theory, the concept is extremely interesting. It will be discussed in the context of industrial estates.

6.27 It would be most desirable for this improved transfer of modern technology to be coordinated with the adaptation of the best of the existing informal technology and, perhaps, the discovery of "dormant technologies". This possibility of course, is not unique to Turkey; it has been extensively discussed in recent years. 1/ Although the practical possibilities remain to be fully evaluated, it would be premature to assume that "lowgrade" technologies have little to contribute to overall growth. On the contrary, the advisability of a search for improved labor-intensive technologies should be included in the terms of reference for those industry studies which we have recommended in this report. Such research could be coordinated with the industrial extension services and located to cities where there is at the same time a concentration of establishments in a specific industry and a respectable institute for technology.

(iv) Management

6.28 Weakness in technology is only one facet of the lack of a scientific approach to management. Thus, even the larger among the small industrialists have a poor notion of physical plant layout. Similarly, the housekeeping and safety precautions in workshops visited did not seem to matter much to the small industrialist. Finally, he is generally unfamiliar with basic bookkeeping methods, production and inventory planning, and other management techniques. In fact, the small industrialist is yet to be convinced that such improvements often merit a higher priority than access to modern machines.

(v) Distribution and Marketing

6.29 SSIs in Turkey seem to have more problems in access to production factors, raw materials in particular, than in market access. On the whole, they market their products through intermediaries suited to their subsector, including larger stores, wholesalers and other "middlemen". Very few workshop owners met by the mission had their own marketing outlet, like a store in town for themselves.

1/ The term "dormant technology" was coined by Nicolas Jequier (Appropriate Technology, Problems & Promises, OECD 1976) to describe as yet undeveloped appropriate technology, "progressive technology" and very often as low-cost technology). A technology appropriate for SSI, such as already prevails in a number of SSIs in different countries reflects other things than just factor proportions, e.g. availability of skills, although labor-intensiveness is the most relevant element.

6.30 Long-range subcontracting relationships are important in industrialized countries as a means both to helping with marketing problems and upgrading technology and management. In Turkey, they are, as yet, of limited scope. Thus, in the SSI engineering subsector, "ancillary" production for large industries is only a part-time, supplementary activity. A Subcontracting Exchange (YASTAB) was established in 1970 in Istanbul by the local Chamber of Commerce and Industry with the assistance of UNIDO. It is expected to bring together large-scale contractors amd SSI and thus stimulate subcontracting work for SSI. The exchange at present is still at an early phase of activity (456 SSI members) and, on the whole, subcontracting is yet to be fully and systematically developed.

6.31 Outside the metal products and engineering industries, subcontracting frequently takes the form of commission work. Virtually all of the 800 small weaving units (3,000 looms) in Istanbul were reported to work on commission, processing raw materials supplied by larger factories. Half of the small garment makers in the area of Manufacturacilar Carsisi, Istanbul also worked on commission; the rest left their finished products on consignment at local and department stores. Working on this basis is also common practice among shoe-making shops. The dependence of the small industrialists on middlemen for their marketing has both beneficial and harmful effects. Intermediaries sometimes advance working capital for SSI, especially those producing consumer goods in peak seasons. But middlemen also squeeze SSI profits by paying low commission rates and thus, from the small industrialists' viewpoint, hinder their potential growth.

(vi) Procurement of materials and equipment

6.32 Most of the raw materials utilized by SSI are purchased through intermediaries, frequently on the black market when the items are scarce. Institutional support in this regard includes a system of cooperative procurement of raw materials, especially imported materials. A Division for Procurement of Raw Materials under the Directorate General of Small Industries in the Ministry of Industry handles all requests for raw materials and equipment from SSIs when the latter choose to go through official channels. In principle, SSI cooperatives and unions are responsible for assessing the needs of their individual members, present their collective request to the Ministry of Industry and then redistribute the raw materials to their members. In practice, this procedure tends to become very complicated and time-consuming for the small industrialist, and most business is transacted outside official channels.

6.33 In conclusion, the TL 80 million worth of procurement handled through the Ministry of Industry is an insignificant portion of the total "inputs" absorbed by manufacturing SSI, estimated at TL 8,834 million in 1970. It demonstrates the futility of bureaucratic planning mechanisms superimposed upon an eminently informal and market-oriented sector. Such a sector can breathe and survive only by evading the bureaucracy. A satisfactory solution to this dilemma will emerge only when trade in major materials and equipment can be liberalized.

(vii) Industrial Estates

6.34 The Turkish Government sees the following major objectives of industrial estates:

(a) To bring scattered small industries and workshops together and to provide common facilities and encourage complementarity thus establishing a basis for their integration and development.

(b) To select industrial locations with a view to increasing total productivity and promoting a balanced interregional development.

(c) To locate industrial areas in accordance with the requirements of town planning.

6.35 Since 1964, the Turkish Government has built a large number of industrial estates which are now spread all over the country. By the end of 1975, thirty-six estates with 7,087 worksheds had been completed; in addition, thirty-eight centers are under construction. The estates have been built by cooperatives with 10 year Ministry of Industry credits at 3-5 percent per annum administered by the Halk Bank. This usually covers 70 percent of the construction cost. The land and infrastructure are normally provided by the municipalities, sometimes with a contribution from the cooperatives. About TL 350 million have been spent on the construction of the estates. When all of them start functioning, they are expected to provide work places for nearly 100,000 persons with a potential annual production of roughly TL 900 million.

6.36 The program has succeeded in relocating a large number of workshops form crowded industrial quarters in towns all over the country. It has also been instrumental in promoting balanced regional development. It has followed the sound approach of encouraging the cooperatives themselves and the municipalities to take the initiative and responsibility for constructing the estates instead of relying upon the Ministry. The Ministry only provides credits, and exercises a measure of supervision.

6.37 Despite striking progress, the estates are not without problems. Two major difficulties can be identified. Most of the estates, with the exception of Gaziantep, Bursa, Eskisehir, and Istanbul and, perhaps, a few others, do not have adequate common facilities. Secondly, the worksheds were not designed for expansion. As a result, many estates after being in operation for a few years begin to look like the old crowded industrial streets where the workshops had been located before. Many workshops in estates visited have expanded their activities (e.g. painting work) on space right in front of their worksheds. The condition is particularly difficult in small estates built with the permission but without the sponsorship of the Ministry (e.g. without close supervision). One proximate reason for the difficulties is the fact that most of the estates were built under considerable time pressure with a view to relocating small workshops from

crowded cities and towns. As a result, the limited staff of the Industrial Estate Division of the Ministry of Industry was unable to properly supervise design and construction. A few new estates visited by the mission show considerable improvement in the design of individual worksheds as well as in the layout of the estate as a whole.

6.38 If the difficulties associated with proper architectural planning are in the process of being solved, this is not yet true for arrangement of common facilities and services. Such logistic support is available only at a few estates, of which the UNDP-associated KUSGEM (Small Industrial Development Programme at the Gaziantep Industrial Estate) is by far the most ambitious one and is regarded as a crucial pilot project. With a staff of 75 professionals, including a team of economists and financial analysts, KUSGEM is providing a full range of extension services (management and marketing, technical workshops and laboratory assistance, feasibility studies and engineering and technology as well as technical and management training). Its professional staff is mostly young, dedicated and well trained, and since the beginning of operations, have met some 8,000 requests for assistance from SSI owners in the Gaziantep area.

(viii) Finance

6.39 A study might well show that an industrial estate provides the most important contribution to the financial viability of SSI since it permits them to rent convenient quarters without capital investment in buildings. Additional financing for equipment and, in particular, working capital are provided, for the most part, through the Turkiye Halk Bankasi (People's Bank of Turkey) which was established already in 1938 with the State as the major shareholder. No hard information is available on the extent, if any, to which commercial banks, money lenders or merchants participate in the financing of SSI. Considering the existence of the Halk Bank and the doubtful credit standing and lack of collateral of most SSI, one imagines that such assistance is relatively modest. Nor are hire purchase arrangements with respect to machinery widely used in the SSI sector. On the other hand, in the clothing and footwear industries in particular, many SSI do commission ("custom processing") work obviating the need for a large working capital.

6.40 Typically, the owner of a small workshop starts his business almost wholly with his own savings (eked out possibly by funds from friends and relatives) and then becomes a member of the credit cooperative for his trade and a potential candidate for a Halk Bank loan. Under this sytem, the individual member of the cooperative is subject to a loan ceiling of TL 75,000 (about $5,000 equivalent). Hence, at a certain point of his development, the small workshop owner will turn to the second (small SSI) window of the Halk Bank where, in principle, a customer with fixed assets not exceeding TL 5 million might hope to obtain financing up to TL 1.5 million or, eventually, to the commercial banks.

6.41 Somewhere along this course, he may run into difficulties. His operations have become of a size (employment of 10 or more) that classify him as an industrialist, and he must by law become a member of the Chamber

of Industries. Hence, he is no longer in the Halk Bank's natural constituency. On the other hand, he is not likely to find adequate support from the commercial banks which are not geared to accommodating small industrial customers without suitable collateral. This is one reason why, for good or for bad, Halk Bank has been rapidly extending its loan limits for the individual customer and, more generally, its participation in the financing of projects of a somewhat larger size than its traditional activities. However, the bulk of its business is with the small borrower; the average size of its loans is only TL 10,000.

6.42 Halk Bank has 300 branches located throughout the country; 50 are being added in 1976 alone. In fact, it has a branch in most towns of 3,000 or more people. Its outstanding loans at the end of 1975 totalled nearly 4 billion. A major portion of its lending (2.5 billion) went to credit cooperatives based upon the principle of collective guarantee borrowed originally from a similar Swiss system. In the lending to cooperatives a slightly higher portion was for trade and service establishments than for manufacturing workshops. The balance of Halk Bank lending went in roughly equal portions to industrial estates and market centers (predominantly buildings, but partly also infrastructure) and credits to MSI or to SSI with their own collateral outside the cooperative system. The lending to industrial estates is financed largely through Ministry of Industry funds, for which Halk Bank is the disbursing agent. Excluding industrial estates, Halk Bank lending is mainly for working capital; equipment financing appears to account for only about 15 percent of the total. The Halk Bank obtains most of its funds from deposits. This is supplemented by Ministry of Industry funds for the industrial estates and by foreign funds including USAID loans and more recently (January 1976) a special German credit. The Bank's paid up capital corresponds to a little over 10 percent of its total lending (see Annex G).

6.43 The lowest rates charged by the Bank are 3.5 and 6 percent for equipment and working capital loans respectively (both with medium-term maturities in the range of 3-6 years to traditional handicraft cooperatives). Similar low rates prevail in lending to industrial estates. The credit guarantee cooperatives pay 10.5 percent and SSI, outside the cooperative scheme, pay 14 percent. Halk Bank has recently extended its lending to medium establishments; these pay the normal commercial bank lending rate (including commissions, etc.) of about 17 percent. Repayment terms are six years including one year of grace for the equipment loans and two years for working capital loans; the latter are no doubt routinely renewed. Halk Bank's credit experience is good with only about 2 percent of the loans in default. Since virtually all lending is based either on physical collateral or collective or personal guarantees, losses through bad debts should be quite negligible.

6.44 The above rates to SSI reflect a substantial subsidy element. The Halk Bank's average cost of borrowed funds appears to be about 8-9 percent which compares with the Central Bank rediscount rate of 9.72 percent

(8 percent interest plus 1.72 percent tax). In addition, little or no money is earned on the Bank's equity which represents about 10 percent of its capitalization. (Whereas in the previous three years the Bank had lost money, it earned a slight profit in 1975 due to special circumstances.) 1/ The mission was told that the average cost of administration was about 5 percent of the outstanding loans. Adding these figures together, one arrives at an average lending rate of about 12 percent. The Halk Bank has no information about the cost of administration and loss experience on different classes of borrowers. Nevertheless, the mission was told that one reason for expanding the Halk Bank's activities towards the types of business presently served by the commercial banks was that the profits earned on these activities would help subsidize the small loan business.

6.45 The Halk Bank's lending program for 1976 includes about TL 1.0 billion for the cooperatives and small SSI and an equal amount for small-medium enterprises. Roughly 40 percent of these amounts had already been committed as of April 30, 1976. The management of Halk Bank indicated to the mission that they could absorb substantial additional funds based on the demand in their pipeline.

(ix) Handicrafts

6.46 There is, of course, no point in doing by handicraft methods what can be done better and more cheaply by industrial methods. There can be a future in handicraft production only where somebody is willing to pay a premium for individual design and character. At the present stage of development of Turkey, the best market for handicrafts lies in export and tourism sales. The most important articles of Turkish handicrafts are carpets and rugs. Other articles include pottery, onyxware, copper and brass objects, embroideries and some leather articles.

6.47 We are unsure how to interpret the information that, in 1963, over half a million people were engaged in handicrafts of one form or another. It could be that this figure includes substantial production of articles to be used in the maker's household. One thing is clear: The planners view handicrafts as a decling trade, and the Government program for the subsector is of limited scope. Thus, there is no serious discussion of handicrafts in the Five-Year Plans. Nor does one see, as in some other contries, a central permanent exposition of native handicrafts in major centers like Ankara, Istanbul, or Izmir which could be visited by commercial buyers and tourists. The causal observer would think that Turkey has a poor artistic tradition instead of an immensely rich one.

1/ The mission was told that the 1975 profits of TL 38 million were derived almost entirely from foreign exchange transactions. This raises interesting questions on the one hand regarding the rates charged by the commercial banks and the efficiency of their operations and, on the other hand, whether the Halk Bank is using subsidized funds to promote its lending to medium business. However, these questions are outside the mission's terms of reference.

6.48 On the other hand, the Directorate General of Small Industry in the Ministry of Industry has a Division for Traditional Handicrafts with a staff of 12 at headquarters and another 33 training specialists providing courses at different towns. At the moment, the Division concentrates on two major tasks: a credit program and a training program. Accepting their narrow focus (see below), both tasks appear to have been performed well. Thus, under the collective guarantee system, about 40 percent of some 500 handicraft cooperatives have received credits. The training program has been concentrated mainly on carpet making in 13 training centers; graduates have been helped with credit to start their own business. The Division of Traditonal Handicrafts is aware of a considerable potential for Turkish handicrafts and deeply conscious of some of the immediate constraints. The major problems identified by the Division were poor marketing, inadequate supply of proper raw materials and shortage of credits. The Division estimates that at least TL 100 million more would be required to meet requests for loans now in the pipeline; this compares with the present Halk Bank lending to the sector of TL 30 million. In the mission's view, the Government should consider a program conceived along far more ambitious lines and undertaken by a corporation organized along business principles, presumably a State Economic Enterprise.

6.49 The example of Tunisia shows what could be done in Turkey on a much larger scale. The Office National de l'Artisanat (ONA) was created in 1958 to promote private handicraft activities. Its main general objectives are the preservation of traditional designs, improvements in productivity and an effective sales organization. This would not necessarily involve ONA in production activity. However, by the accident of history (the brief epoch of socialism), ONA entered production and is now employing 16,000 persons in 176 handicrafts production centers throughout Tunisia. About 60 percent of ONA's production is for export, carpets being the main item. ONA controls and grades all carpets for export. Its retail sales store in Tunis occupies a centrally located building and offers a wide variety of handicraft objects of superior design and quality. ONA's assets at the end of 1972 were shown as about $15 million equivalent; however, this figure probably greatly underestimates the value of fixed installations included in the total. The main influence of ONA has been in the training of workers, the development of appropriate designs (often involving an artistic rejuvenation of ancient patterns), the introduction of more efficient production methods, and, of course, in developing export sales. Its main problems have been on the management plane, e.g. in the introduction of a proper accounting system, adequate inventory controls, recovery of debts, etc. One problem in its production activities is high turnover of labor, particularly among women as they get married. ONA's activities have not shown a profit; in the early 1970s, losses apparently represented about 15 percent of the turnover. Nevertheless, some of these losses were directly compensated by overall economic benefits, e.g. workers training. More important, the 15 percent subsidy was far below the combined subsidy and protection accorded many more capital-intensive industries. The same, we feel, would be true in a Turkish program conceived along similar lines.

