Comparing the Relationship between Turkey and the World Bank in the 1980s vis-à-vis the 1990s

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Abstract

"Comparing the Relationship between Turkey and the World Bank in the 1980s vis-à-vis the 1990s"

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for Modern Turkish History at Boğaziçi University, 2018

Associate Professor Berna Yazıcı and Professor Şevket Pamuk, Thesis Advisors

The thesis discusses the conditions of disbursement and utilization of development assistance by comparing and contrasting the relationship between Turkey and the World Bank in the 1980s and the 1990s – the years in which the relationship took a different course- and concludes that a development assistance project depends on the internal and external conditions of an aid recipient country; stability of the political environment in the country, the country's eagerness to adopt the project, and the mutual strategic interests and interdependency of the country and the aid agency. Aid's utilization is affected by the political conditions of the aid recipient country (whether they allow the prioritization of the development agenda) and its disbursement is affected by the political structure of aid agencies (whether they are under the influence of their home countries and major shareholders).

In the context of the literature on development assistance, I conduct documentary analysis of the organization and research reports by independent researchers published by the World Bank, and in-depth interviews with the four former Undersecretaries of the Treasury Department of the Turkish republic who officiated during the 1980s and 1990s, which lead to the conclusions.

41,000 words

Özet

"Türkiye'nin Dünya Bankası ile 1980'lerdeki ilişkilerinin 1990'lardaki ilişkileri ile mukayesesi"

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Doçent Berna Yazıcı ve Profesör Şevket Pamuk, Tez Danışmanları

Bu tez, Türkiye'nin 1980'li ve 90'lı yıllarda Dünya Bankası ile farklı seyirde gelişen ilişkilerinin karşılaştırılması çerçevesinde dış yardımın dağıtımını ve faydalanılmasını tartışarak bir dış yardım projesinin yardımı alan ülkenin; siyasal şartlarının istikralı olması, yardım projesini uygulamada istekli olması ve de yardımı sağlayan uluslararası finansal örgütle ortak stratejik çıkarlarının bulunması gibi içsel ve dışsal koşullarına bağlı olduğu sonucuna varır. Yardımdan faydalanma yardım alan ülkenin siyasal şartlarının ekonomik kalkınmayı öncelikli gündemi haline getirebilmesine ve yardımın dağıtımı da yardım kuruluşlarının karar alım mekanizmalarının ev sahibinin ve önde gelen paydaşlarının etkisi altında olan siyasal yapısına bağlıdır.

Kalkınma yardımı literatüründeki çalışmalar bağlamında, Dünya Bankası tarafından yayınlanan kurum raporları ve bağımsız araştırmacıların inceleme raporları üzerinde yürütülen doküman analizinin yanı sıra, Dünya Bankası ile ilişkileri sürdüren Başbakanlık Hazine Müsteşarlığı makamında 1980'li ve 90'lı yıllar içerisinde görev ifa etmiş dört Hazine eski Müsteşarı ile yapılan yüz yüze görüşmeler neticesinde öne sürülen sonuçlara ulaşılmıştır.

41.000 kelime



To Seymour's Fat Lady

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Glossary of Non-English Terms

Anavatan Partisi	Motherland Party

Abbreviations and Acronyms

IFO	International Financial Organization
SAL	Structural Adjustment Lending
IMF	International Monetary Fund
ISI	Import substitution industrialization
EU	European Union
GATT	General Agreement on Tariffs and Trade
SDR	Special Drawing Right
OPEC	Organization of the Petroleum Exporting Countries
NATO	North Atlantic Treaty Organization
IDA	International Development Association
IBRD	International Bank for Reconstruction and Development
ANAP	Anavatan Partisi
SAPRIN	the Structural Adjustment Participatory Review International Network
CAS	Country assistance strategy

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1

Introduction

There are evaluations of the Structural Adjustment Lending of the World Bank to Turkey in the 1980s assessing it as both a success (World Bank, 1988) and the wrong prescription (SAPRIN, 2004). How can there be such a contrast? Examining the effectiveness of development assistance is challenging because there are no unanimous factors leading the assistance to be effective. Therefore, in the case of Turkey, it is worthwhile to examine the prospect of development assistance in relation to the collaboration with the World Bank in the 1980s, when agreements for structural change were made one after another, vis-à-vis the 1990s when a lending at such scale could not be negotiated.

