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THE IMPACT OF GLOBALIZATION ON THE TURKISH ECONOMY

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ABSTRACT

Turkey was one of the developing countries which adopted economic policies similar to Washington Consensus and tried to elevate the integration of Turkish Economy to the world Economy in 1980s. The aim of this study is to provide a detailed overview of the economic reform process since the beginning of 1980 and an assessment of whether these reforms were successful in terms of attaining their final objectives.

Key Words: Globalization Issues; Macroeconomic Issues; Government Policies; Economic Growth and Development

1-INTRODUCTION

In 1980s many countries began to shed their import substitution policies and endorsed marked oriented ones. In 1990, economist John Williamson deemed it appropriate to term the policy core of 1980s ‘the Washington Consensus’. Williamson supplied us a useful list of policy desirata. While Williamson determined ten major policy tenets, the list concentrates primarily in three areas of reform: liberalization, deregulation and privatization.Ronald Reagan, Margaret Thatcher and Helmut Kohl all came to power in the early 1980s as revolutionaries who would diminish the role of government and unleash market forces to bring prosperity to their nations. This free market revolution became a global revolution. The Washington Consensus became a global paradigm that dominated Third World development policy. Over the course of 1980s these policies were spread to a majority of developing nations. The export of Washington Consensus policies continued throughout the 1990s. These policies exported to the countries of the former Soviet Union and Eastern Europe after the collapse of the Berlin wall. Turkey was also one of the developing countries which adopted economic policies similar to Washington Consensus and tried to increase the integration of Turkish Economy to the world Economy in 1980s.

The aim of this study is to provide a detailed overview of the economic reform process since the beginning of 1980 and an account of whether these reforms were successful in terms of attaining their final objectives. As was the case in most
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developing and underdeveloped countries during the late 1970s Turkey also witnessed the weaknesses of import substitution strategy and attempted to overcome these weaknesses by gearing towards a more outward oriented economic development strategy. Especially during the 1980s there was an accelerated reform and adjustment process in almost all sectors of the economic system. The reform process started with liberalization of the foreign trade regime and the financial sector and culminated in the liberalization of capital accounts during late 1989, the latter changing the whole pattern of policy making environment radically.

In this paper, after examining the liberation process of trade, financial sector and capital accounts in Turkish Economy a brief evaluation of overall macroeconomic developments, comparing the pre-reform performance of the Turkish Economy with the post-reform period will be given.

Finally the conclusion section includes an evaluation of the pros and cons of the integration of the Turkish Economy into the international markets and points at some lessons to be drawn from this process.

2-WASHINGTON CONSENSUS: (Application of Neo-liberal Policies in the world)

During the final two decades of the twentieth century, development theory and practice were dominated by a single paradigm that placed market forces at the center of policy. There was a wave of market oriented economic reforms, the likes of which have never been seen. Financier George Soros (2002, pp. 4-10) termed that prevailing paradigm ''market fundamentalism''. In Latin America in particular the theory and practice came to be known as "neo-liberalism" many however simply call it "free market economics". In 1990 economist John Williamson (after analyzing the views of both the political Washington of congress and senior members of the administration and the technocratic Washington of the international financial institutions, the economic agencies of the US governments, the Federal Reserve Board, and the think tanks) deemed it appropriate to term the policy core of this period 'the Washington Consensus' (1990 p.9). According to Washington Consensus an appropriate economic strategy emphasizes fiscal rectitude, competitive exchange rates, free-trade, privatization, undistorted market prices and limited intervention (save for encouraging exports, education, and infrastructure).

In addition to governments the paradigm dominated the circles of academia, the media, the international financial institutions, the corporate world and others involved in the elite policy debate, both North and South. As this paradigm radiated out to sweep the globe, so too did global capital; indeed , the Washington consensus policies provided the unregulated, liberalized and privatized space needed for capital to become truly global(Broad,2004, p.130-131).