D. Towards a Small Industries Development Program

(i) Elements of a Program

6.50 Summarizing the above discussion, the mission feels that there is a need for a more intensive and better integrated program for SSI. The essential objective of the new program would be to permit SSI to make their maximum economic contribution to industrial growth. It would include the following elements:

(a) Sectorial studies identifying the economic potential and development problems of SSI within those industries where they are most important. Incorporation of the findings of such studies in the future national five-year development plans.

(b) Reexamination of the incentives system to determine whether it might not contain an unwanted bias in favor of large industries and whether sufficient weight is given to employment creation.

(c) Reinforcement of extension services (particularly in the field of technology) and research on appropriate technologies for SSI.

(d) Encouragement of restructuring of production and/or marketing etc. where such restructuring is deemed imperative.

(e) Upgrading of industrial estates, particularly by providing more ample facilities for expansion of individual units and a stronger technical assistance and common services component.

(f) An improved institutional framework for the financing of SSI. Financing per se is not the main problem for SSI. Yet, institutions serving the SSI, in particular the Halk Bank, could make an increased contribution to SSI through sector and feasibility studies, increased aid in project preparation, and stricter control that subsidized finance is used only where needed for directly productive purposes.

(g) A greatly intensified program for the development of handicrafts production and exports.

6.51 The highest priority, as the mission perceives the situation, is an objective analysis of the present position and development potential of SSI in individual industries. Without such an analysis there can be no clear direction and no push behind the effort, and politics will take precedence over economic considerations. The second priority is effective monitoring of existing programs. There have been serious deficiencies in the planning and implementation of industrial centers resulting in unsatisfactory facilities, delays and cost overruns. The objectives of each program or project must be clearly specified, including a clear distinction between social versus economic objectives and between self-financing versus subsidized services. Finally, it is desirable to define the potential of SSI for self-help and the supplementary role of the Government.

(ii) Cooperatives and Unions

6.52 Cooperatives have long been a form of association among Turkey's SSI, in fact, three such groupings are prescribed by law. The most important forms are the credit guarantee cooperative (to be described in the next section) and the industrial estate cooperative. The third form is a kind of merchandising cooperative whose main function is to help the cooperative members in securing raw materials and equipment and, to some extent, in marketing their finished products.

6.53 The smallest unit of a cooperative called a union ("dernek") is comprised of members of a single sub-branch of industry in a given locality or district, such as auto-electricians or safe makers. There are at present 4,500 local unions of cooperatives in Turkey. Unions, in turn, are grouped into associations ("birlik"), e.g. the Metalworkers' Association, Association of Auto Repairers, etc. At the top of the pyramid of industrial cooperatives is the Turkish Confederation of Artisans and Tradesmen. The confederation helps its members in obtaining subcontracts and in dealing with Government agencies. Its contribution to marketing has apparently not been significant, and it has been of limited usefulness in procurement.

6.54 In its meetings with representatives for e.g. the small weavers or SSI in the leather industry, the mission was strongly impressed with their energy, common sense and forward outlook (awareness of the need to adjust to a rapidly changing reality). The same thing holds true for small enterpreneurs in the engineering industries in places like Bursa, Gaziantep, or Konya. The combined number of SSI is large, and they could exercise an important influence on Government programs. The mission is not convinced that full advantage has been taken of the opportunities for a constructive dialogue. This would assume the existence of valid partners for the discussion. Regretably, administrative and financial institutions dealing with SSI are highly politicized, with frequent changes in personnel. Similarly, it would appear that the confederation of SSI has been unable to initiate or promote the types of programs required.

(iii) Proposed National Center for SSI Development

6.55 There has long been an awareness in Turkey of the need for a more active agent for SSI development. This is demonstrated by the idea of a National Center for Small Industries Development which was first discussed in the First Five-Year Plan and repeated in the Second Plan. A project for such a center - taking advantage of the experiences gained in the KUSGEM pilot project - has been prepared with UNDP assistance and is now being considered in the Ministry of Industry. 1/

6.56 The immediate objectives of the center would be two-fold:

(a) to develop a program for the modernization and diversification of the SSI sector.

(b) to provide efficient extension services focused on the industrial estates.

6.57 With respect to the first function, studies would be made of specific industries and "assistance packages" developed to cover all aspects of production and distribution. With respect for the second function, a wide range of services would be provided: technical and engineering services, economic advice to SSI and entrepreneurs, marketing advice, management consultancy, management and technical training, and general information on availability of bank credits, foreign collaboration, seminars, etc.

6.58 The National Center would be an autonomous agency (like the present pilot project of KUSGEM). It would be supervised either by the Ministry of Industry or by a "Board" which would include the Representative of the Ministry of Industry as Chairman plus other Ministry Representatives. The National Center would seek the cooperation of the Halk Bank and the Confederation of Artisans and Tradesmen, though apparently only in advisory roles. Initially, four regional offices would be established in different parts of the country. Eventually, more regional or provincial offices would be created when the need is identified.

6.59 The usefulness of industrial estates as a vehicle for urban and industrial development is well documented. The inclusion of an SSI component in industrial estates principally catering to small industries is also thoroughly justified and generally preferable (because of industry linkages and common facilities and services) to separate SSI estates. It is natural that the State should have taken the initiative in creating industrial estates and even subsidized them in the beginning and also to have launched the experimental KUSGEM center. There is a question, however, whether the

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1/ The following account is based upon an informal draft document which the mission was allowed to see.

program has not reached to a point where responsibility for running the centers should evolve to the municipalities, preferably in the form of autonomous, profit-making corporations. Similarly, the exact blend of municipal, cooperative, and private financial control might be a matter for local initiative and option.

6.60 Experience from other countries suggests that it is extremely difficult for SSI to pay their own way even in a center conceived along the above lines. This can be met by the State (and/or provincial and/or local governments) paying a subsidy geared to social and economic interest perceived in this type of settlement (e.g. to promote urban relocation). Some types of nonpolluting, handicraft or repair-type SSI may be relocated in SSI trade centers in central urban areas close to their customers.

6.61 As long as Central Government capital and operating cost contributions are required, it is inevitable that a central Government control unit should be concerned about the design and operations of the centers. However, locally controlled and locally financed autonomous center would have far greater flexibility and would normally be more open to insight and correction by the public. The central function would then be reduced to some type of brain-trust which would digest the experience of industrial centers, provide advice and "trouble shooting" regarding the design and operations of the centers and, possibly, organize (farm out) studies of specific industries or specific projects and problems, such as the development of intermediate technologies. As we conceive it, an SSI institute for research and extension services would be a considerably more modest undertaking than the proposed centre, and would have no central administrative functions. Its board might have a majority of SSI representatives selected on the basis of their individual qualifications together with highgrade specialists in technology, technical training, and finance. Ideally, it ought to be financed by its members. Realistically, it might need some contribution from the Halk Bank (a sound investment for the latter) and, in the beginning at least, from the Central Government.

(iv) Finance

6.62 It was shown above that the main source of credit for SSI is the Halk Bank. The mission heard criticism of the small loans program on the grounds that, in overall terms, credit had to be severely rationed, and that the TL 75,000 limit on credits extended to individual members of a cooperative was barely enough to keep the workshop alive, let alone promote modernization and growth. The mission does not accept these arguments. A major reason why the demand for Halk Bank funds is so high is that, at those low rates and considering also high inflation, a Halk Bank credit contains a large element of gift. This type of rationed and subsidized lending carries enormous dangers of leakage of funds to non-productive activities (e.g. real estate, commodity speculation) and of political patronage. The mission was told more than once that the Halk Bank was not immune to these hazards.

6.63 It has been argued that subsidized lending to SSI is not unique to Turkey, but is, in fact, practiced by many industrialized and developing countries, presumably as a pragmatic response to real economic priorities. In most of these countries, such assistance takes the form of a credit guarantee fund. One example of such a scheme in an industrialized country is Japan where the Government guarantees 50 percent of the loan to SSI, the Central Bank 30 percent and only 20 percent is at the risk of the financing institution. Similar guarantee funds have been created in Ghana, Indonesia, Korea, Pakistan, and the Philippines. Technically, State backing might be justified on the grounds that SSI typically lack suitable collateral and that project appraisal in a normal sense is not feasible. The Guarantee Fund, therefore, acts as a credit insurance scheme. This leaves the question whether SSI risks are so large and unpredictable that the lending institutions could not accept them without reinsurance (as Halk Bank does). The answer is presumably that the Guarantee Fund would normally contain an element of subsidy enabling the banks to extend their lending to marginal projects and borrowers. Moreover, when a Guarantee Fund exists, there is less of a need for a special credit institution for SSI; the commercial banks could handle this type of business.

6.64 The mission feels that, even in the more common case of a Guarantee Fund, the arguments for subsidized lending to SSI are questionable. In the end, the main problem of SSI is not finance but economic viability. Where SSI pay low wages and few taxes and where their working conditions are poor, the answer is not a subsidy but technical and project assistance and, perhaps, industrial restructuring to help those working in the industry to make the jump into truly, viable modern industry. This transition can take many forms - we cited the cases of the small woolen weavers' cooperative, the gunsmith's sales-cooperative, the Erdal shoe factory, and the proposed reorganization of the tanning industry. TSKB has started taking an interest in such schemes; if the concept proves viable, it is bound to invite emulation along a wider front.

6.65 Out of the above discussion, the following role emerges for the Halk Bank. The present principle of two windows, one of which would be doing business primarily with the credit cooperatives is maintained. However, the justification for a special credit subsidy to these cooperatives should be reexamined and the possibility of its gradual elimination over a suitable period (say, five years) studied. The expansion of business at the Halk Bank's second window (MSI) in competition with the commercial banks seems socially desirable. The Halk Bank may have certain advantages in this area, including its vast regional network and its association with the smallest workshops through the cooperatives and centers. Again, the preferential interest rate for these small MSI should probably be abolished. However, before interest rate changes and other policy changes are initiated, the Halk Bank would need to establish its costs of administration for different classes of lending activity. If the proposed National Center for SSI Research and Extension

Services is established, one would expect the Halk Bank to be closely associated with this center and to provide some of its financing. It is also to be hoped that the Halk Bank itself would greatly extend its work in project preparation assistance and in sector and feasibility studies. It is mainly through this type of work that the existence of a separate financial institution for SSI can be justified.

THE PROTECTION AND INCENTIVES SYSTEM

A. Introduction

This Annex supplements Chapter 3, and describes in more detail the incentives and protection system in Turkey.

The system is administered by several Ministries. The Ministry of Industry is responsible for the investment incentives and the Ministry of Commerce is responsible for the import and export regimes. Policy matters pertaining to incentives, as distinct from administration, are usually considered by interdepartmental committees. For example, export rebate rates are set by consultation between the Ministries of Commerce, Finance and the SPO. The SPO has a crucial role in ensuring that the incentives system assists in achieving the targets of the Development Plan.

B. Protection

(i) The Import Regime

Protection of manufacturing industry is provided through a system of tariffs and other taxes on imports, quotas and outright prohibition. Most imports enter Turkey under Annual Programs prepared by the State Planning Organization and administered by the Ministry of Commerce. All imports are subject to license. They can be classified into the following categories:

(a) Self-financed imports

These do not require an immediate payment in foreign exchange. They include imports made under project credits, private foreign investment, investment in infrastructure under the NATO alliance, suppliers' credits, US PL480 and goods brought in by returning workers.

(b) Programmed imports

- liberalization list I: Import licences for goods on this list are issued automatically to registered importers and manufacturers, although the issuing of the licences depends on the strength of the country's international reserves and may be delayed in the event of foreign exchange shortages. This list includes mainly raw materials, chemicals, medicines, spare parts and some investment goods.

- liberalization list II: Licensing of products on this list is at the discretion of a specified ministry and depends on the availability of the product on the

domestic market. This list covers a wide range of raw materials, chemicals, etc.

- EEC consolidated list: This covers goods which can be imported from the EEC without quota restriction. At present almost all goods on this list are also on list I and hence its effect is limited.

- global quota list: Annual quotas by value are set for commodities not included on the liberalization lists. This list includes quotas for capital equipment, the requirements of assembly plants and the State sector. Some quotas are open only to industrialists and others to both industrialists and merchant importers. Quota values are determined between the SPO, the Ministry of Commerce, the Central Bank, the Ministry of Finance, the Ministry of Industry and the Union Chamber of Commerce and Industry. The Chamber represents the private sector, and the Ministry of Finance represents the State Economic Enterprises. Once the overall quotas are set, individual quotas are allocated through the Chamber of Commerce with the approval of the Ministry of Commerce.

- bilateral clearing arrangements (at present between Turkey, Albania and the USSR). Imports under bilateral arrangements may not contain goods excluded from other lists, i.e. otherwise prohibited imports.

(c) Prohibited imports

Goods not included on the above lists in effect form a prohibited list. Many agricultural commodities and consumer goods are in this category.

The liberalized lists, in general, include commodities whose import is considered necessary to achieve development plan targets, but where domestic capacity is unavailable. The quota list is more protective and restrictive, covering commodities of which there is some domestic production, or which are considered less essential to development. The criteria for removing or transferring a commodity from a list are centered on domestic production. When domestic production of a good on the liberalization lists starts, the manufacturer can apply to have this good transferred either to the quota list if domestic capacity is inadequate for domestic demand, or to the prohibited list if capacity is sufficient to meet demand.

Actual imports for the years 1970, 1972, 1974 and 1975 and projected imports for 1976 are shown in Table A.1. The total value of imports has increased significantly since 1970, and the proportion covered by the liberalized list has increased from 39 percent in 1970 to 58 percent in the 1976 program;

this increase mainly reflects the increasing needs of Turkish industry for raw materials, spare parts, and investment goods.

The most important factor influencing protection of Turkish industry in the long term is the Agreement to enter the EEC. Turkey has agreed to eliminate progressively customs duties by 1985 for a list of goods amounting to about half of the total imports from the EEC and consisting largely of raw and intermediate materials. Duties on goods on this list were reduced by 10 percent in January 1973 and by a further 10 percent in January 1976. For the remaining list of goods, which includes most industrial products, tariffs are to be eliminated by 1995. Duties on goods on this list were reduced by 5 percent in January 1973 and another 5 percent in January 1976. Tariffs on imports of goods from third countries are to be gradually adjusted to the level of the Common External Tariff commencing with the first reductions in 1977. Elimination of quotas on imports from the EEC is also planned according to an agreed schedule, which can, however, be amended if there is serious disruption to Turkish industry or if the external financial stability of the economy is threatened. To date, therefore, the tariff reductions and quota expansion have had only limited effect on imports.

(ii) The level of protection

Most tradable goods are subject to tariffs and other taxes on imports. Tariffs on most raw materials are lower than on semi-finished and finished products. Examples of tariff rates are summarized below in Table A.2. Rates vary widely with very high levels on many consumption goods, with lower rates on raw materials. Import duties on investment goods are often waived, or their payment deferred (cf. section D on investment incentives). In 1975, TL 8.3 billion in duties and taxes were waived on imports of investment goods valued at TL 11.2 billion, accounting for 44 percent of all imports of investment goods.