Development assistance first emerged following World War II for the reconstruction of economies wrecked by the war. Bilateral or multilateral, assistance essentially aims to build a secure environment in a country where the economy can prosper and the living standards of the people improve. Yet understandably, it does not serve to such altruistic motives and it follows self-interested concerns for donor countries, such as expanding financial relations and creating a politically-stable atmosphere. In an international environment in which economies and politics were devastated by two World Wars and the Great Depression, development assistance became a strategic move.

Reconstruction of the international financial system following World War II brought the regulation and supervision of the financial institutions and international financial relations including development finance – in other

words, development assistance or foreign aid – by international financial organizations (IFOs). IFOs were part of developed countries' vision of building a politically- and economically-secure environment in which devastating wars and crises would never occur again and international capital could move freely in global markets bringing ever-increasing profits. IFOs intervene in the progress of the world economy in times of crisis. Policy-based lending became a tool for intervening during the crises of the 1970s and were a chance to increase IFO's sphere of influence. Stagnation and inflation in the economies of developed countries made it necessary to expand their markets and integrate developing and underdeveloped countries into the new system of the global, free-market economy. IFOs started to devote development assistance conditioned on the reform of the economies of aid recipient countries in line with the system. The most famous of this development assistance was the Structural Adjustment Lending (SAL).

The SAL was a controversial issue as a result of its great ambition to restructure the macroeconomics of aid recipient countries and its political motivation to increase the sphere of influence of the expanding global market. Because the managerial system of the World Bank and the International Monetary Fund (IMF) allows the largest contributor to their reserves to be the most powerful voter and dominate decision making, the conditions of the lending of the World Bank and the IMF and their development advice in line with the largest contributors' formulation of development became a tool for politics. With the dissolution of the Soviet Union, the policies of the new financial system continued to be spread to former-socialist countries with IFOs' development assistance, providing the hegemony of the system of developed Western countries leading IFOs.

In the 1970s, the Turkish development plans for import-substitution industrialization (ISI) model were interrupted as a result of the increasing dependency on imports which were a consequence of trying to cover investment needs for industrialization. The Turkish economy went into a crisis with a severe current account deficit caused by imports and reckless borrowing to finance imports. The changing global economic structure and the crisis led Turkey to adopt the new economic policies of the global structure. To solve the account deficit problem and the crisis, Turkey agreed to the tight conditions

of the IFOs in exchange for the financial support of the World Bank and the IMF. Turkey undertook structural changes to its economy not just because of its financial crisis, but also as a result of the international depression that required the transition of economies of developing countries bordering developed countries (Kazgan, 2002).

Turkey received a significant amount of development assistance, and the money contributed to the promotion of a private sector during the 1980s. This thesis argues that the internal dynamics of Turkey and the international conjuncture enabled Turkey to receive and utilize the development assistance in this period. A politically stable foundation, the compatible work of government offices, and dedicated statesmen who prioritized the economic agenda enabled the implementation of reforms to create a free market economy. Once Turkey abandoned the import-substitution economic model and adopted a free market economy integrated into the international financial system – and when the international conjuncture that had threatened developed, liberal countries of the West changed with the decline of the socialist Soviet Union in the late 1980s – it stopped receiving development assistance for macroeconomic issues, like the SAL, from the World Bank.

Whereas reforms promoted growth with increasing exports in the 1980s, they resulted in instabilities in the following decade as a consequence of disregarding the institutionalization of the reforms in addition to other internal issues. Throughout the 1990s, Turkey suffered from economic crises as well as unstable politics, which led to negligence in its relations with IFOs. Comments I received from four former undersecretaries – who worked in the 1980s and 1990s for the Turkish Republic Prime Ministry Undersecretariat of the Treasury and carried out the relations with IFOs – draw attention to changing priorities on politicians' agendas, the increasing complexity of World Bank lending, and finding alternative financial sources for borrowing together weakened the relations of Turkey with the World Bank along with other IFOs.

The World Bank and the IMF adopted stricter conditions for lending in the 1990s because many low- and middle-income countries had defaulted on their repayments in the late 1980s. The new conditionality made borrowing harder for middle-income countries. The dissolution of the Soviet Union also resulted in change of priorities in the bank's mission. Newly-emerging Eastern

European countries that neighbor Western Europe were to be integrated into the neoliberal, democratic system of the developed, Western world. The contrast between Turkey's relations with the World Bank in the 1980s vis-à-vis the 1990s reveals that assistance depended on changes in the political environment.