Washington Consensus paradigm dominated development theory and practices across the globe during 1980s and 1990s.Ronald Reagan, Margaret Thatcher and Helmut Kohl were the appliers of the neo-liberal policies in the early 1980s.They diminished the role of government and unleashed market forces to bring prosperity and to spread of democracy. This free-market revolution became a global revolution because of inter related set of developments among multilateral institutions that moved center- stage during this period, the Washington consensus became the global paradigm that dominated third world development policy. In 1980, the World Bank initiated a new policy-based lending instrument called "structural adjustment loans" that mandated that countries advance deregulation privatization and liberalization. In

1982, after Mexico's inability to service its external debts, the IMF began to play a greater role in pressing Washington Consensus policies on debtor nations as the macroeconomic conditionality for new private and public sector loans. Over the course of the 1980s, these policies were spread to a majority of developing nations.

The reforms were strongest and most sustained in Latin America, where countries like Bolivia, Mexico, Argentina, Peru, Colombia, and Brazil joined Chile in orthodoxy. But this was very much a global phenomenon "stabilization" and "structural adjustment" became the primary preoccupation of government leaders in Asia and Africa as well. These countries were in turn soon joined by the previously socialist economies of Eastern Europe and the former Soviet Union. Even India, the giant archetype of a closed import substituting economy among developing countries embarked on a process of economic liberalization in 1991(Rodrik, 1996,p.9).

In November 1993, the governments of the United States, Mexico and Canada passed the North American Free Trade Agreement (NAFTA) that knocked down barriers to trade and investment and reigned in government control over economic activity. A year later the WTO was created with the strong enforcement powers for Washington Consensus policies.

While each of these new developments met stiff resistance from citizen groups across the globe they were passed with strong elite consensus. The Washington Consensus became the only way; the desirability of its policies was presented as an objective economic truth.

World wide acceptance of neo-liberal policies between different governments raised the important question of why so many countries have suddenly caught the reform bug. Some of the professional economists believed that the new orthodoxy was built on two mutually reinforcing pillars (Rodrik, p.13):

One was the set of policies that had been tried by the import substituting countries and had failed; the second was the set of successful policies implemented by the East Asian Tigers:

Once upon a time, many countries of the third world followed import-substitution policies. Such policies included import controls, overvalued exchange rates, binding ceilings on interest rates, a heavy dose of public ownership, and pervasive price regulation. Ann Krueger has been the most famous economist in documenting and popularizing the short comings of import-substitution policies. She points out a multitude of reasons for the initial adoption of these policies. Newly independent governments had a strong desire for industrialization, and the apparently successful example of Soviet planning invited emulation. Moreover the economic ideas of 1950s and early 1960s tended to dismiss the benefits from trade and emphasized the need for physical capital accumulation and infant industry promotion. According to Anne Kruger there was a strong emphasis on the primacy of market imperfections. Market failures were thought to be relatively strong, while it was assumed that governments could correctly identify and performs economic functions. Virtually no attention was given to the possibility that there might be government failure (Kruger, 1993, p.49) and there was plenty of government failure. Not only did many infant industries fail to mature but many countries succumbed to stop-go cycles driven by excessive government spending. Kruger explains that in viewing the government as a "benevolent social guardian" most economist had ignored a number of important forces at work. Individuals in the public sector were apt to follow their own selfish interest. They would be lobbied by pressure groups aiming to impose their own agenda on a largely docile majority. Policy interventions would create rent seeking incentives diverting entrepreneurs from productive activities. Finally the informational disadvantage of government bureaucracies over market participants would doom even the best-laid plans to inefficiency.

Mean while, four East Asian economies were making a mockery of the export pessimism that had persuaded policy makers elsewhere to follow an inward oriented strategy South Korea and Taiwan, in particular, were able to engineer a remarkable increase in their growth rates, thanks to sharp jumps in their investment and export efforts during the mid-1960's. Among professional economists, there soon developed the view that the East Asian miracles could be attributed to market-oriented policies and the reduced role of government intervention (Ranis and Mahmood ,1992, p. 138).

If we turn back to the question of why so many countries have suddenly caught the reform bug, we can list, at least three reasons for this question.