Other charges on imports are listed below:

- guarantee deposits on imports; 20 percent of the c.i.f. value of imports for goods on list I; 10 percent for goods on list II; and , for goods subject to quota, 10 percent for registered importers and 2-1/2 percent for industrialists. Public sector imports do not require a guarantee deposit;

- a municipal tax of 15 percent of the value of customs duty paid;

- stamp duty at 10 percent of the c.i.f. value of imports (9-9.5 percent for imports from EEC);

- a wharf tax of 5 percent of the sum of c.i.f. value, customs duty, municipal tax, stamp duty and customs clearance expenses;

- a "production" (excise) tax for certain items set as a percentage of c.i.f. value plus municipal tax, customs duty, wharf tax and clearance expenses, and similar to the domestic production tax on the same items.

The value of collections of these taxes is shown in Table A.3. Excluding the special duties and taxes on petroleum, these charges in 1975 were composed in roughly equal parts of stamp and wharf duties, customs duties and production taxes, the last being levied on a relatively few commodities. In recent years customs duties and other taxes on imports have comprised 28-40 percent of the c.i.f. value of imports.

The guarantee deposits, while not included in tax collections, also have a protective effect. For example, at an interest rate of 15 percent and assuming that the deposits were held for an average period of 4 months, their cost to importers in 1975 would have been approximately TL 500 million, or 10 percent of customs duty collections. Imports by State enterprises are not subject to guarantee deposits and this gives such enterprises an advantage over the private sector.

The additional charges on imports have an important effect in escalating the degree of protection. For example, addition of municipal tax, stamp duty, wharf tax and guarantee deposit can increase a tariff of 35 percent to 73 percent and one of 60 percent to 103 percent. For the limited number of commodities subject to production tax, import charges are increased further. With a production tax of 25 percent, the 35 percent duty is increased to 101 percent, and the 60 percent duty to 148 percent.

Collections of taxes and duties on imports have an important revenue effect, comprising 22 percent of Central Government tax revenue in 1975. As Turkey enters the Common Market in line with the Association agreement, an important part of these revenues will be lost (more than one half of Turkey's imports are from the EEC). Other taxes will have to be increased accordingly.

(iii) Effects of Protective system

The foreseeable and intended effect of the protective system is to raise the prices of goods produced in Turkey above international levels. In Turkey, because of the importance of quantitative restrictions, there is no close connection between the height of tariff and the internal price level. Items constrained by quotas or import prohibitions are often sold at prices exceeding the landed cost, including duties and similar charges. For other items, in contrast, the domestic prices may be well below the duty-paid cost of imports. As an example, imports of shoes are subject to duty plus other taxes of 240 percent (and, as an extra precaution, imports are strictly prohibited). Yet, domestic prices for shoes are for the most part cheaper

than the duty-free landed cost of equivalent imports. 1/ In fact, a meaningful measure of the incidence of the protective system can only be obtained through a comparison of prices for domestically produced items with the corresponding duty-free landed costs.

The table below compares some Turkish domestic and c.i.f. prices. Price differences are high for goods such as plastics, fertilizer and paper; on the other hand, textiles, clothing and leather products sell at prices which are, on average, not far above world prices for similar products.

C.I.F. PRICE RELATIONSHIPS /a

Commodity	Domestic price / c.i.f. price	Commodity	Domestic price / c.i.f. price
Polyethylene	2.13	Steel gas and water pipes	1.09, 1.26
P.V.C.	2.21	Paper	1.55
Nitrogenous fertilizer	1.60	Polyester fiber	1.52
Superphosphate	1.71	Acrylic fiber	1.47
Cement	0.89	Rayon fiber	1.30
Coal	1.32	Woven cotton fabric	1.14
Steel	1.18	Machine-made carpets	1.44
Special steels	1.18	Furnishing fabrics	1.20
Aluminum ingot	1.48	Underwear	1.09
Aluminum sheet and foil	1.45	Footwear	1.00
Gray iron castings	1.10	Leather coats	1.00

/a At the official exchange rate.

Source: IFC, TSKB, IBRD project appraisals and B. Walstedt, State Manufacturing Enterprise in Turkey, Origin, Objectives, Role and Performance (forthcoming). Data refer to years 1972-75.

1/ Such "Water in the tariff" is an indication of a long overdue need for rationalizing the tariff structure. (Entry to the EEC will eventually achieve that purpose.)

The differentials between domestic prices and world prices (or gross protection) give only a broad indication of the impact of the protective system. The real level of assistance given to a particular manufacturing process depends not only on the degree of protection, but also on the extent to which the cost of inputs is raised by protection. Thus, we may define the effective protection as the difference between the protection of the output and the protection given to the inputs, expressed as a percentage of the value added by the process under free trade conditions. Low levels of protection on inputs and relatively high levels on output, in many cases lead to very high levels of effective protection. A previous IBRD report on Turkey 1/ summarized the results of a special IBRD/TSKB study showing effective protection for 23 projects, ranging from -11 percent for metal drums to over 1,000 percent for steel billets, with a median level of 42 percent. The wide range of effective protection means that some processes receive substantial assistance through the protective system while others are disadvantaged through high protection on their inputs. Resources will tend to flow into those activities with high levels of effective protection at the expense of processes more competitive in international markets which would contribute more to the real gross national product.

C. The Export Regime

(i) Export Regulations

Exports from Turkey are controlled by a Government Decree administered by the Ministry of Commerce. Specified exports require a license issued by the Ministry or by a professional organization, such as the Exporters' Union or Chamber of Industry, authorized by the Ministry. Goods which must be licensed include some agricultural products, minerals, forest products and items such as ships, paper and fertilizer. Common reasons for licensing are either concern about domestic supplies of important necessities, or the wish to encourage further domestic processing of certain raw materials.

Most exports do not require a license but must be registered; including all those receiving Government assistance. The registration of exports is administered throught professional organizations, which forward copies of applications for registration to the Ministry for information. In addition to the licensing and registration requirements, some exports are prohibited, including goods such as narcotics or works of art, and some commodities required for further processing such as base metals and wood. Time limits are set for export of commodities subject to licensing or

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1/ IBRD Turkey: Prospects and Problems of an Expanding Economy, Washington, D.C. 1975.

registration. In the case of industrial products, exports must be completed within one year; this period may be extended for a further year with the approval of the Ministry.

(ii) Tax Rebates

The main incentives currently available to Turkish exporters are tax rebates on exports, export credits on preferential terms, and assistance in export marketing. Tax rebates were established by Law 261 (1963) in an attempt to encourage exports of non-traditional manufactured goods. The rebates are intended to offset (a) the payment of taxes incurred in the manufacture of the product, and (b) import duties and related charges (taxes offset include import and stamp duties, and production, municipal, wharf, construction, vehicle purchase, land purchase, banking and sugar taxes).

The rebate is expressed as a percentage of the f.o.b. export price, or the c.i.f. price where the goods are carried by Turkish transport. Goods eligible for rebate and the amounts of rebate are decreed from time to time by the Ministry of Commerce. Currently exports eligible for rebate are classified under 11 lists with rebates varying from 5 to 45 percent of the f.o.b. price. Eight of these lists contain export products for which there are two rates with the higher rate applicable to exporters whose total exports of all products exceed $1.8 million in any calendar year. Within the textiles and leather sectors, woven cotton cloth is eligible for a rebate of 40 percent, or 45 percent, if exports exceed $1.8 million. The respective rebate figures for cotton yarn are 20 and 25 percent (recently reduced from 30 and 35 percent) and for leather products, including leather clothing, 15 and 20 percent.

Table A.4 shows the amounts of rebates paid for export of manufactured products for the past three years; in 1975 TL 1,351 million (18.6 percent of the export value) was paid as tax rebates to manufacturing industry. The amounts paid to different industries as a proportion of exports varied markedly; for example, rebates to the textile industry were worth 27 percent of the value of exports in 1975 whereas in the same year the leather industry received rebates valued at 17 percent of exports (see Table A.5.)

Many other countries, including specifically the Common Market countries, also allow a "drawback" of certain domestic indirect taxes paid by exporters, including the value added tax. This practice has been sanctioned by GATT, mainly on the grounds that the same product should not be subject to double taxation, both at the point of production and the point of consumption. In our view, the exoneration of exports from non-discriminatory domestic taxes is, in economic terms, an export subsidy, and the imposition of "value added" or "production" taxes on imported goods a protective duty. The only parts which would need to be refunded in the interest of fully exploiting the country's export potential are above-average, discriminatory taxes on domestic inputs or production and, of course, duties on imported inputs.

(iii) Incidence of tax rebates on textiles/clothing and leather industries

The tax rebates have considerably helped the textiles/clothing and leather products industries in Turkey. The table below gives rebate and tax rates on output and inputs, and shows estimates of effective rates of assistance provided exports through the rebate system, after allowing for the "overvaluation" of the exchange rate (see Annex B).

Process	Export rebate	Net tax on inputs /a	Value added	Effective Subsidy /b	Adjusted for exchange rate /c
		Percent			
Cotton spinning	25	20	30	36	12
Weaving	45	30	45	63	33
Knitting of underwear	45	30	45	63	33
Garment manufacture	45	45	60	45	19
Leather goods manufacture	15	5	30	38	13

Source: Mission estimates, TSKB projects

/a Total incidence of all factors increasing input costs above world prices, i.e. weighted average of export rebates on inputs, production tax on cotton yarn processed in Turkey, premium on domestic sales of cotton, tariffs on dyes, frames, etc.

/b Calculated as $\frac{tf - xtm}{1 - x}$

tf = export rebate
tm = net tax on inputs
x = input/output ratio at world prices

The effective subsidy represents the total effect of all taxes and subsidies including the implicit tax (or subsidy) resulting from the difference between the prices of domestically produced inputs and their border prices.

This formula is analogous to the usual effective rate of protection formula where tf is the tariff on output and tm tariffs on inputs.

/c Calculated as $\frac{1 + \text{effective subsidy}}{1 + \text{rate of currency overvaluation.}}$

Using 1975 price ratios and trade weights, the adjustment for overvaluation was calculated as 22 percent (Annex B). This figure would change over time (as price ratios and trade weights change) and also as a result of more refined price ratio calculations.

For cotton yarn, the 25 percent export rebate compensates exporters for the disability from domestic cotton prices, which at the time of the mission were about 20 percent above the f.o.b. export price. 1/ There are no other excess input costs in yarn production for export, since the machinery used is normally imported duty and tax free, and production tax is not paid on export yarn. The effective rate of assistance afforded the spinning process is about 12 percent.

For woven fabrics and knitted goods, the rebate is increased to 45 percent. This more than compensates for the 25 percent rebate on yarn input, the 30 percent production tax, which must be paid on yarn which is further processed, and duties on materials, such as dyes. After allowing for the overvaluation of the exchange rate, the weaving and knitting processes, in general, receive positive assistance (effective subsidies of 33 percent for weaving and knitting).

In the case of clothing, the 45 percent rebate is of the same order as the subsidies and price differentials on inputs, and value added is higher. This results in an effective subsidy of the order of 20 percent after allowing for the overvaluation of the exchange rate.

For leather products, a high proportion of input is leather supplied at world prices. Given a value added in making leather products or clothing of 30 percent, the effective subsidy afforded by the export tax rebate of 15 percent would be about 13 percent, whch is a sizeable incentive for production In some cases, for integrated producers, hides and skins may be available at less than world prices, leading to even greater effective subsidy.

The positive inducement given to weaving and garment making for export is justified in the short term by the infant industry argument. As Turkey establishes its export capability, the rebates should be reduced to lower levels sufficient only to compensate for the adverse effects of the import regime.

D. Investment Incentives

(i) General Scope

Investment incentives are the main policy instrument for directing private industrial investments in accordance with the Government's Development Plans. The major incentives are (a) exemption from, or deferral of customs duties and other taxes on imports of investment goods, (b) deduction from taxable corporate income of a proportion of the fixed investment, (c) medium and long-term credits at concessional rates of interest, and (d) exemption from payment of the building construction tax. Both private and state enterprises are eligible for investment incentives.

1/ The situation is not expected to continue as international cotton prices are likely to rise from the depressed levels of 1975 and early 1976.

The incentive measures available to each industry are specified in the Annual Plan. Preferred industries are eligible for a wider range of incentives than less preferred industries. The system is administered by the Ministry of Industry and Technology through investment certificates issued for approved projects following analysis of a feasibility report submitted to the Ministry. The main criteria are competitiveness in export markets, use of modern technology, and adequate scale. The investment certificate makes the project eligible for the incentives specified for its industry group. To obtain an investment certificate, at least 40 percent of the investment must be from equity capital (or in less developed regions, 20 percent).

The Table below shows that investments eligible for incentives have increased rapidly in recent years. In 1974, 590 applications for investment certificates were received, of which 488 were approved for projects with a total investment of TL 50 billion. Of these, 421 projects worth TL 48 billion were in the manufacturing sector, a high proportion of total manufacturing investment in Turkey. All but a small portion of new investments in large and medium private manufacturing projects benefit from this scheme.

INVESTMENTS ELIGIBLE FOR INCENTIVES

1970 - 1974
(TL billion)

	Number of Projects		Total Investment in Approved Projects	
Year	All Industries	Manufacturing	All Industries	Manufacturing
1970	73	n.a.	3.2	n.a.
1971	69	n.a.	2.8	n.a.
1972	311	250	27.8	24.7
1973	512	431	44.7	39.0
1974	488	421	50.3	47.6

Source: Ministry of Industry and Technology, 1974 Follow-up Bulletin.
n.a.: Not available.

Of the total investment eligible for incentives in 1974, TL 9 billion or 18 percent was for textile/clothing projects.

(ii) Import Duty Exemption and Deferrals

Under this incentive, imports of investment goods (and, on occasion, raw materials) can be exempted from all duties and taxes on imports. The heavy duties and import taxes on many investment goods make this incentive very important. Table A.6 shows that in 1975, TL 8.3 billion in taxes and duties were waived for manufacturing industries. This was 74 percent of the c.i.f. value of the investment goods imported and 40 percent of the total fixed investment in the projects. On average the exemptions were worth more to projects in the public sector than to those in the private sector (60 percent and 36 percent of the fixed investment respectively in 1975). This reflects both heavier reliance on imported capital equipment in major State projects like steel mills, paper mills, petrochemical plants, etc. and higher average percentage benefits in the public enterprise imports. Data for individual industries are available for 1974 only. In that year, the average value of the incentives in relation to fixed investment was 33 percent for textile/clothing projects which is well below the average for all manufacturing projects of 42 percent.

Some projects which are not eligible for exemption from duties and taxes on imports are permitted to pay these taxes (except stamp duty) by installments over 2 to 5 years. In 1974, 50 projects were granted deferral of import duties and taxes. The fixed capital investment in these projects was TL 2.3 billion and the duties deferred were valued at TL 87 million. In present value terms, discounted for 5 years at 15 percent, this incentive would be worth TL 57 million, i.e. about 2.5 percent of the corresponding fixed investment. Projects granted deferral of taxes on imports had, on average, much less import content than those eligible for complete exemption from the taxes.

(iii) Investment Allowances

The investment allowance enables investors with projects in eligible industry sectors to deduct from their future taxable corporate income 30 percent of the value of investments financed with their own funds, or 50 percent if the project is in an underdeveloped region. To be eligible for this incentive, investments must be larger than TL 250,000, or TL 125,000 in underdeveloped regions.

During 1974, 260 projects with a total investment of TL 11.8 billion benefited from investment allowances; owners' private equity in these investments was Tl 6.1 billion. Based on 43 percent tax rate, the value of this incentive in 1974 would be of the order of TL 900 million, or 7.6 percent of eligible investment. Forty two of these projects, with an investment of TL 2.9 billion, were in the textile/clothing industry.