Even though development assistance by multilateral agencies is controversial as a result of the multilateral agencies' enforcement capability and political aims, the political motivation to increase influence provides the agencies with a more powerful political status and greater financial capacity to attract more countries (Danaher, 1994). The aim of political influence or buying political support in exchange for aid is especially common in bilateral assistance situations which can create complexity for the sovereignty of aid recipient countries. Even though the allocation of aid by multilateral agencies depends on political relations between aid recipient countries and the major donor countries of the agencies, political interests are less visible and harder to enforce as a result of the difficulty of convincing of other member countries (Alesina &Dollar, 2000; Sachs, 2006).

Jeffrey Sachs suggests that multilateral international agencies can enforce conditions, give advice on policymaking, and pressure recipient countries to reform along the lines of the organizations' policies (2006). The technical and financial capacity, professional staff, and experience of the multilateral organizations play a significant role in the consolidation of a favorable global economy. However, substantial analyses assert that there is an insignificant correlation between aid and growth (Dalgaard, Hansen & Tarp, 2004; Easterly, 2007; Rajan &Subramanian, 2008), and a considerable number of studies claims that aid is used as a tool to influence their politically important partners by aid agencies which pay little attention to the reform capacity of the country and to public trust in the governments they aid (Alesina & Dollar, 2000; Barro & Lee, 2005).

Therefore, it is not relevant to test the effectiveness of development assistance with quantitative analyses. Individual studies must identify the political determinants of aid's disbursement, and case studies must be conducted in aid recipient countries to evaluate their utilization of the aid. The conditions which enabled agreements between aid agencies and aid-recipients, and the

conditions disabling are more significant because they reveal the strategy behind the disbursement of aid. Discussions regarding the disbursement open up ways to reevaluate the aims of aid and increase its effectiveness in the end. In addition, the circumstances in which aid does and does not work explain the underlying structural characteristics of aid recipient countries which determines the effectiveness of the aid as well as helping to improve aid's effectiveness (Dalgaard et al., 2005).

Aid – that is, development assistance – and loans – that is, development finance are not the same type of development resources, yet the terms of development assistance apply to development finance. Therefore, even though Turkey has been a borrower but not an aid recipient country since the 1970s, conclusions can be drawn from an examination of development assistance in the Turkish case. These conclusions can be regarded within development assistance studies.

In the case of Turkey, which is examined in this thesis, development assistance was considerably effective up until 1988 along with the promotion of export-led industrialization and an increase in the gross domestic production as a result of the decisive approach and enthusiasm of both Turkey and the World Bank. Yet when Turkey and the World Bank's agendas diverged in the 1990s, their relations were impaired. I reveal the political determinants for aid's utilization through a qualitative research on the relationship between Turkey and the World Bank in the 1980s – when the loans contributed to the rise of productivity and growth – and the 1990s – when lending agreements could not be negotiated between parties –. In my view, development assistance flowed in great amounts for a certain period and then did not for a different period to the same country is a very interesting research area, when the development assistance studies offering that aid effectiveness depends on policy-making mechanisms and geographical location are considered. Questions can be asked regarding the close relationship between Turkey and the World Bank in the 1980s and the rupture of relations in the 1990s: How can the contrast between the periods be evaluated? Did Turkey have a better policy environment to institute the conditions of the aid and create a potential for development, or was the relationship a result of alignment regarding political conjuncture?

The thesis discusses the conditions of disbursement and utilization of development assistance by comparing and contrasting the relationship between Turkey and the World Bank in the 1980s and the 1990s – the years in which the relationship took a different course- and concludes that a development assistance project depends on the internal and external conditions of an aid recipient country; stability of the political environment in the country, the country's eagerness to adopt the project, and the mutual strategic interests and interdependency of the country and the aid agency. Aid's utilization is affected by the political conditions of the aid recipient country (whether they allow the prioritization of the development agenda) and its disbursement is affected by the political structure of aid agencies (whether they are under the influence of their home countries and major shareholders).

In the context of the literature on development assistance, I conduct documentary analysis of the organization and research reports by independent researchers published by the World Bank, and in-depth interviews with the four former Undersecretaries of the Treasury Department of the Turkish republic who officiated during the 1980s and 1990s, which lead to the conclusions.