- Governments received advice of international institutions like IMF, WB, WTO
- Failure of import substitution development strategy (crisis)
- Success of export oriented development strategy of East Asia

3-APPLICATION OF NEO-LIBERAL POLICIES IN TURKEY

In this section after giving short summary of the politic and economic history of Turkey we will focus on the economic policy reform process of 1980s in Turkey.

3-1 Economic and Politic History of Turkey

The republic of Turkey, is an Eurasian country that stretches across the Asia and the Europe. Because of its strategic location where two continents meet, Turkey's culture has a unique blend of Eastern and Western tradition, often described as a bridge between the two civilizations.

Turkey is a democratic, secular, unitary and constitutional republic. It was established under the leadership of Mustafa Kemal Atatürk in 1923 after the collapse of Ottoman Empire in the World War 1. Since then, it has become increasingly integrated with the West while continuing to foster relations with the Eastern World. It is a founding member of the United Nations, the OECD and the Organization for Security and Co-operation in Europe, a member state of Council of Europe since 1949 and of NATO since 1952. Turkey joined European Economic Community (today known as the European Union) as an associate member in 1963, and signed the EU Customs Union agreement in 1995. Since 2005, Turkey has been in full accession negotiations with the European Union. Turkey is also a member of the G-20, which brings together the 20 largest economies of the world.

For most of its republican history, Turkey has adhered to a quasi-statist approach, with strict government controls over private sector participation, foreign trade, and foreign direct investment. As was the case in many developing economies in the world, the main economic development strategy of Turkey centered on import-substitution policies during the 1960s and 1970s. This period was characterized by huge public investment programs, which aimed at expanding the domestic production capacity in heavy manufacturing and capital goods. Foreign trade was under heavy protection via quantitative restrictions along with a fixed exchange rate regime that, on the average, was overvalued given purchasing power parity. The import-substitution strategy heavily relied on imported raw materials. Hence, Turkey's terms of trade have deteriorated following the first oil shock in the 1973-1974 period. This deterioration caused a huge burden on the balance of payments, while the additional burden was compensated by short-term borrowing. From 1977 onwards, since the required amount of imports could not be realized in due time, there appeared problems in the labor market, and important difficulties emerged on the supply side. Factories couldn't operate because of the scarcity of raw materials and couldn't hire workers for production purposes. Increasing unemployment rate effected social structure of the society negatively. On the demand side, expansionary fiscal policy was maintained. Imbalances in the aggregate supply and demand accelerated the already increasing inflation. Inadequate measures taken to overcome the crisis, as well as the negative effects of the second oil shock in 1979 deepened the crisis.

The 24th January 1980 Decisions were announced in order to curb inflation, to fill in the foreign financing gap, and to attain a more outward oriented and market-based economic system. Within the framework of these decisions, export subsidies were granted and exchange rates were allowed to depreciate in real terms to make Turkish exports more competitive, which would lead to the promotion of export-led growth.

3-2 Application of Neo-liberal policies in Turkey: (January 24 Decisions)

Turkey attempted to overcome weaknesses of import-substitution strategy by gearing towards a more outward oriented economic development strategy. Especially during the 1980s there was an accelerated reform and adjustment process in almost all sectors of the economic system. The reform process started with liberalization of the foreign trade regime and the financial sector and culminated in the liberalization of capital accounts during late 1989, the latter changed the whole pattern of policy making environment radically.

24 January 1980 Decisions included export subsidies; high devaluation; increases in public goods and services prices; increases in interest rates and implementation of heterodox export incentive policies. By the help of these policies Turkey regained the confidence of international institutions. The IMF Stand-by and World Bank adjustment loans were rapidly arranged and disbursed in conjunction with additional debt relief operations. The trade reform process was facilitated by three characteristics of the policy environment (CBRT, 2002, p. 6):

- Firstly, net foreign lending allowed the resumption of intermediate goods imports and eased pressures on public finance. Because of the low rates of capacity utilization (at around 45-50 percent), industrial firms showed a strong export response to the rapidly altered incentive structure.

-Secondly, the exchange rate depreciation was high but sustainable.

-Thirdly, domestic absorption was significantly lowered in the first half of the 1980s to provide room for the initial push in export expansion. In this period, real wages and agricultural incomes were decreased substantially.