(iv) Credit at Concessional Rates

A further investment incentive is the provision of medium-term credit. Such credit is advanced through commercial bank funds and through a central Bank rediscount facility. The nominal maximum interest rate is

14 percent if financed from commercial bank funds, or 12-1/2 percent if financed from funds advanced by the Central Bank. Such credits are eligible for interest subsidy of 6 percent, or 4-1/2 percent if financed via the Central Bank, which reduces the rates of interest to 8 percent. An additional 1 percent subsidy is given to projects in the designated less developed regions. The amount of this credit advanced by the Central Bank increased from TL 148 million in 1971 to TL 3,324 million in 1974; in 1975 this amount fell to TL 2,278 million.

If the projects have planned exports over a five-year period, of at least 25 percent of output or more than US$1 million (12-1/2% of output or US$1/2 million in underdeveloped regions), they are exempted from the banking transaction tax of 25 percent of interest and commission charges on the loan, (a saving of about 4 percentage points). However, the interest subsidy on such loans is reduced from 6 percent to 4 percent.

The following table shows the amount of credit supplied in 1973-75 to industries with an export commitment.

MEDIUM TERM CREDITS FOR PROJECTS WITH AN EXPORT COMMITMENT

Year	No. of Projects	Amount of Credit (Million TL)	Export Commitment for the following 5 years ($ million US)
1973	90	3,459	679
1974	99	3,921	612
1975	162	5,893	754

Source: Ministry of Industry and Technology .

A significant share of these credits was given to the textile/clothing industry. For example, in 1974, TL 2.5 billion, 64 percent of the credits, were supplied to the textile industry.

(v) Impact of Industrial Investment Incentives

The importance of investment incentives is shown in the illustration of an integrated plant producing cotton yarn and knitted underwear for domestic and export markets (Table A.8). This project receives exemption from import duties on equipment and a 30 percent investment allowance; tax rebates on exports are 25 percent for cotton yarn and 45 percent for underwear.

The most important benefits are the exemption from customs duties and taxes on imported equipment, and the export rebates. The other incentives are of less importance. Benefits from the exemption from import taxes in this illustrative case amount to 43 percent of the cost of imported equipment and 26 percent of total fixed investment. In the absence of the incentives, the net present value of pre-tax profits would be reduced from TL 109 million to TL 23 million, resulting in a lowering of the financial rate of return on the project from 21 percent to 4 percent. Other information suggests that this illustrative example is roughly representative of the impact of incentives on other projects.

The incentive system in recent years has favored the growth of manufacturing industry in designated less developed regions. All projects in these regions are eligible for exemption from import taxes and the investment allowance of 50 percent. (In contrast, new projects are normally not granted investment certificates in the overcrowded Istanbul region). Investments in less developed regions comprised 21 percent of all investment eligible for incentives in the years 1968 to 1974. In recent years, investment in Central Anatolia, one of the poorer regions, has increased markedly (see Table A.9).

The basic thrust of the investment incentives is to reduce the cost of the capital investment and increase the returns on equity. They thus facilitate private ventures which would otherwise have been thwarted by lack of funds and/or indifferent earnings prospects. Allied with the preference shown to less developed regions, this is a highly sensible basic policy direction at this stage of Turkey's development.

Nevertheless, important questions may be raised regarding the form of the incentives. By their design, they favor capital-intensive industry and the use of imported equipment. The accentuated growth of textile production ahead of the manufacture of clothing and footwear for export is hardly unrelated to the bias against labor-intensive production in the incentives framework, spinning and weaving being far more capital-intensive than the manufacture of clothing. Secondly, if anybody wanted to make spinning or knitting machinery in Turkey, he would encounter resistance from the users who would not be able to compete with other factories equipped with subsidized imported machines (subsidized through the overvalued exchange rate). A third result of the inherent preference for capital-intensive methods is that there is no incentive to develop and/or use alternative labor-intensive technologies. This is closely linked to the fourth result, namely the virtual exclusion from the incentives scheme of smale scale enterprise. These could, however, be compensated through other support tailored to their specific needs.

We understand that the Turkish Government is conscious of a need to review present investment incentives. The above discussion has suggested that, in that context, it might also want to consider a shift from instruments which put a preference on capital-intensive production and imported equipment to instruments which are more neutral in that respect, and possibly can favor investments which guarantee a higher volume of employment.

Table A.1 : IMPORTS BY TYPE OF FINANCING
(Million US$)

	1970	1972	1974	1975	1976 Program
I. Programmed imports					
- Liberalized list	366	708	2524	2919	2900
- Quota list	192	412	697	1163	1450
	558	1120	3221	4082	4350
- Bilateral agreement countries	96	100	222	161	100
Total	654	1220	3443	4243	4450
II. Self-Financing import					
- Foreign credits	113	249	236	216	300
- Foreign private capital	43	28	16	142	125
- Imports with waiver	62	55	58	98	100
- NATO infrastructure	17	10	24	38	25
- Other	59	-	-	2	-
Total non-programmed imports	294	342	334	496	550

Source: State Planning Organization.

Table A.2 : RATES OF IMPORT DUTY ON SELECTED MANUFACTURING COMMODITIES

Commodity	Rate of Duty (percent)	List
Industrial materials		
PVC	50	Liberalization I
Caustic soda	40	Liberalization II
Cotton yarn	60	Prohibited
Refractory bricks	5	Liberalization II
Aluminum bars	40	Quota
Iron and steel angles shapes	35	Liberalization II
Iron and steel tube pipe fittings	40	Quota
Wrought copper plates, sheets and strip	40	Liberalization II
Man-made fibre fabrics	100	Prohibited
Woven cotton fabrics	70, 90	Prohibited
Equipment		
Ball bearings	5	Liberalization I
Rubber washers	40	Liberalization I
Lathes	20	Prohibited
Industrial sewing machines	40	Quota
Pulp and paper making machinery	45	Prohibited
Cotton weaving machines	15	Prohibited
Consumer goods		
Leather goods	150	Prohibited
Leather garments	150	Prohibited
Footwear	100	Prohibited
Men's and boy's outergarments	125	Prohibited
Hand tools	75	Quota
Filing cabinets	75	Prohibited
Movie projectors	24	Liberalization I
Motor cars	75	Prohibited

1/ Rates applying to imports from non-EEC countries. Rates for EEC imports are 20 percent lower for some products and 10 percent lower for others.

Table A.3 : COLLECTIONS OF TAXES ON IMPORTS
(Million TL)

	1971	1972	1973	1974	1975
Customs duties (excl. petroleum)	1806	2276	2840	3959	4935
Customs duty on petroleum	183	222	307	329	470
Production tax on imports	1842	2406	2967	4341	4653
Petroleum production tax	1937	2594	3115	3025	5239
Stamp duty on imports	1118	1343	1610	2421	3669
Wharf duty	56	90	158	388	515
Total	6942	8931	10997	14463	19481
Tax revenue as a percentage of imports	40	39	35	28	28

Source: Ministry of Finance

Table A.4 : TAX REBATES - MANUFACTURING SECTOR, 1973-75

Year	Total Manufacturing Exports (TL Million)	Exports Eligible for Rebate (TL Million)	Share in Total Exports (per cent)	Value of Tax Rebates (TL Million)	Average Rebate (per cent)
1973	6090	4396	72.2	889	14.6
1974	8373	5971	71.3	888	10.6
1975	7274	7099	97.6	1351	18.6

Source: Ministry of Commerce, Ministry of Finance

Table A.5 : TAX REBATES CLASSIFIED BY INDUSTRY 1975

Industry	Amount of rebate (TL Million)	Exports (TL Million)	Average Rebate (per cent)
Food processing	192	1860	10.3
Textiles and clothing	496	1844	26.9
Leather and leather products	157	939	16.7
Glass	84	259	32.4
Chemicals	73	474	15.4
Iron and steel	77	a/	a/
Non-ferrous metals	81	184	44.0
Metal manufactures	67	201	33.3
Other	124	1513	13.3
Total	1351	7274	18.6

Source: Ministry of Commerce, Ministry of Finance

a/ - not separately available, included in "other"

Table A.6 : EXEMPTION FROM DUTIES AND TAXES ON IMPORTS
(Million TL)

Year	Private Sector				Public Sector			
	No. of Projects	Fixed Investment	c.i.f. Value Imports	Tax Exemption	No. of Projects	Fixed Investment	c.i.f. Value Imports	Tax Exemption
				MANUFACTURING INDUSTRY				
1972	155	7556	2524	1701	24	2156	854	751
1973	326	13503	6619	4283	41	1387	596	457
1974	315	17876	7492	5188	38	7148	3195	2873
1975	318	13645	7401	5047	37	4863	3303	2906
				ALL INDUSTRY				
1972	190	8144	2686	1856	150	3489	1645	978
1973	361	15787	7480	4877	124	1715	945	674
1974	340	18454	7625	5271	49	8586	3600	3142
1975	340	14223	7536	5131	48	6302	3708	3170

Source: Ministry of Industry

Table A.7 : DEFERRALS OF DUTIES AND TAXES ON IMPORTS

ALL INDUSTRY (Millions TL)

	Private Sector			Public Sector		
Year	No. of Projects	Fixed Investment	Taxes Deferred	No. of Projects	Fixed Investment	Taxes Deferred
1972	131	2066.4	n.a	8	183.8	n.a
1973	200	2011.4	n.a	-	-	n.a
1974	48	2206.8	71.1	2	61.6	15.7

n.a: not available

Source: Ministry of Industry

Table A.8 : FINANCIAL IMPACT OF INCENTIVES ON A PROJECT [1]

Integrated Producer - Cotton Yarn and Underwear

('000 TL)

	With Incentives	Without Incentives
Fixed Investment		
Land and buildings	22,400	22,400
Machinery and equipment		
- imported	79,739	79,739
- locally produced	9,720	9,720
Customs duties and taxes on imports of investment goods	-	34,107
Other investment costs	19,541	19,541
	131,400	165,507
Income Statement [2]		
Yarn sales (incl. production tax)	67,814	67,814
Tax refund on export of yarn	16,954	-
Sales of Ready-made goods domestic market (incl. production tax)	312,939	312,939
exports	95,872	95,872
Tax refund on export of ready-made goods	43,142	-
Other income	7,008	7,008
Total income	543,729	483,633
Cost of Sales	404,000	415,439
Interest	29,764	44,883
Profit	109,965	23,311
Corporation tax	32,959	7,077
Net Profit	77,006	16,234

1/ This table gives an indication of the effects of direct financial incentives only, (i.e. tax rebates on exports, exemption from duties and taxes on imports, and write-off of investments against corporation tax liability). It takes the existing system of duties and restriction on imports as given

2/ Net present value of 10 year income and cost streams discounted at 20 percent.

Table A.9 : INVESTMENTS ELIGIBLE FOR INVESTMENT INCENTIVES, CLASSIFIED BY REGION, 1968 - 1974
(per cent)

Region	1968	1969	1970	1971	1972	1973	1974
Marmara	78	51	36	39	36	41	23
Black Sea	1	29	19	2	3	5	5
East Anatolia	1	1	..	2	5	1	3
South-East Anatolia	1	..	6	4	4	2	3
Mediterranean	6	11	22	35	24	19	16
Aegean	6	2	5	11	17	9	33
Central Anatolia	7	2	5	7	10	13	17
Other	–	3	7	..	2	10	..

Source: Ministry of Industry

EFFECT OF PROTECTION ON THE EXCHANGE RATE

The tariffs and restrictions on import of goods into Turkey raise the price of imports in Turkish currency. This will normally result in a reduced import value. As a result, the value of the currency is held at a higher level than if there were no tariffs or quantitative restrictions. At the same time, export subsidies increase the returns to exporters in domestic currency and also contribute to an overvalued exchange rate.

In measuring the level of tariffs and subsidies, some adjustment should be made for the overvaluation of the exchange rate; the real level of protection will be the tariff or export subsidy minus the extent of the overvaluation. A "devaluation equivalent" benchmark against which to judge the real height of subsidy or protection against imports has been estimated by taking the weighted average of tariffs and export subsidies through the formula:

$$r_{adj} = r \frac{X\,(1 + tx) + M\,(1 + tm)}{X + M}$$ 1/

r_{adj} = adjusted rate

r = actual rate

X = value of exports

M = value of imports

tx = average level of export assistance

tm = average levelof import assistance.

Using 1975 values, the estimation of the overvaluation of the exchange rate is 22 percent. The values used for exports and imports are the actual values for 1975. For tx, export subsidies paid in 1975 were used. No allowance was made for subsidized export credits, the subsidy element of which was small in relation to the value of the export subsidy. The value

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1/ This formula has been used in practice to calculate the shadow exchange rate for IBRD projects analysis in Turkey.

used for tm was the collection of import duties and other taxes on imports expressed as a proportion of the total value of imports. 1/

Thus, import protection and export subsidies above this benchmark of 22 percent can be taken as providing positive real protection and tariffs and subsidies below 22 percent, negative protection.

This estimate assumed that the balance of payments is currently in equilibrium, given the trade regime, i.e. that there is no unplanned reserve loss or temporary short-term capital movements. Although there will be a continuing deficit in the current account, indications are that this will be offset, in the medium term at least, by long-term capital inflow and remittances of workers abroad. 2/

1/ This measure might be expected to give an underestimate of the protective effect of the import restrictions. For example, tariffs may be set at prohibitive levels, and there will be no collections of duty. Yet the protective effect is still high. At the same time, import prohibitions in Turkey are important in the protective structure and, of course, no duties are collected on these goods.

To gain an approximate idea of the impact of the non-tariff barriers, available information on price differences between goods on Turkish and world markets was collected. Domestic sales in each major production category were weighted by these price differences. The resulting average price difference was 24 percent. This figure is of the same order as the proportion of duties and taxes collected to total imports, i.e., 26 percent. While the information on price differences is certainly not comprehensive, it does give some indication that any bias resulting from the use of the collections figure will not be too serious.

2/ See Turkey, Country Economic Memorandum, August 24, 1976.

ON THE DEFINITION OF LARGE, MEDIUM, AND SMALL ESTABLISHMENTS

1. The main generic difference between small and medium is the handicap suffered by SSI in their access to management, technology, markets, and finance. Similar constraints often apply to medium as compared to large enterprise - a point highlighted in our discussion of the textiles/clothing and leather/leather products industries. For both small and medium establishments, an increasingly important consideration will be their ability to establish a nexus with respectively the national or world markets, either directly or through larger establishments. 1/

2. In line with this conceptual framework, we defined large establishments as those employing 200 or more, medium establishments as those employing 10-199, and small establishments as those employing less than 10 persons. This differentiation, as we shall see below, is reinforced by several practical considerations. Like most statistical classifications, however, the ones adopted here are highly approximate. Many small establishments partake of the qualities attributed to medium establishments while some medium establishments (e.g. certain sewing shops) are essentially larger versions of the same generic type, using identical machinery and marketing methods, etc.

3. In Turkey, employment of 10 persons is the most common separation line between medium and small establishments. It is supported by statistical custom and the jurisdicton of several official agencies (Industrial Census, Small Industries Department of the Ministry of Industry, lending activities of the Halk Bank, etc.). Our borderline between medium and large is more subjective, determined both by the fact that, in the Turkish Census, the highest size group encompasses establishments with 200 or more workers and by the fact that this group includes about 500, an appropriate number often used to identify the largest industrial corporations in other countries.