By the announcement of the decisions, economic integration to the world economy had started in Turkey step by step. The first step was the trade liberalization process. Financial liberalization followed trade liberalization and finally capital account liberalization fully completed when Decree No:32 put into force in August 11,1989.Turkish economy, became fully an open economy, to the shocks of the global economic system since then. Economic policies of Washington Consensus influenced all sectors of the Turkish economy. Turkey was among the reformist countries of 1980's which tried to operate free market economy. Strong adherence to neo-liberal policies of Washington consensus gained acceptance in all parts of the economy by the reforms realized after 1980.

3-2-1Trade Liberalization Process

Trade liberalization process consisted of expansion of export incentives and subsidies; import liberalization; and establishment of the customs union with EU.

3-2-1-1Export Incentives and Subsidies

Export incentives and subsidies included, depreciating exchange rate path; direct payments through tax rebates; cash premium from extra budgetary funds; inputs of export goods exempted from import taxes; corporate tax allowances provided for export sector and subsidized export credits from the Export Promotion Fund, Central Bank, Turkish Development Bank and Turk Eximbank. The export subsidies increased between 1980 and 1984, and then decreased gradually as the export sector became more self-sufficient over time.

3-2-1-2 Import Liberalization

There were restrictions on imports before 1980. The January 1984 reform represented a major break with the past import policies. Importation became easier with this reform. Prohibited list was phased out in1985; banned commodities were reduced; the government introduced an ‘’anti-dumping law’’ to protect domestic production in 1989. Import liberalization gained further momentum in 1989.

Turkey has been a member of the GATT since 1950. Uruguay Round Treaties signed in 1994. GATT regulations were accepted. Turkish Patent Institute was established in 1994.Turkey also has been a member of the WTO since 1995. WB, classified Turkey as an intensive adjuster in 1991.

3-2-1-3 Establishment of Customs Union with the EU

Turkey established a Customs Union with the EU in January 1’st, 1996; eliminated all the duties, charges and quantitative restrictions imposed on EU and EFTA products; imposed common customs duties for the third countries as EU. Customs Union resulted with decreased protection rate on EU and EFTA products. Import protection rate on third countries products also decreased.

3-2-2Financial liberalization Process

Individual domestic markets have taken striking steps towards strengthening connections with each other and integrating with the international financial system since 1980’s.Turkey also launched economic, legal and institutional reforms in order to transform its inward-looking economy toward an open economy. These reforms are listed below:

-Transformation of the exchange rate regime
-Deregulation of interest rates
-Capital Markets Law and the establishment of Capital Markets Board
-Introduction of government securities auctions
-Market opening reforms at the Central Bank
-Capital account liberalization
-Reforms and regulations concerning the banking sector

3-2-3Capital Account Liberalization Process

Capital account liberalization in Turkey was initiated in conjunction with the process of economic and financial reforms that started in 1980, and was fully completed in 1989. Before 1980, capital flows were controlled through foreign exchange regulations. After 1980, capital account liberalization started with the Decrees No: 28 and 30, which were put into force in December 1983 and July 1984, respectively. These decrees partly liberalized the capital accounts and full capital account liberalization was accomplished in 1989. Decree No. 32 was issued on the Official Gazette on August 11, 1989. With this Decree and amendments on it, capital movements were fully liberalized and the major steps for convertibility were taken (CBRT, p.16).

3-3Results of January 24 Decisions (1980s and 1990s)

Below we will examine the impact of January 24 decisions on various macroeconomic variables of the Turkish economy in 1980s and 1990s.

3-3-1 Balance of Payments

Openness of the economy increased in 1980s as a result of export incentives and subsidies and import liberalization. Export growth decreased in 1990s because of the increase in the labor costs. Portion of imports financed by exports dropped from 70% in 1980s to 60% in 1990s.Turkey could not capture the benefits of liberalized policies set in terms of attracting more foreign direct investment to promote growth and to facilitate more employment opportunities. Capital account liberalization solved the financial constraint on public expenditures. Capital inflow could finance the current account in Turkey except Gulf Crisis in 1991, the financial crisis in 1994 and Russian Crisis in 1998. The government generated capital inflow by issuing bonds after 1989.In general portfolio investments have not been as important as deposits, loans and trade credits. Share of government in capital inflows was small compared to the share of the private sector. Foreign depth stock as a share of GNP increased from 10% in 1970 to 43% in 1990. Share of public foreign debt in GNP declined, share of private foreign debt in GNP increased. Share of short term foreign debt increased. There was a deterioration of the efficient usage of the external borrowing.

3-3-2 Fiscal Balance

Public deficit financing still was an important problem in 1980s and 1990s. In 1980s, deficits of the state economic enterprises were the most important source of the fiscal deficits. After 1994 the social security transfers and interest payments have become relatively more important. Failure to ensure the fiscal discipline before and after liberalizing the capital account led to an unsustainable economic structure. Large public deficits increased the real interest rates and resulted with dependency on short term capital inflows. Because of high credit costs for real sector and appreciation of the Turkish Lira, restricted resources were available to production and investment.

3-3-3 Monetary Policy

Capital account liberalization changed the monetary policy making environment entirely. Because of strong and short- term capital flows Central Bank lost the control over the monetary aggregates. There was a shift from direct to indirect monetary policy instruments. Effectiveness of the monetary policy declined. Monetary policy has been independent from fiscal policy after 1986.

3-3-4 Financial Sector

After full liberalization Turkey failed to ensure the soundness and stability of the financial sector. The establishment of an independent regulatory authority delayed and necessary measures for the integrity of the system were lacking without regulatory authority. Many large corporations bought or established new banks to seize cheap credit opportunities. Lack of fair competition catalyzed bad governance and moral hazard problems in the banking sector. Insufficient financial regulatory frame work tolerated until the end of 1990s. Rehabilitation of the sector imposed a huge burden on Turkey.

3-3-5Growth

Although with the reforms of 1980 economy entered the growth path, average growth rates in the 1980s and the 1990s were below that of the 1970s and more volatile. Volatility of the total investments increased in this period. High real return on financial assets limited the increase in the private investments. January 24 Decisions aimed at increasing the role of manufacturing industry in production but investments in the manufacturing industry has been quite reluctant to achieve this objective. Turkey could not gather enough success to catch up with industrialized countries in this period.

3-3-6 Inflation

Reform attempts since 1980 in terms of reducing inflation were not successful. The CPI which was around 24% during the pre-reform period almost tripled and reached around 77% during the 1990's. Keeping the administrative prices low has been useful in disinflation efforts in some periods. As the fiscal deficits widened, the medium and long-term adverse effects of this policy have become evident. With the reversal of this policy, increases in public sector product prices have stimulated the increase in the prices of private sector. Inflation has been affecting the growth performance of Turkey negatively by increasing uncertainty and discouraging investment decisions.

3-3-7 Income Distribution

Studies about poverty and income distribution indicated worsening of income distribution and increase in poverty during the 1977-1988 and the post 1994 periods. We can list the causes of worsening of income distribution as follows:

-Adverse changes in real wages, in pensions and in agricultural terms of trade.

-Further widening of the gap between the wages of high and low paid segments of the urban working class.

-Dual character of labor markets consisting of formal and informal segments.

-A rising share of interest payments from the value added, crowds out the share of either net profits and wages or both.

-Welfare oriented public expenditures have also been crowded out because of continuing expansion of the public debt burden.

3-3-8 Developments in Labor Market

Increase in labor force lost momentum in 1990's. Average growth rate of labor force dropped from 2.6 % in (1981-1989) to 1 % in (1990-2000). This development contributed to the decline in unemployment rates. Unemployment rate was 11.6 in 1980; 8.6 in 1989; 6.6 in 2000. Share of agricultural sector has been declining in total employment .Employment has been falling in agriculture since 2004. Industrial sector failed to provide sufficient employment opportunities.(Latest information about the unemployment rate was 9.8 % in July 2007). Employment in the services sector increased due to the higher growth in tourism, trade and financial sectors. Volatility of growth rates of real wages increased in 1980s.Capasity utilization raised the labor productivity in the 1980s and 1990s; however real wages did not associate with real labor productivity in those years. Real wages decreased continuously in 1980s.