4. Notwithstanding the weight of statistical custom and institutional association, it could be argued that either total assets or fixed assets (or possibly total horsepower as a proxy for fixed assets) would provide a better dividing line between small, medium, and large than employment. Total assets are closely correlated with financial power which, in turn, gives access to

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1/ Conceivably, this will only be accomplished through major changes in financial and ownership structures which points to another important difference between the typical medium and the typical small establishments, as illustrated by the Swedish example. Today, among Swedish establishments employing 100-499 persons, two-thirds had ownership ties with larger establishments (immensely facilitating access to management, technology, finance, and markets), while only one-sixth of those employing less than 100 had such links.

market, technology, and management. And fixed assets (or horsepower) is a measure of mechanization and often, though not invariably, the use of technology. Exploring the idea of capital rather than employment as the measure of size, one arrives at several interesting observations:

(a) Halk Bank only lends for projects with an investment in fixed assets not exceeding TL 5 million. This almost exactly coincides with a definition of SSI proposed in a recent Draft Bank Staff Issues Paper on SSI (March 30, 1976).

(b) The implicit fixed assets/employment ratio reconciling the fixed assets limit of TL 5 million and the employment limit of 10 persons is TL 500,000 per person employed. This is almost certainly well above the typical investment per worker in Turkish SSI.

(c) Preliminary studies undertaken by TSKB of some 420 new projects suggested that, for establishments employing 50 or more workers, 1/ there was little or no correlation between size and fixed assets per worker. The medium investment per worker for this group was TL 435,000; there were only 12 projects with investments per worker below TL 200,000 and only 8 projects with total fixed investments below TL 25 million.

(d) Essentially, by our definition, the projects financed by TSKB were medium-sized projects. Yet, it is clear that size is not related uniquely to either employment or investment but rather to the combined weight of both. One obvious proxy for size would be the combined remuneration of capital and labor, i.e. aggregate value added.

(e) It also appears that there is a financing gap between the Halk Bank's upper limit of a fixed investment of TL 5 million and TSKB lending operations which seldom touch projects with fixed investments below TL 25 million. This would explain Halk Bank's recent efforts to extend its lending to projects requiring TL 10 million or even TL 15 million fixed investment. The seriousness of the gap would depend largely on the number of new projects (proposals for new establishments)

1/ In the total sample, there were 12 or 13 establishments in each of the size groups 50-99, 100-199, and 200 and above and only 4 establishments employing less than 50 workers.

within the stated range. It is conceivable that the dividing line between small and medium could coincide with some kind of structural hiatus, e.g. a sharp rise in investments per worker and/or a sharp rise in minimum economic scale of operations when a small unit leaps from a local to national market. This would certainly be an interesting theory to explore. It is supported by certain empirical observations: If a small firm works in rented premises (as they often do), the fixed investment might be reduced by as much as one-half, and if it works on materials supplied by others (also common occurrence), the total capital requirements show another significant drop.

5. In conclusion, the concept of "small" is represented by establishments employing a small number of workers and, at the same time, a relatively small investment per worker. This group of estalbishments, in Turkey, generally employ less than ten workers and, in the vast majority of cases less than five workers. Many of them will have great difficulties in making a transition to modern industry. Working inside major towns, they represent, at the same time, an urban problem and, in many cases, a poverty problem.

6. The concept of medium is generally well represented by establishments employing 10-199 workers. However, that category includes some establishments with less than ten workers, but with a fixed investment in excess of $300,000 equivalent (the upper limit for Halk Bank lending). More important, it will include, at its lower range, a fairly large number of establishments with ten or more workers, but with a total investment of less than $300,000. Although formally in the category of "medium industries", particularly through their association with the Turkish Chamber of Industries, in reality they partake of the characteristics of SSI. Even medium establishments (in the conceptual sense) vary greatly in their potential for <u>independent</u> growth. This is a problem that is best approached at the level of the individual industry. As a group, however, medium industries represent a major development potential for Turkey.

MEDIUM-SCALE ENTERPRISE

Introduction

1. Medium-scale industrial establishments (MSI) may be defined as those emloying 10-199 workers. There are some 4,000 such establishments in Turkey. For the most part, they are concentrated in the same subsectors as the SSI, i.e. food processing, textiles and clothing, metal products, etc. The industrial censuses do not reveal to what extent medium establishments are individually owned or controlled by larger enterprises or holdings. It is the mission's impression, however, that there are a large number of independent industrial establishments (i.e. where the establishment unit coincides with the enterprise); many of these are family-owned.

2. Medium establishments, independently of corporate organization, have a vital role to play in the development of an increasingly export-oriented Turkish industry, whether as manufacturers for export or as subcontractors or suppliers of ancillary materials or other inputs to direct exporters. They need assistance in two respects: studies to explore their development potential in each industry and support in developing that potential, such as assistance in management, technology, marketing, and finance.

Need for Subsectoral Research

3. Large enterprises have the means for carrying out their own market and project studies and prefer this mode of operation. Medium-sized enterprises in a given industry can save much effort and money through cooperative subsectoral studies. The aim of such studies would be threefold.

(a) in each subsector, to examine the role and viability of different types and sizes of establishments and possible links between them, whether by way of equity participations by large groups, or "horizontal" combinations, or cooperatives, or subcontracting, etc.

(b) to define the potential for medium establishments in their subsector and to set targets in terms of production, productivity, quality, export sales, etc.

(c) to indicate the necessary follow-up action in the form of market studies, project studies, internal and external rationalization, technical assistance, new legislation or institutions, etc.

4. To undertake such studies of sectors where MSI are active and, perhaps, also of problems common to most MSI, it is recommended that a special Research Centre for MSI be created (see ANNEX E). Among the the industries to be studied, one can think of textiles, clothing, leather

and leather products, metal fabrication and engineering, handicrafts, and possibly plastics processing. It is envisaged that the center should be administered and financed essentially by the medium industries themselves. However, in the initial phase, it could profit from financial support by the TSKB and Turkish commercial banks. Such support would be justified by the expected contribution of such sector and project studies to project generation and lending.

Management and Technology

5. The next decade is going to be one of rapid change for Turkish industry. This will accentuate difficulties already experienced by MSI in forward planning, tehnology, and marketing. Basically, their problem is one of upgrading and reinforcing their management capabilities. Sometimes, this can be done through strengthening of in-house talent or by contracting certain tasks to independent consulting engineers or marketing agencies. Sometimes, collective and industry-wide action will be required.. In the field of technology, the pioneering work done at Pendik in training specialists for the leather industry could serve as an example for other sectors of industry.

Industrial Restructuring

6. In many subsectors, the transition to modern, export-oriented industry cannot be accomplished without substantial restructuring of the industry with a view to more effective organization for production or sales or both. In the chapters on the textiles/clothing and leather/leather products industries, reference was made to the problems faced by the small woolen weaving mill cooperatives in Istanbul and to the need for the woolen mill cooperatives and independent textiles finishing plants and the reorganization of the tanning industry. Sometimes, such reorganization may need to be supported by the State, e.g. through a concerted action program as in Spain, whereby individual firms accept certain targets and restructuring actions in return for State incentives and financial support. The Turkish footwear industry could be a case in point. Such restructuring, of course, would involve the larger plants as well; in fact, the larger enterprises - whether already existing or created through mergers or cooperatives, whether Turkish or foreign-owned (depending upon the needs of each industry) would serve as the main engine of development.

Industrial Finance

7. In the main text of this report (para 6.2), it is argued that there may be an industrial financing gap for establishments with fixed assets in the range of TL 5-25 million, which are too large to qualify for Halk Bank loans, but often too small to be covered by TSKB. This gap might be closed, in theory, by the Halk Bank extending the upper limit for its lending to firms with fixed assets of TL 10 or even 15 million (as it is actually planning to do) and by TSKB promoting projects somewhat below its typical lower lending limits. In practice, lending to this group may be hampered by financial-technical problems. In order to justify financing, a regular

project appraisal may be required as compared with the routine procedures and emphasis on security in Halk Bank lending. On the other hand, the projects may be too small to be economically appraised by TSKB. It is in this area that a Research Institute for Medium Industries could be of great assistnace by undertaking subsector and project studies in support of future lending.

Incentives

8. The design of the incentives system encourages capital-intensive production, particularly with a high import content. Such production can then be sold on the protected domestic market. Generally, labor-intensive industries where Turkey has a comparative advantage, for example, clothing, leather goods, handicrafts, engineering products, or plastics manufactures, receive less net benefits. Many of these industries are well suited to manufacture in medium-sized units. While the evidence is strong that the incentives system is weighted against industries where medium and small industries predominate, it is less clear whether the tax and incentives system is biased against medium-sized units as compared with large units in the same sector. This would be true only where medium enterprise in the same industry is distinctly less capital-intensive than large enterprise. In fact, preliminary studies by TSKB of projects financed by that institution in recent years (generally generating employment of at least 50 people) showed no significant correlation between size and capital-intensity. This does not mean that it is a matter of indifference whether incentives are related to the investment in a given project or to its employment. As long as the incentives are all in favor of using or capital, their net effect is inevitably to produce less employment than similar total subsidies granted in relation to the number of new jobs.

PROPOSAL FOR A RESEARCH INSTITUTE FOR MEDIUM-SCALE INDUSTRIES

Definition of Medium-Scale Industries

1. Tentatively, we have defined medium-scale industries (MSI) in Turkey as those with fixed assets in the range of TL 5-25 million, i.e. above the typical limit for Halk Bank lending, but below the size of projects where TSKB is especially active.

Motives behind a Special Research Institute for MSI

2. It is our general thesis that medium-scale industries have an important role to play in Turkey and that their progress is inhiibted by institutional gaps in access to management, technology, export markets, and finance.

3. The creation of a special research institute for MSI at this juncture is justified by the following considerations:

(a) The relative backwardness of MSI in Turkey, the heavy focus of recent industrialization on huge capital-intensive investments in, e.g. steel, pulp and paper, fertilizers, and petrochemicals, with few developmental links to MSI, the special and urgent needs of upgrading MSI for the purpose of integration with the Common Market, whether as export-oriented industries or as subcontractors or suppliers of ancilliary items to the direct exporters.

(b) The partly conflicting interests of the larger enterprises and the medium and small enterprises, which may rule out, for the time being, a research center combining large and medium industries. The Turkish Industrialists and Businessmen's Assocation does very useful research along the lines indicated, but this research is sponsored by some 33 leading business groups and, therefore, more attuned to the interests of the larger groups. The Chambers of Commerce and Industry, on the other hand, which in principle cover all establishments with 10 or more workers, are not geared to this type of research.

(c) Large enterprises have the means for carrying out their own market and project studies, and prefer this mode of operation. Medium-sized enterprises facing a similar situation can save effort and money through cooperative research.

4. From an operational view, the lack of knowledge regarding the distribution, working conditions, and development potential of existing MSI and the consequent lack of realistic goals for these enterprises has created a vacuum for decision-making. By the same token, there is, as yet, no firm basis for a financial operation focussed on that sector.

Objectives

5. Without necessarily ruling out more general studies, it is our conviction that the focus of work of the proposed institute should be on individual industries and center on the following tasks:

(a) Industry studies defining the prospects and potential of each industry, the role and viability of different types and sizes of establishments and possible links between them, whether by way of equity participation by larger firms, or "horizontal" combinations, or cooperatives, or subcontracting.

(b) Promotion of necessary follow-up in the form of project studies, market studies, internal and external rationalization studies, necessary legislation, or new institutions, etc.

Organization and Finance

6. The institute should be organized by those immediately interested - in the first place the medium industrialists and secondly the relevant financial institutions, in particular TSKB and the commercial banks. For some time, the GOT has been trying to push the commercial banks into a more active role in the medium-term financing of MSI, whether direcly or through institutions like SYKB. One reason this effort has met only with partial success is the observation that the commercial banks are not development-oriented. Yet, a more active developmental role for the commercial banks is impeded by difficulties and uncertainties of industrial investment goals in a developing country as contrasted with a continuous evolution and tradition in the more successful industrialized countries. A the same time, Turkish banks do not benefit to the same extent from the mature support of a network of large enterprises and specialized institutions present in an industrialized country. Finally, the very success of TSKB has preempted some of the functions which, in other countries, might be performed by commercial or "mixed" banks. One might hope that the proposed institute would help the commercial banks by providing a general framework and specific points of reference in their lending to different industries. One by-product of this cooperation would also be a clearer understanding of a desirable division of tasks between TSKB and the commercial banks. The latter have a natural advantage in relation to at least the smaller MSI because (unlike TSKB) they have an extensive regional network and because MSI are already clients with whose management and operations they should normally be quite familiar.

7. The staff of the Research Institute could be quite small. Their task essentially would be to administer and coordinate studies carried out by changing teams of experts. This, of course, would not exclude staff members from participating in the studies; in fact, such participation would ensure continuity and direct contact with the field of study. The head of the institute should be a person of outstanding academic qualifications, substantial relevant experience and proven objectivity and leadership.

8. We would look upon TSKB's initial role as fulfilling mainly a catalytic function. To the extent the concept has validity, the budget of the institute should be supported, in the main, by the beneficiaries, i.e. the medium industries. Nevertheless, the TSKB has an initial operational interest in this matter: to support the growth and expedite the flow of funds to MSI. Hence, both institutions should be willing to assist in the financing of the initial studies. This could be achieved by a larger than normal spread for TSKB in the next loan to cover some of their developmental expenses - whether through in-house studies and/or financial contributions to the proposed institute.

9. Some longer-run contributions by TSKB and other financial institutes might also be justified in proportion to the additional business generated through the institute and, more generally, because of the contribution of the institute to sector and project appraisal.

Liaison with SPO, SEE, and Halk Bank

10. The proposed Research Institute would be of assistance to SPO by providing inputs for the planning process. The necessary liaison with SPO could be easily maintained without formal SPO representation on the board of the institute. It is very important that the institute be regarded as apolitical and committed to a scientific approach to development.

11. The SEE's are controlled by gaint holdings which should be fully capable of carrying out their own studies. Their relationship to the institute would, therefore, be similar to that of the large private holdings, i.e. mainly one of suppliers and clients. Moreover, the SEE's, even where they compete directly with private sector enterprise, have privileged access to State funds. In practice, the institute would, therefore, serve the private sector. The fact that the State sector has ambitious plans and projects for many, if not most, of the very industries to which the institute would devote priority attention (textiles/clothing, leather/footwear, engineering products) is a datum that would need to be taken into account by the studies. No doubt, these studies would want to point out both areas where State enterprises would be supportive and other areas where they would run the risk of preempting (or, at the very least, diverting savings from) more dynamic and efficient private enterprise. 1/

1/ According to a recent press release, Sumerbank is planning to build six new textile factories and no less than ten shoe factories by 1980. (EBA 7/12/1976). The DFC mission presently exploring a new loan through the State Investment Bank will no doubt be able to provide further particulars about these plans.

12. The Halk Bank, at the present moment, is concerned generally with workshops smaller than those on which the institutue's activities would be focussed. The clients of the Halk Bank normally use traditional technologies, work for the local market, and managerial constraints impede their entry into the modern sector. By the same token, the Halk Bank's lending activities and project appraisal methods are different, and it appears to be more vulnerable to political influences. On the other hand, it seems plausible that a great many of the Halk Bank clients would either have to be drawn into the mainstream of modern industry or slowly fade away. Successful transition could be accomplished whether through the initiative of unusually skilled and aggressive small entrepreneurs or through collective efforts (e.g. production or sales cooperatives, etc.). The Halk Bank has tended recently to extend its lending activities to firms somewhat larger than its usual clientele. Therefore, the best form for the association of the Halk Bank (and, indeed, its customers) with the proposed institute would need to be carefully studied.

THE SMALL INDUSTRIALIST AND HIS WORKSHOP IN TURKEY

The small industrialist in Turkey

1. The typical units that form the base of Turkey's industrial pyramid 1/ are one-to-five man workshops (95% of small units, only 5% of 170,000 small units employing six to nine persons) in each of which there is almost always one apprentice or more. The typical owner of such workshops is a self-made man who started out himeself as a boy apprentice and learned the trade haphazardly on the job. He might be termed a craftsman-entrepreneur rather than an industrialist, because he himself has a craft skill and generally owns something more akin to a craftsman's shop than a small factory. He often works alongside his workers and apprentices. This type of small industrialist can be seen working on a drilling machine in a metal shop in Polatli or Gazantiep, or on a semi-automatic loom in a typical two-loom workshop in a 3 x 6 meter room in a textile industry multi-story building. Again, he may be operating on a cutting machine in a 5-10 worker garment workshop in Ankara, or operating a trimming machine in a leather shoe shop in Istanbul. Only a few have any formal education beyond primary level, although many have gone through short specialized training course in their trades. Those who have had education beyond primary level, are generally technical high school graduates. No workshop owner seen by the mission was university trained specialist. Some owners met at Gazantiep and Polatli had worked in larger firms where they had received a more or less structured training. A related group are owners who have spent some time abroad, particularly in Germany, picking up new skills or having their skills sharpened as migrant workers. These are among the most ambitious small entrepreneurs; they have money and they often bring back with them machines bought abroad.

The workshops

2. The workshops of SSI in Turkey display the universal trait of an unorganized, informal sector, complete with basement premises and children working the same unusually long hours as adult workers (10-12 hours a day five days a week plus Saturday mornings). Many small metal shops in Polatli and Gazantiep and many tanneries in Istanbul are reminiscent of the difficult condition prevailing in industralized countries during the early stages of the industrail revolution.

1/ At the top of the pyramid there are less than 500 firms employing 200 persons or more (78 firms employing 1,000 persons or more), at the bottom lay 170,571 small workshops employing less than 10 persons each. In between there are about 4,332 units employing 10-200 persons (3,995 units employing 10-100 persons); these units constitute the upper layer of Turkey's SSI which are arbitrarily referred to as medium industries in this report.

3. Most of the metal shops visited in Polatli and Gazantiep were set up in small houses in back streets. Some were even in the middle of better residential quarters. The size of these shops can be from 3 x 5 meters to four or five times that figure. Everywhere they are so confined that it is difficult to walk between the machines without the operators having to step aside. Production in basements and shacks where lighting is poor is quite common. In woodwork shops as well as in metal shops, including those relocated to industrial centers, spray painting (e.g. of agricultural implements) is done without the benefit of an exhaust system. Protective clothing is rare even in hand grinding operations.

4. The typical shoemaking workshop in Istanbul is set up in two 3 x 4 meter rooms rented in a building. Five or six workers, of whom two or three are children, work on a sewing machine to make the uppers and on a trimming and polishing machine for the finishing work on the lower part. Hand labor makes up perhaps half of the work: cutting the leather and fitting the upper, lower parts to the last. The room is barely lit with a 60 watt electric bulb and a tiny window twice the size of a letter sheet. There were some 30 to 50 such units in each of the three buildings visited by the mission in Istanbul. Some these shoemaking units have their own store, most sell finished products to or work on a commission basis for department stores or other larger stores.

5. In the field of textiles the typical SSI unit visited in Istanbul is set up in a single 3 x 6 meter room in a large building that can house from 20 to 30 such units. Each unit has two power looms operated by one man if the yarn used is of the polyester type, by two men if the yarn is of woolen type. One of the two workers is also the owner and the machinery was made in Germany, Italy and Sweden; some machinery was of the 1963 vintage, many made as early as 1945.

6. Data on fixed assets in industry are not available. The Ministry of Industry adopted the figure of TL 5 million (US$312,500 equivalent) as the upper limit of value of machinery and equipment for an establishment to be called SSI for the purpose of giving credit, but the workshops employing less than 10 workers were seen to have an assortment of machines and equipment that are worth considerably less than US$300,000; their value was probably within US$50,000 in most cases. For example, in textiles, a unit comprising two old German Textina looms or two old Italian looms as seen in Istanbul was valued at 250,000 lira to 350,000 lira or US$15,625 to US$21,875; if they were eventually replaced by two new Swiss made Sulzers looms the cost would be about US$50,000. In other fields of SSI such as clothing, shoemaking, small food processing, furniture making etc., the cost of machinery used in workshops employing less than 10 persons is generally much less than US$50,000. In metal works and transport equipment the value of machinery could approach US$50,000 in many small workshops in Polatli and Gazantiep where presses of 100 ton capacity were seen being used.

Labor, wages and productivity

7. In all SSI units visited, there were children working. The small industrialists like to use young boys as much as possible because they are paid low wages and do not have to be insured, representing a further saving. No doubt these children receive training, but this ancient method of training is not well structured and would at best mold the child's skill according to the master's and senior workers' experiences. In all units of SSI's visited, workers are requried to work the "normal" schedule of a 10 hour day, plus Saturday mornings. In textile units in Istanbul, 12 hour shifts are typical and an "additional salary" is reportedly being paid for hours in excess of an 8-hour day.

8. Wages and productivity of labor are low in SSI. At 6,101 lira per year in 1970 or US$381, the average wage of a full time SSI worker is little over 40% of the amount his colleague in a large industry would earn. Value added per worker in SSI, according to 1970 figures, was 11,951 lira or the equivalent of US$747 which was about 26% of labor productivity in large industries. A large portion of SSI in Turkey apparently only survive by paying low wages and maintaining long working days. Wage differentials are not large among SSI's except in paper products (not printing) and textiles (not clothing) where wages are almost double the SSI average. Labor productivity in terms of value added per worker is also much higher in these two sub-sectors.

9. Official data on changes in industrial productivity are not formally available, but one recent study 1/ shows that labor productivity of SSI has improved overtime since the value added at constant prices increased by 54% between 1963 and 1970 while employment in SSI fell by 8% over the same period.

SSI skilled labor and potentials of the "dormant technology"

10. One of the more important factors that helps keep many of the smaller units of Turkey's SSI's surviving the competition and contributing to potential development of the sector is the availablility of skilled labor and its technical capability and adaptability in SSI; most of these SSI skilled workers are themselves workshop owners or will try to eventually become an owner of a new workshop; rather than join large factories as skilled workers. The Turkish worker in SSI is basically hard working, a man of great natural skill and determination, has frequently shown an extraordinary amount of self-confidence in his ability to tackle any kind of job. The city of Gazentiep and to a lesser extent the town of Polanthi, have special reputations in this respect. Apart from being capable of "copying" the original design which is characteristic of "intermediate technology" prevailing in SSI everywhere in developing countries, the Turkish skilled worker in SSI

1/ The study entitled "The Small-scale Industries in Turkey", by Turkiye Sinai Kalkinma Bankasi A.S. (TSKB) mimeograph.

is capable of improving on original designs. In Polatli an improved version of a seed drilling machine and a standard power loom built by largely self-taught local engineers are examples of Turkish engineering skills in SSI. Much of the equipment being used by SSI is locally produced and several workshops visited had built machines for their own use (e.g. lathes). Two better known cases of technical vitality in Turkey's SSI are the building of an improved slotting machine for joints in wood and and an improved circular saw machines; both are recognized by the Gazentiep Technical Center and 10 such sawing machines have been actually exported to Greece while 15 more units (June 1976) are now on order. These examples illustrate both the skill and tenacity of the Turkish workers in SSI and the kind of technology that is not readily measurable but erasy to see and recognize almost everywhere in the vast SSI sector of Turkey. This great pool of "informal" technology (as opposed to "organized" diffusion or transfer of technology, e.g. from large industrial corporations or research institutions) and the ability of Turkish SSI workers who are embodied with this kind of technology represents an enormous dormant 1/ resource potential which is still to be fully exploited in order to develop in the long run a modern SSI sector along with the growth of large industries. For this purpose, a useful starting point would be to undertake survey of existing technologies and skilled labor in SSI's so that a clearer picture of appropriate technologies for SSI can be obtained and at the same time an integration of these SSI technological potentials can be made into a national development effort.

11. That this particular potential of SSI has been overlooked and somewhat neglected is not peculiar to Turkey but the point should be stressed with particular emphasis in the case of Turkey because the poor image of Turkey's extremely vast number of inefficient tiny units of SSI has overshadowed the potential in terms of appropriate technology of the sector as a whole: government industrial development policy has been for so long based almost exclusively on the growth of large industries, leaving the growth potential of SSI in a dormant state partly because of a common mistaken belief that the "lowgrade technology" which can be quite appropriate for SSI has little to contribute to overall industrial growth.

1/ The term "dormant technology" was coined by Nicolas Jequier (Appropriate Technology, Problems & Promises, OECD 1976) to describe another aspect of the appropriate technology which is also referred to as "intermediate technology", middle-level technology, "progressive technology" and very often as low-cost technology. But a technology appropriate for SSI as already prevails in a number of SSI's in different countries reflects other things than just factors proportion although the labor-intensive aspect is the most relevant element. For this reason, the appropriate technology is also sometimes called the optimum technology.

ANNEX G

TURKISH PEOPLE'S BANK (HALK BANK)

Balance Sheet, Dec. 31, 1975

ASSETS		Turkish Lira
CAPITAL NOT PAID IN		585,981,000.--
CASH		258,588,815.25
IN THE TURKISH REPUBLIC CENTRAL BANK		69,684,181.--
Free	27,765,738.04	
Blocked	41,918,442.96	
LEGAL RESERVES IN CASH		1,168,862,467.63
Supplementary Reserves Compensating Assets	1,161,345,619.56	
Other Legal Reserves in Cash	7,516,848.07	
IN BANKS		97,730,305.94
PORTFOLIO OF COMMERCIAL BILLS AND BOND CERTIFICATES		67,524,960.--
Savings Bonds	1,784,260.--	
Commercial Bills	65,740,700.--	
PORTFOLIO OF NOTES RECEIVABLE		168,757,586.64
ADVANCES		300,399,449.64
OBLIGATED CURRENT ACCOUNTS		1,228,907,692.45
PROFESSIONAL CREDITS		3,939,728,105.95
OUR SUBSCRIPTIONS		585,000.--
Banks Law Article 48, Paragraph 1	585,000.--	
FIXED ASSETS		135,276,575.92
Movable property, insured for 6,000,000 Turkish Lira		
Real estate, insured for 127,000,000 Turkish Lira		
MISCELLANEOUS OBLIGATIONS		75,047,013.90
OTHER ASSETS		257,090,764.73
START UP COSTS		9,928,623.13
DEFICIT CARRIED FORWARD FROM LAST YEAR		53,511,522.63
Total		8,417,604,065.01
REGULATORY ACCOUNTS		12,683,169,328.19
		21,100,773,393.20

GENERAL DIRECTOR

ACCOUNTS DIRECTOR

BALANCE SHEET, DECEMBER 31, 1975

Liabilities				Turkish Lira
CAPITAL				1,000,000,000.--
RESERVES				24,465,414.44
Legal Reserves			7,516,695.03	
Extraordinary Reserves			16,948,719.41	
COVERING FUNDS				6,529,965.71
OUR COMMERCIAL BILLS IN CIRCULATION				2,500,000.--
OUR OBLIGATIONS				557,003,693.44
DEPOSITS				4,734,775,268.52
	Demand	Term	Total	
Official deposits	221,790,583.98	725,355,689.40	947,146,273.38	
Commercial deposits	1,001,255,437.31	21,900,772.14	1,023,156,209.45	
Banks deposits	43,954,521.62	--	43,954,521.62	
Savings deposits	1,947,135,356.34	773,382,907.73	2,720,518,264.07	
PAYMENT ORDERS				18,242,225.82
MISCELLANEOUS AMOUNTS DUE				1,904,539,487.39
OTHER LIABILITIES				145,535,656.14
PROFIT				24,012,353.55
		Total		8,417,604,065.01
REGULATORY ACCOUNTS				
Our endorsements				
To the Central Bank			1,013,600,000.--	
Other			7,509,000.--	
Our Guarantees			599,471,989.30	
Other Regulatory Accounts			11,062,588,338.89	12,683,169,328.19
				21,100,773,393.20

AUDITOR

NAZIM SUNTER

AUDITOR

ABDULKADIR BAYAZIT

TURKISH PEOPLE'S BANK (HALK BANK)

PROFIT AND LOSS STATEMENT — CREDITS

DECEMBER 31, 1975

	Turkish Lira
CREDIT ACCOUNTS	
INTEREST AND COMMISSIONS RECEIVED	581,372,989.22
INCOME FROM COMMERCIAL BILLS AND BOND CERTIFICATES.	7,912,397.58
INTEREST AND COMMISSIONS THAT ARE COLLECTED FOR BANK SERVICES	-7,664,134.65
EXCHANGE PROFITS	19,903,665.74
PROFITS FROM OUR SUBSCRIPTIONS	18,045.72
MISCELLANEOUS PROFITS	26,411,560.40
Total	643,282,793.31

TURKISH PEOPLE'S BANK (HALK BANK)

DEBTS	Turkish lira
DEBT ACCOUNTS	
PERSONNEL EXPENSES	250,526,442.55
TAX, IMPOSTS AND DUTIES	31,065,918.61
INTEREST AND COMMISSIONS PAID	266,412,892.68
EXCHANGE LOSSES	80,762.25
BONUSES TO ENCOURAGE SAVING	4,849,750.--
AMORTIZATION AND RESERVES	7,819,508.67
OTHER EXPENSES AND LOSSES	58,515,165.--
PROFIT	24,012,353.55
Total	643,282,793.31

GROWTH IN MANUFACTURING UNDER ALTERNATIVE STRATEGIES

Professor Anne Krueger has examined what might have been the economic sacrifice involved in Turkey's actual industrialization path of capital-intensive import substitution in 1963/72 as contrasted with more export-oriented (and, implicitly, more labor-intensive) policies. 1/ To that end, she postulated an alternative development path for the First and Second Plan periods of "balanced export promotion and import substitution" (BEPIM) according to which the total investment in manufacturing would have been the same, but each sector would have been allocated new investments in proportion to its initial share of domestic manufacturing value added. Using average capital output coefficients for the periods studied, she arrived at the following hypothetical growth rates as compared with actually achieved growth:

Growth in manufacturing under alternative growth strategies

	Cumulative Rates of Growth		Five-Year Growth in Output	
	Actual	BEPIM	Actual	BEPIM
First Five-Year Plan	10.5	17.0	65%	119%
Second Five-Year Plan	10.3	16.5	63%	115%

The situation under both plans is very similar. Over a five year run, industrial output would expand by about 115 percentage points instead of by roughly 65 percentage points, a difference of 50 percentage points! Turkey would have achieved growth rates more similar to those achieved by countries with export-oriented policies like Taiwan or Korea.

At first sight, one might think that the higher growth rates would have led to greatly increase import requirements and that a balance-of-payments constraint might arise under the alternative growth path. Professor Krueger's figures suggest that the opposite would be true:

1/ Anne Krueger, Foreign Trade Regimes and Economic Development: Turkey. National Bureau of Economic Research, New York, 1974. See, in particular, Chapter IX.

Import requirements under alternative growth strategies
(TL million)

	Capital Goods	Intermediate Goods	Total
FFYP (1961 prices)			
Plan - projected	3,656	1,911	5,567
BEPIM	2,788	1,423	4,211
SFYP (1965 prices)			
Plan - projected	8,966	4,321	13,287
BEPIM	7,888	4,070	11,958

Imports would have grown less under the alternative growth path even though, at the end of the five-year period, industrial production would be about 44 percent higher. Not only would the proposed alternative path be less capital-intensive; per unit of investment, it would use less imported equipment and per unit of output, it would use less imported inputs. Hence, if the operative constraint had been a balance of payments bind rather than a savings bind, industrial growth could have been pushed well beyond the 50 percentage points increment achieved on the basis of an assumed identical investment allocation.