3-3-9 Developments in Social Sectors

Health indicators improved after 1980s. Life expectancy increased by more than 6 years. Infant mortality declined by more than 40 % due to the intensive vaccination campaigns. Health expenditure per capita increased from 1990 to1998. The share of public sector in total health expenditures exceeded the share of private sector.

Schooling rates have been increasing after 1980. Structure of the primary education was rearranged and the duration of compulsory primary education increased from 5 years to 8 years in 1997. As a result of this policy schooling rate in primary education increased from 76.3 % in 1970 -71 school year to 96.1 % in 1999-2000 school year. In primary and intermediate education and in universities the number of private schools increased in 1990s.

3-4 Second generation Reforms at the End of 1990s

The 1980s were characterized by the liberalization efforts of the governments on many fronts. The 1990s were lax post reform period in Turkish economy. First generation reforms were in place and the impact of these reforms was surfacing in 1990s. Economic fundamentals and the rules of the game were totally changed during those years. The 1990s were a decade of external and domestic shocks and crises for the Turkish economy.

The boom and bust cycles of the economy contributed to the political instability of the country in 1990s.Duration of the governments stay in office were 15 months on the average in those years. Turkey has been governed by coalitions of minority governments in that period. Coalition governments performed worse than majority governments in terms of budget discipline. Turkey experienced one of the deepest economic crisis of its history in 1994. There was a 60% nominal depreciation of the currency with in four months and 6.1 % contraction of the GNP in the same year.

Foreign financing and integration with the international capital markets didn't raise the productive capacity of the economy, but helped the policy makers to postpone the necessary reforms. After crisis policy makers both in national and international quarters became aware of the importance of proper rules, institutions and governance in achieving stable growth. Second generation reforms and the issue of good governance were the main agenda items during the late 1990s. New reforms were unavoidable in the face of pressing problems into an uncertain future through a rising depth stock. November 2000 and February 2001 crises revealed the fact that the current situation would worsen without more reforms addressing the public sector and the banking sector. The new economic program of 2002-2004 put a high priority in reforming the banking sector.

3-5 Economic Outlook of Turkey in 2000s

The current government of the Justice and Development Party (AKP),under the prime ministry of Recep Tayyip Erdoğan, has been in power since 2002. AKP won the latest election of 22nd July 2007 with great majority. The government has largely adhered to the IMF-baked economic policy frame work that has been in place since the end of 1999.It provides for a tight fiscal policy to lower the public debt/GDP ratio, as well as structural reforms designed to ensure long term fiscal sustainability, increase the role of market forces in the economy and attract more foreign investment. Monetary policy has been conducted independently by the Central Bank of Turkey, with a view to achieving and maintaining price stability, as agreed with the IMF and provided for by the 2001 Central Bank Law. The government is expected to maintain these policies in 2007. The current US $10bn stand- by accord with the IMF, signed in May 2005, does not expire until early 2008. Moreover, the IMF's backing of the government's economic policies remains important for maintaining investor confidence, especially in view of the picking up in inflation and interest rates that accompanied the sharp fall in the value of the lira in the second quarter of 2006, as well as Turkey's burgeoning current –account deficit. Under the 2005 IMF stand-by accord, the government has committed itself to maintaining a general government sector primary surplus of 6.5% of GNP in 2006 and 2007, and it will be expected to draft a tight budget for 2008. Because of the impact of declining interest rates on dept-servicing costs, the overall central government budget deficit has fallen sharply, to 2% of GDP in 2005, compared with 7% in 2004 and a peak of 16% in 2001.The task of achieving the IMF-agreed fiscal target will become more difficult if the growth of world economy slip back. The imbalances in the global economy have grown over the past year. A key risk stems from the large current account deficit in the US, as a reversal could be accompanied by a substantial weakening of US demand and a collapse of the US dollar. Other risks that are most relevant to Turkey are increasing interest rates in the developed world, which have increased risk aversion in global financial markets, leading to a withdrawal of funds from emerging markets, and higher oil prices, which have contributed to the burgeoning of Turkey's current-account deficit.

4-COMPARING THE NEO-LIBERAL REFORM PROCESS OF TWO COUNTRIES: (Turkey and Argentina in 2000s)

In order to evaluate the results of the neo-liberal reform process in Turkey we will use Erinç Yeldan's one of the latest articles (2007, p.13) which compares the economic policies of Argentina and Turkey in 2000s.1990s were full of economic problems for both countries. They faced the 2000s by huge financial crises. Both of them applied structural adjustment programs in order to curb the crises. But their approach of solving problems differed from each other. Argentina preferred to give high importance to domestic demand and to gain independence from international institutions such as IMF. Turkey on the other hand adhered to the IMF backed economic policy framework since the end of 1999; signed another three-year IMF stand by agreement for the years 2005-2008.Values for the different macro-economic variables of two countries between the initial years of 2000s and 2006 were given on the (Table 1) below.

When we evaluate the values in the table we reach the conclusion that both countries obtain successful increases in economic growth rates during 2000s. But Argentina performs better than Turkey with respect to current account deficit. Argentina gives current account surplus while Turkey gives deficit. Both countries achieve closer values with respect to unemployment rates but Argentina's performance better than Turkey. Both of them reach successful results with respect to inflation rates but Argentina's performance much better than Turkey in relation to interest rates. When we compare exchange rate values we conclude again Argentina's policy is better than Turkey. While Turkish lira is overvalued in 2000s Argentina has much more competitive exchange rates than Turkey. Cheap foreign currency increases importation of goods and inputs in Turkey. Importation helps to decrease inflation but creates structural unemployment by destroying productive capacity of Turkey. Again Argentina gives budget surplus while Turkey gives deficit. When we compare the values of different macro economic variables of two countries we can conclude that Argentina achieves better results than Turkey without IMF. Its dependency of IMF policies has been decreasing since 2005 and able to apply more independent national policies than Turkey. On the other hand Turkey still needs IMF in order to give confidence to international investors.

TABLE(1)

Post-Crisis status of Turkey and Argentina				
Country:	**Argentina**		**Turkey**	
Year:	**2002**	**2006**	**2001**	**2006**
Growth rate (%):	-10.8	7.5	-7.4	6.1
Inflation (By Year, %):	42.0	11.5	54.4	9.6
Unemployment Rate (%):	24.0	8.8	8.4	9.9
Current Account (Billion $):	-3.9	+3.0	3.4	-31.6
Budget Equilibrium/GDP (%):	-5.6	2.0	-16.4	-3.0
Real Exchange Rate Index ($):	100	198	100	55
Interest Rate:	76	4.0	86.2	17.5

Source: Yeldan Erinç(2007) Post-crisis Status of Turkey and Argentina. Cumhuriyet Newspaper, June 13th,p.13.

5- CONCLUSION

Overview of the Turkish economic reform process revealed the fact that much has been done by Turkey in order to integrate to the world economy. The Turkish economy has become more robust and resilient to shocks as a result of IMF baked reform programs in place since 1999. However as some of the main macro economic indicators exhibit, the Turkish economy could not adequately benefit from these reforms. Turkey reached the growth path after 2002; but growth of the economy couldn't combine with the sufficient increase in employment. Turkey has been paying very high interest rates for the capital inflow. High interest rates combined with overvalued Turkish Lira have been destroying the productive capacity of Turkish economy. Turkish economy hasn't been able to create enough new jobs for its increasing young population. Government still gives budget deficit and current account deficit. Foreign and domestic depth stocks of Turkey continue to increase.

As a result we can conclude that Turkey's large government dept, its burgeoning current-account deficit, substantial external dept-servicing and heavy reliance on short-term capital inflows, combined with domestic political tensions, leave the economy vulnerable to sudden shifts in investor sentiment, as shown by bouts of financial instability in May-June2006. External conditions are no longer as supportive as in the past two years, as higher interest rates in the US, the euro area and Japan have increased risk aversion in the global financial markets, which will make it more difficult for Turkey to meet its large external financing needs.

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