Finally, the employment effects of the alternative strategy are, of course, very favorable.

New jobs created in manufacturing under alternative strategies
(in thousands)

	Plan (projected)	BEPIM	Diff.
FFYP (1963/67)	197.1	335.3	138.2
SFYP (1968/72)	428.0	640.4	212.4

These employment effects were derived simply by taking into account the ratio of employment to value added in 20 industrial subsectors, according to the 1964 Census of Manufactures.

The above analysis considers only proximate effects. It does not take into account possibly even more important dynamic effects such as:

- increase in export earnings
- increases in productivity, product quality, and management and entrepreneurial capabilities associated with an export orientation and exposure to international competition.

TABLE 2.1

PER CAPITA GNP AND GROWTH RATES IN MANUFACTURING

SELECTED DEVELOPING COUNTRIES

Country	1975 GNP US$ per capita	Annual Growth Rate in Manufacturing 1962-1971 percent
Spain	2,700	10.7
Singapore	2,510	16.3 (1967-71)
Greece	2,360	9.5
Portugal	1,610	7.5
Argentina	1,590	6.4
Yugoslavia	1,480	9.3
Iran	1,440	12.0
Mexico	1,190	8.8
Cyprus	1,180	8.6
Romania	1,075	12.6
Panama	1,060	10.6
Brazil	1,010	6.4 (1962-70)
Costa Rica	910	8.8 (1960-70)
Turkey	860	10.6
Peru	810	7.7
Tunisia	760	7.9
Nicaragua	720	11.1
Dominican Republic	720	4.8
Syria	660	6.5
Guatemala	650	4.8
Ecuador	550	11.8
Colombia	550	6.3
Republic of Korea	550	18.1

Sources: United Nations, The Growth of World Industry, 1962-1971, Vol. I, New York, 1974.

IBRD, The Economic Development of Tunisia, Vol. V, Statistical Appendix, Table 2.7. Figures supplied by the Ministry of Planning.

Republic of Turkey, State Institute of Statistics (Publ. No. 680), National Income and Expenditure of Turkey, 1948-1972, Table 28.

IBRD National Accounts Data (for per capita GNP's).

Table 2.2

Pattern of Growth in Manufacturing, 1967-72-76

(Value added at 1965 prices)

	1 1967	2 Planned 1972	3 Est., 1972 1/	4 Planned 1977 1/
Consumer Goods Industries	8.95	12.48	13.23	19.37
Food	3.13	4.30	4.38	5.96
Beverages	.43	.58	.50	.83
Tobacco	1.49	1.70	2.58	3.87
Textiles and Clothing	3.90	5.90	5.77	8.71
Intermediate Goods Industries	7.01	13.10	14.34	28.23
Forest Products	.58	.86	.86	1.32
Pulp and Paper	.17	.35	.41	.80
Printing	.23	.38	.43	.66
Hides and Leather	.09	.12	.12	.23
Rubber	.52	.81	.75	1.18
Plastics	.15	.33	.32	.73
Petroleum Products	1.57	2.75	3.00	5.64
Chemicals				
Petrochemicals	1.00	2.61	3.54	8.07
Fertilizers				
Cement	.38	.85	.76	1.12
Cement and Clay Products	.35	.50	.61	.98
Glass	.31	.52	.80	1.34
Ceramics	.08	.12	.13	.23
Iron and Steel	1.16	2.20	1.88	3.78
Non-Ferrous Metals	.42	.70	.73	1.95
Investment Goods Industries	3.33	6.93	6.33	14.03
Metal Products	1.04	1.85	1.61	3.32
Machinery	.81	2.00	1.26	3.60
Agric. Machinery and Tools	.18	.37	.44	.98
Electrical Machinery	.29	.69	.48	1.19
Electronics	.12	.28	.47	1.22
Road Vehicles	.64	1.26	1.59	2.85
Railway Vehicles	.18	.24	.35	.61
Shipbuilding	.06	.23	.12	.25
Aircraft Repair and Maintenance	.01	.01	(.01)	(.01)
Total	19.27	32.50	33.90	61.63
Five-Year Index (as above)		1.69	1.76	1.82
(official)			1.63	1.67

1/ The percentage rates of increase are based on gross output at 1971 prices. Since we use value added weights, the subtotals do not add up to the major group (e.g. "consumer goods") totals nor do the major group totals add up to the grand total. The differences are shown below:

	1972		1977	
	Gross Value Weights	Value Added Weights	Gross Value Weights	Value Added Weights
Consumer Goods	12.98	13.13	17.17	19.37
Intermediate Goods	12.83	14.34	25.02	28.23
Investment Goods	6.59	6.33	14.30	14.03
Grand Total	31.00	33.90	56.49	61.63

Sources: Col. 1 and 2: Second Five-Year Plan, p. 405
Col. 3 and 4: Summary of Third Five-Year Plan, Table IV.18
Official indices of value added (at factor cost)
1967-72: Statistical Yearbook of Turkey, 1975, Table 406
1972/77: Summary of Third Five-Year Plan, Table III

TABLE 2.3

IMPORTS BY COMMODITY GROUPS

(Million US $)

	1970	1971	1972	1973	1974	1975	1976 /1
Food and Beverages	87.8	67.3	25.2	46.1	276.4	161.6	75.0
Petroleum Products	66.7	124.7	154.9	221.6	762.9	811.5	1,050.0
Fertilizer	31.4	32.0	62.2	131.5	101.3	48.4	55.0
Mainly Industrial Raw Materials							
Chemicals, pharmaceuticals, plastics, rubber, etc.	74.5	89.0	134.4	151.3	250.1	488.8	525.0
Hides, leather, wood, paper, porcelain, glass	15.0	35.0	21.2	22.6	38.2	41.1	45.0
Textiles	37.2	40.9	36.2	52.9	101.1	118.1	150.0
Steel, other metals, etc.	105.8	144.4	189.5	314.0	661.1	767.7	575.0
Mainly Investment Goods							
Machinery and Equipment	247.2	330.3	517.2	652.7	826.1	1,277.0	1,400
Means of Transport	112.7	108.1	178.8	233.9	286.6	395.9	450.0
Optical and Measuring Equipment	17.3	24.7	32.3	40.5	50.9	68.0	75.0
Other	152.0	174.4	210.8	219.1	422.9	560.5	600.0
TOTAL	947.6	1,170.8	1,562.7	2,086.2	3,777.6	4,738.6	5,000.0

/1 SPO estimates.

Source: Ministry of Finance.

TABLE 2.4

EXPORTS BY COMMODITIES

(Million US $)

	1970	1971	1972	1973	1974	1975	Program /1 1976
Agricultural and Animal Products	442.8	491.3	607.4	832.0	851.9	792.6	1,235.0
Cereals and pulses	9.8	13.7	36.2	64.2	22.4	23.2	45.0
Nuts, fruits and vegetables	137.7	145.3	197.4	258.9	291.7	276.0	320.0
Hazelnuts	87.0	84.2	116.5	121.7	173.2	154.1	
Raisins	20.8	21.7	30.5	56.7	53.9	45.5	
Dried figs	7.2	8.6	9.9	16.1	17.2	18.9	
Citrus fruits	15.0	15.6	17.6	25.6	26.6	29.0	
Others	7.7	15.2	22.9	38.8	20.8	28.5	
Industrial crops and forestry products	261.6	292.5	337.6	456.8	466.7	434.5	815.0
Tobacco	78.6	85.9	130.9	132.9	204.5	183.2	
Cotton	173.2	193.1	191.3	305.8	235.3	225.2	
Forestry products	2.8	3.9	5.1	7.3	4.4	4.8	
Others	7.6	7.7	10.3	10.8	22.5	21.3	
Animal products and fisheries	33.7	39.7	36.2	52.0	70.9	54.0	55.0
Livestock	15.7	19.4	15.7	28.0	47.9	25.4	
Wool	-	-	-	-	-	-	
Mohair	3.7	4.2	5.2	10.5	4.5	11.3	
Fisheries (fresh)	6.7	8.4	9.2	11.1	15.6	12.9	
Others	7.6	7.7	6.1	7.4	2.9	4.4	
Mining and Quarry Products	45.4	40.1	35.1	41.7	79.0	105.6	150.0
Chromium ore	15.7	19.4	11.7	13.2	23.1	51.7	
Borates	7.4	6.8	-	-	27.9	28.1	
Magnesite	4.3	4.6	4.3	5.8	8.7	12.0	
Quiksilver	3.2	2.9	1.8	2.1	2.1	1.3	
Others	14.8	8.3	17.3	20.6	17.2	12.5	
Industrial Products	100.3	145.2	237.2	430.4	601.3	502.9	715.0
Food and beverages	41.3	53.1	87.4	149.1	146.1	128.6	152.0
Olive oil	0.2	0.9	2.9	47.8	15.1	17.7	
Sugar	4.0	3.1	23.5	1.0	-	-	
Oil cake	20.8	22.1	28.0	40.4	39.8	29.4	
Others	16.3	27.0	33.0	59.9	91.2	81.5	
Textiles	25.9	37.5	54.8	105.6	149.4	127.5	175.0
Cotton textiles	(12.5)	(7.7)	(11.4)	(14.0)	(11.3)	(11.4)	
Wood and printing products	2.7	4.9	4.9	8.0	2.0	2.1	15.0
Hides and leather products	4.6	10.6	21.5	45.3	72.3	64.9	95.0
Chemicals	8.7	9.5	10.7	19.3	29.3	32.8	50.0
Petroleum products	0.6	2.5	22.7	49.3	85.9	36.1	50.0
Cement					8.0	24.2	25.0
Glass and ceramics	1.0	2.7	3.7	6.6	12.9	17.9	20.0
Non-ferrous metal	11.4	5.7	11.2	22.3	34.0	12.7	40.0
Copper (blister, electroylitic)	(6.1)	(1.9)	(-)	(5.0)	(21.6)	(5.4)	
Metal products and machinery	1.8	2.7	4.1	8.6	16.1	13.9	20.0
Electrical machines	0.3	0.6	0.9	1.5	1.0	0.8	1.5
Others	2.1	15.4	15.3	5.8	44.3	41.4	71.5
Others	-	-	5.1	13.0	-	-	-
TOTAL EXPORTS	588.5	676.6	885.0	1,317.1	1,532.2	1,401.1	2,100.0

/1 SPO data.

Source: Ministry of Finance.

TABLE 4.1

IMPORTS OF COTTON AND COTTON-TYPE TEXTILES INTO THE EEC AREA, [a] 1970-1975

(thousand tons, except as indicated)

	1970	1971	1972	1973	1974	1975
Yarn						
Total		147.1	198.3	223.5	227.5	334.8
Excl. intra-EEC Trade				144.7	162.0	271.9
Net imports [b]		163.1	105.0	117.9	118.5	149.5
Fabrics						
Total	217.8	254.2	284.3	325.3	361.7	319.3
Excl. intra-EEC Trade				228.1	266.2	241.3
Share of imports (excl. EEC-trade) in consumption				29.7%	34.5%	36.5%
Net imports [b]	84.3	95.8	113.9	138.2	152.0	153.7
Apparel & Knitwear						
Total, million $	806			2,510	3,302	
Total				48.4		
Excl. intra-EEC Trade				30.8		
Selected Household Textiles						
Excl. intra-EEC Trade				26.1		

a/ Six original member countries only;

b/ Note, that net imports (i.e. imports minus exports) are not synonymous with imports from outside the EEC area.

TABLE 5.1

Turkey: Leather Clothing
Production and Export, 1969-74

Year	Production ('000 pieces)	Exports Value TL	Pieces ('000)
1969	443	5,506,083	148
1970	541	45,845,498	248
1971	709	145,620,426	409
1972	911	281,536,730	586
1973	1,337	584,435,151	937
1974	1,840	989,199,924	1,390
1975	2,000	910,239,050	n.a.

Sources: TSKB
n.a. : not available

TABLE 5.2

IMPORTS OF LEATHER AND LEATHER PRODUCTS TO MAJOR EUROPEAN MARKETS, 1974

(US $ million)

Country	Leather	Travel goods handbags and similar articles	Leather clothing	Leather footwear
Germany	270.2	111.7	261.4	568.0
U. K.	112.7	44.9	11.8	164.9
France	142.3	38.1	8.9	159.8
Italy	176.5	9.3	4.8	14.6
Total	701.7	205.0	286.9	907.3
Turkish exports to these markets	a/	a/	52.5	a/

a/ less than $100,000

Sources: U.N. Yearbook of International Trade Statistics, 1974;
Turkish Study Center for Export Promotion;
Economist Intelligence Unit, Prospects for the Development of the Export Potential of the Turkish Leather Industries, Sept. 1976.

TABLE 6.1

STRUCTURE OF TURKISH INDUSTRY - NUMBER OF ESTABLISHMENTS AND EMPLOYMENT, 1970

Size of Establishment by Number of Persons Engaged	Establishments		Employment	
	Number	Percent of Total	Number of Persons Engaged	Percent of Total
1000 and above	78	.04	173,359	20.66
500 - 999	126	.07	87,752	10.45
200 - 499	283	.16	88,537	10.55
100 - 199	337	.19	47,156	5.62
50 - 88	604	.34	41,971	5.00
20 - 49	1,531	.87	46,081	5.49
10 - 19	1,860	1.06	25,600	3.05
5 - 9	7,701	4.40	47,160	5.62
1 - 4	162,422	92.84	281,426	33.54
Total	174,943	100.	839,042	100.

Sources: 1975 Statistical Yearbook of Turkey, State Institute of Statistics
The figures for the distribution of establishments employing 10 and more workers were given by SIS to the mission.

TABLE 6.2

DATA ON MEDIUM INDUSTRIAL ESTABLISHMENTS EMPLOYING 10-200 PERSONS, 1974

Size by Employment (Number of Persons)	Number of Establishments	Number of Persons engaged	Value Added TL 000
10 - 19	1,860	25,000	768.521
20 - 49	1,531	46,081	1,679.793
50 - 99	604	41,971	1,579.563
100 - 199	337	47,156	1,691.317
Total	4,332	160,808	5,708.184

Source: The above figures were provided by the State Institute of Statistics during consultations.

TABLE 6.3a

Large and Small Establishments by Industry Groups in Manufacturing Industries

(1963 census of manufacturing and business)
A. Large establishments (where 10 or more persons are employed)
B. Small establishments (where less than 10 persons are employed)

Industry Group		Establishment		Annual average no. of employees		Annual wages and salaries paid		Goods and industrial services purchased by or transferred to establishments		Sales and industrial services rendered to others	
		Number	%	Number	%	000 TL	%	000 TL	%	000 TL	%
Total	A	3 012	1.9	298 965	69.4	2 075 257	85.8	12 835 570	73.1	19 340 922	75.3
	B	157 759	98.1	131 736	30.6	341 423	14.2	4 752 183	26.9	6 344 311	24.7
Food industries	A	885	5.7	48 928	70.2	313 354	83.2	4 008 743	76.3	5 194 805	77.7
	B	14 588	94.3	20 745	29.8	63 087	16.8	1 245 149	23.7	1 435 833	22.3
Beverage ind.	A	42	3.9	4 418	72.5	31 555	86.8	179 072	79.4	390 886	85.7
	B	1 027	96.1	1 672	27.5	4 809	13.2	46 407	20.6	64 393	14.3
Tobacco "	A	67	67.0	23 919	98.9	110 502	98.7	1 220 128	97.1	1 684 083	98.3
	B	33	33.0	775	31	1 400	1.3	36 045	2.9	29 381	1.7
Textiles	A	711	6.5	95 048	87.2	568 073	93.3	2 717 070	77.3	4 139 464	81.5
	B	10 197	93.5	13 965	12.8	40 881	6.7	772 989	22.1	942 558	18.5
Footwear and other wearing apparel	A	34	0.1	2 951	9.2	24 299	29.8	62 291	11.9	101 189	11.7
	B	54 236	99.9	29 073	90.8	57 172	70.2	463 537	88.1	760 793	88.3
Wood & cork products	A	94	0.7	5 788	35.9	35 501	56.9	152 525	27.9	257 706	32.7
	B	12 710	99.3	10 320	64.1	27 158	43.1	394 798	72.1	530 553	67.3
Furniture & Fixtures	A	40	0.9	878	16.3	4 967	32.1	26 361	20.2	39 822	20.8
	B	4 621	99.1	4 496	83.7	10 609	67.9	103 887	79.8	151 742	79.2
Paper & Paper prod.	A	26	6.9	7 495	91.8	89 287	95.8	180 227	78.7	293 235	85.2
	B	352	93.1	671	8.2	3 061	4.2	54 630	23.3	68 270	14.8
Printing&Publishing	A	121	7.1	5 014	60.8	55 849	80.9	111 097	58.4	242 552	66.7
	B	583	92.9	3 229	39.2	13 178	19.1	79 258	41.6	121 316	33.3
Fur & leather prod.	A	63	1.3	1 814	42.3	14 771	68.9	103 676	41.4	135 524	42.2
	B	1 858	97.7	2 477	57.7	6 680	31.1	146 764	58.6	185 757	57.8
Rubber products	A	99	11.0	5 176	83.0	31 772	93.4	109 486	72.9	174 379	78.2
	B	801	89.0	1 063	17.0	2 260	6.6	40 638	27.1	48 555	21.8
Chemicals & chem. products	A	166	17.8	13 934	89.2	127 851	93.8	649 839	80.7	1 074 134	85.1
	B	766	82.2	1 688	10.8	8 427	6.2	155 381	19.3	187 579	14.9
Petroleum & coal products	A	7	7.8	1 812	92.9	35 078	98.9	707 085	99.5	1 052 586	99.6
	B	83	92.2	138	7.1	385	1.1	3 248	0.5	4 635	0.4
Non-metallic mineral products	A	137	4.6	19 317	79.4	130 296	89.7	281 575	71.5	678 320	81.0
	B	2 810	95.4	5 147	20.8	14 907	10.3	112 446	28.5	158 550	19.0
Basic metal ind.	A	38	10.0	12 431	10.0	124 991	10.0	792 452	10.0	1 222 348	10.0
	B	—	—	—	—	—	—	—	—	—	—
Metal products (except machinery)	A	223	0.8	20 003	49.5	101 309	77.1	895 732	51.3	1 102 422	54.5
	B	29 416	99.2	20 423	50.5	47 988	22.9	659 172	48.7	920 380	45.5
Machinery (except electrical mach.)	A	83	6.0	5 185	75.3	43 931	89.2	286 949	82.9	436 172	83.2
	B	1 310	94.0	1 700	24.7	5 295	10.8	59 382	17.1	88 067	16.8
Electrical machinery appliances	A	48	1.5	4 913	72.2	41 223	87.9	240 477	71.2	373 516	72.7
	B	3 162	98.5	1 894	27.8	5 685	12.1	97 068	28.8	139 971	27.3
Transport equipment	A	55	0.6	17 256	66.2	135 907	88.6	349 856	76.6	577 095	74.4
	B	9 271	99.4	8 814	33.8	17 542	11.4	106 664	23.4	198 690	25.6
Miscellaneous manufacturing	A	73	1.2	2 187	40.9	14 363	58.5	63 829	28.2	100 514	29.1
	B	5 776	98.8	3 162	59.1	10 195	41.5	162 421	71.8	244 609	70.9
Unknown	A	—	—	—	—	—	—	—	—	—	—
	B	159	10.0	284	10.0	824	10.0	12 259	10.0	14 503	10.0

TABLE 6.3b

Large and Small Establishments by Industry Groups in Manufacturing Industries

(1970 census of manufacturing and business)
A. Large establishments (where 10 or more persons are employed)
B. Small establishments (where less than 10 persons are employed)

Industry Group		Establishment	Annual average no of employees	Annual average no. of persons engaged	Annual wages and salaries paid	Capacity of power equipment at the end of the year	Changes in stocks	Gross additions to fixed assets during the year (1)	Inout	Output	Value added
			— Number		'000 TL	BG - HP			'000 TL		
Total	A	4 415	443 401	449 301	6367 994	3125 063	2469 384	3280 817	29686 283	50002 818	20316 535
	B	170 571	101 527	328 586	619 492	605 098	488 860	682 931	8834 154	12761 131	3926 979
Food industries	A	1 164	77 595	79 371	991 290	753 008	488 631	283 294	9 807 741	1 3478851	3 671 110
	B	16 940	17 892	42 660	117 427	80 194	25 293	18 411	2 004 945	2 652 679	647 734
Beverage	A	88	9 973	10 060	165 086	14 919	134 728	76 911	578 350	1 834 949	1 066 569
	B	739	1 136	2 285	7 671	2 300	1 223	1 843	65 344	106 773	41 430
Textiles	A	928	129 537	130 721	1529 283	338 737	466 183	412 741	6 008 153	10027 886	4 019 713
	B	7 855	7 203	18 552	77 100	28 924	69 846	16 532	1 027 119	1 290 536	263 417
Footwear and other wearing apparel	A	112	6 408	5 594	85 048	13 742	5 649	13 694	334 503	472 477	137 974
	B	51 941	17 519	80 342	82 950	4 641	102 980	15 700	1 152 761	1 834 365	741 604
Wood and cork products	A	152	9 065	9 287	99 451	38 772	36 554	42 835	477 103	745 303	268 200
	B	16 988	8 764	33 139	46 940	178 462	47 467	21 930	785 906	1 100 177	334 270
Furniture and Fixtures	A	108	2 586	2 790	22 228	12 875	4 080	2 557	114 841	175 573	60 732
	B	6 046	4 931	13 573	25 989	27 718	27 607	10 280	316 382	474 788	158 407
Paper and paper products	A	64	11 973	12 045	195 428	88 553	722	23 493	814 073	1 341 623	727 550
	B	416	1 605	2 193	17 750	14 335	36 933	380	116 359	174 260	57 902
Printing, Publishing	A	189	9 565	9 769	193 607	38 502	23 784	357 756	453 684	982 839	529 154
	B	2 284	2 875	6 042	19 503	5 112	6 692	16 994	111 470	201 254	89 784
Fur and leather products	A	92	2 560	2 729	31 185	10 068	7 233	38 003	211 934	292 540	80 606
	B	4 400	1 704	7 184	9 812	4 401	1 426	4 947	148 981	217 002	67 021
Rubber products	A	105	8 620	8 770	145 181	50 401	57 391	46 348	634 808	1 128 787	493 979
	B	1 102	1 004	2 247	6 318	5 034	3 681	1 135	57 487	87 344	29 857
Chemicals and chem. products	A	281	30 402	30 614	598 704	188 772	369 319	474 417	2 180 822	4 037 062	1 878 240
	B	812	1 062	2 003	8 187	3 672	4 009	133 647	277 477	324 650	27 173
Non-metallic mineral products	A	318	36 448	36 830	523 110	285 057	121 130	189 413	1 187 191	2 677 048	1 489 857
	B	4 602	4 679	9 852	27 570	19 284	8 534	12 445	258 692	373 508	114 816
Metal products (except machinery)	A	160	30 897	31 081	639 087	349 482	354 985	287 048	3 072 981	6 102 734	3 029 773
	B	26 124	14 055	48 816	82 757	58 819	61 685	38 294	1 110 710	1 730 678	619 968
Machinery (except electrical machinery)	A	215	27 897	28 156	387 644	91 045	158 690	111 838	1 417 902	2 568 737	1 149 835
	B	4 118	3 376	9 845	20 048	25 232	9 108	18 348	194 165	307 178	113 013
Electrical machinery, appliances	A	132	9 800	9 960	160 099	523 773	29 539	316 680	638 770	1 027 497	390 727
	B	4 385	2 103	7 531	12 590	4 220	14 590	3 721	186 231	304 431	108 200
Transport equipment	A	151	32 911	33 047	510 022	85 205	138 648	395 225	1 516 741	2 397 572	880 831
	B	14 986	8 558	30 058	37 804	114 053	30 653	360 222	300 689	632 877	332 188
Miscellaneous manufacturing	A	202	8 144	8 477	111 581	281 154	94 118	146 578	458 658	903 361	444 705
	B	7 034	2 971	11 454	18 978	18 695	35 153	8 124	728 438	902 631	174 193

Note: Preliminary results
(1) Data is obtained by subtracting the value of sales from exising fixed capital assets from the value of gross additions to the stocks of fixed assets during the year.

Source: State Institute of Statistics; Statistical Yearbook of Turkey, 1975.

TABLE 6.1

INDUSTRIAL STRUCTURE - DISTRIBUTION OF EMPLOYMENT BY INDUSTRY AND SIZE OF ESTABLISHMENT

(Large, Medium and Small)

Sub-sector	Large (employing 200 or more workers)		Medium (employing 10-199 workers)		Small (employing less than 10 workers)		Total number of workers in each subsector
	Number of Workers	As percent of employed in Sub-Sector	Number of Workers	As percent of employed in Sub-Sector	Number of Workers	As percent of employed in Sub-Sector	
Food Industries	45,369	38	32,448	27	41,635	35	119,452
Beverages	7,783	64	2,237	18	2,194	18	12,214
Tobacco	33,306	96	1,454	4	0	0	34,760
Textiles	101,208	68	29,190	20	17,844	12	148,242
Footwear & Clothing	2,060	2	3,271	4	80,342	94	85,673
Wood & Cork	3,599	9	5,438	13	32,899	78	41,936
Furniture & Fixtures	0	0	2,791	15	15,531	85	18,322
Paper & Paper products	9,178	67	3,041	22	1,387	11	13,606
Printing & Publishing	3,683	25	5,085	34	6,024	41	14,792
Leather & Leather products	0	0	2,495	26	7,150	74	9,645
Rubber products	2,058	19	6,713	61	2,210	20	10,981
Chemical products	27,898	86	2,718	8	1,937	6	32,553
Petroleum products & coal	1,922	89	241	11	0	0	2,163
Non-metallic minerals	24,393	52	12,441	27	9,725	21	46,559
Basic Metals	23,405	80	6,005	20	0	0	29,410
Metal products	16,707	21	14,141	18	49,440	61	80,288
Machinery	11,599	38	9,057	30	9,756	32	30,412
Electrical machinery & Appliances	3,746	23	5,231	32	7,528	45	16,505
Transport Equipment	25,706	42	5,762	9	29,991	49	61,459
Miscellaneous Manufacturing	1,670	8	6,808	34	11,336	58	19,814
Total	349,648	42%	100,808	19%	324,908	39%	835,364

Source: 1) Figures for large and medium-scale industries were given by the State Institute of Statistics during consultations.

2) Figures for small industries are from 1970 Census of Industry and Business Establishments, Part II: Small Scale Manufacturing Industries. State Institute of Statistics (SIS), Ankara.

3) The total figure 324,908 for employment in SSI differs slightly from 328,586 in the 1975 Statistical Yearbook

TABLE 6.5

Individual Small-Scale Industries (SSI) having higher volume of employment than large industries

	Number of persons engaged	Other features: Percent of output of SSI to total output of industry	Other features: Percent of value added of SSI to total value added of industry
1. Footwear & clothing	80,342 (5,594) *	80% (2,366,843)**	84% (879,578)***
2. Metal products except machinery & transport	49,616 (31,081)	22% (7,833,412)	17% (3,639,741)
3. Wood & cork products	33,139 (9,287)	59% (1,845,480)	55% (602,470)
4. Furniture & fixtures	13,573 (2,790)	73% (650,361)	72% (219,139)
5. Fur and leather products except footwear	7,194 (2,790)	42% (509,542)	45% (147,627)
Unspecified "Miscellaneous industries"	11,454 (8,477)	50% (1,805,992)	28% (618,900)
Total number of persons engaged in SSI having higher volume of employment	195,318		

* Figures in parenthesis in this column indicate number of persons engaged in Sirukar, large industry.

** Output of SSI in thousand lira.

*** Value added in thousand lira of SSI.

Source: Tabulated from Statistical Yearbook of Turkey, 1975, State Institute of Statistics, Ankara

TABLE 6.6

Distribution of SSIs by Major Regions and Employment in 1970

Region	Number of Provinces	Number of Workshops	Number of Employees
1. Marmara Region	10	45.536	100.816
2. Aegean Region	8	28.471	58.731
3. Central Anatolia Region	10	23.694	52.190
4. Black Sea Region	14	21.710	41.383
5. Mediterranean Region	7	14.153	30.715
6. Western Anatolia Region	6	9.901	21.083
7. Eastern Anatolia Region	12	7.156	14.081
Total	67	150.621	318.999

Source: Information provided by the Ministry of Industry during consultations.

TABLE 6.7

Technical Training for Small Industries

Year	No. of Centers	No. of Courses	Persons Attended total	owners 2/	skilled workers 3/	other workers 3/
1963	2	8	255	67	29	159
1964	2	13	331	5	22	304
1966	2	35	647	30	163	454
1967	8	133	2,211	221	380	1,610
1968	8	206	3,630	176	537	2,917
1969	11	227	2,967	114	497	2,356
1970	11	237	3,407	6	648	2,833
1975 1/	91		29,380			

1/ Data for 1971-74 not available .

2/ Courses for owners were in management: marketing, standardization, cooperative action, accounting, mass production techniques, business administration.

3/ Courses for skilled, semi-skilled and unskilled workers were in: technical drawing, fitting, turning, milling, die making, blacksmithing, oxigen welding, electric welding, sanitary engineering, founding, electrical equipment and radio set manufacturing, electrical installation, electric motor rewinding, theory and practice of transistors, basic electronics, engine manufacturing, engine repair, auto electrics, diesel motors, motor tuning, woodworking, technical drawing for woodworking, furniture design, polyesterification.

Source: Ministry of Industry.

TABLE 6.8

Horsepower per Worker 1/ in Large and Small Establishments

(1970 Census - Preliminary Data)

Item	Large	Small
Food	9.5	1.9
Beverages	1.5	1.0
Textiles	2.6	1.6
Footwear and Made-up Textiles	2.5	0.1
Wood and Cork	4.2	5.4
Furniture and Fixtures	4.6	2.0
Paper and Paper Products	5.7	6.6
Printing and Publishing	4.1	0.8
Fur and Leather Products	3.7	0.6
Rubber Products	5.7	2.2
Chemicals and Allied Products	5.5	1.8
Non-metallic Mineral Products	7.7	2.0
Basic Metals and Metal Products	11.2	1.4
Machinery, except Electrical	3.2	2.6
Electrical Machinery and Appliances	52.6 2/	0.6
Transport Equipment	2.6	3.8
Misc. mfg. Industries	33.1	1.6
All Manufacturing	7.0	1.8

Source: Statistical Yearbook of Turkey 1975, computed from Table 221, page 206

1/ a) Horsepower divided by number of "persons engaged". "Persons engaged" include part-time workers, family members, managers and owners who do not get regular salaries.

b) For the use of horsepower as proxy for capital intensity, see for example Kravis, I.B. "A survey of international comparisons of productivity" Economic Journal March 1976 and papers by Rostas, Heath and Maizels cited therein.

2/ A ratio this high is unlikely. The statistics on this is perhaps not accurate.