§ 1.1 Interviews

I conducted four face-to-face in-depth interviews, which were in Ankara and Istanbul, in May and June 2017. Interviewees were former undersecretaries of the treasury department of the Turkish republic. The treasury department was a directorate of Ministry of Finance until 1983, and from 1983 until 2018 the department served as an undersecretariat to the Prime Ministry of the Turkish republic. In 2018, it has become a ministry represented by the Minister of Treasury and Finance. Director general – until 1983 – and undersecretary – 1983 onwards – was the head of the department that conducts foreign economic relations among its other duties (Ministry of Treasury and Finance, n.d.). Relations with other countries as well as international financial organizations have been carried out to increase economic cooperation with the execution of the director general, then the undersecretary and currently the minister of the treasury department. The executors are also the head country

representatives in the board of the World Bank and IMF among other international financial organizations and banks.

The criteria for choosing the particular undersecretaries for this study was necessarily the reachability of these key former bureaucrats, which was not an easy task. Because the scope of this study was the period of the 1980s and 1990s, I had to contact the top officials of the treasury department who took office at these years. Undersecretaries are relatively easier to reach because they are the well-known bureaucrats who were appointed as the head of such a crucial government office. They are also the bureaucrats who served in the department as financial analysts until they are appointed to administrative positions, which makes them competent in the operations of the department.

I had the first interview with Nevzat Saygılıoğlu, who was the deputy undersecretary of the Republic of Turkey Prime Ministry Undersecretariat of the Treasury between 1994 and 1997, and the acting undersecretary in 1995 and 1996. Ayfer Yılmaz, another interviewee, is his predecessor officiating in 1994 and 1995, and she also served as state minister in charge of economics later in the 1990s. I had also an interview with Mahfi Eğilmez who officiated the undersecretariat in 1997 for a short time, however – as noted – he had been a bureaucrat of the treasury department for 25 years. My last interview was with Tevfik Altınok, who was the director general of the Ministry of Finance Treasury Directorate between the years 1977 and 1980, and in 1982 and 1983. He also served as the undersecretary between 1991 and 1993 (Ministry of Treasury and Finance, n.d.).

The interviews were in depth with open end questions, which took the undersecretaries to answer about an hour. Their comments constituted the mainstay of my thesis alongside the documents of the World Bank researchers and provided a chance for comparison between domestic observations and external evaluations of development assistance. The views of the undersecretaries give a clear grasp of the macroeconomic restructuring of Turkey and the role of IFOs in it in the 1980s and 1990s.

§ 1.2 Chapter Outline

Following this introductory chapter, the second chapter of the thesis provides the historical framework in which the international monetary system confronted collapse and in which transformations brought the establishment of international financial organizations that regulate the international economic activities and promote economic growth by producing tools such as development assistance. The sections are chronological and emphasize the emergence of IFOs as a consequence of the need to restore the monetary system and provide an internationally-integrated economic growth, which in turn opened up a new chapter of globalization. Changing interests that accompanied the globalization of the economy have changed the paradigm of the missions of IFOs. One of the most significant missions of IFOs, development assistance, is discussed in order to spell out the reasons the assistance is donated, its expected results, and the determinants of its effectiveness.

In the third chapter, Turkey's relations with the World Bank as well as other IFOs are presented along with Turkey's macroeconomic policy framework from the late 1970s to the 1990s. During these years, domestic and international crises arose and an economic transformation of the world market took place. Turkey developed good relations with IFOs as a result of mutual benefits and interests. Whereas for Turkey the benefit of being part of an international cooperation was political security and economic integration that provided prosperity, the cooperation was favorable for international actors for political reasons in the conjunctures of the Cold War and the neoliberal restructuring of developing countries via policy-based lending that is another power tool benefited IFOs by increasing their influence.

The fourth chapter reveals the reasons the relationship between Turkey and the World Bank ruptured and why Turkey did not continue structural changes and reforms in the 1990s. Mainly loss of interest among politicians as a result of escalating competition among political parties, conflicts among coalition partners within governments, economic problems requiring urgent responses, and domestic security issues prevented the making of structural changes to improve economic institutions and a long-term economic vision. World Bank policies also differed from those in the 1980s; the mission of the

bank had changed from creating globally-integrated liberal economies to alleviating poverty. The conditions for developing countries had been modified, and once Turkey could find alternative financial sources for borrowing, it avoided the tight conditions and expectations of structural adjustment tied to World Bank lending in the 1980s, which resulted in severe consequences in the 1990s. The priorities of the bank also changed and its interest swapped from the Middle East to Eastern Europe.

In light of an analysis of the course of relations of Turkey with the World Bank, the Turkish macroeconomic framework between 1980 and 2000 and the reports of the World Bank, as well as the comments of former undersecretaries whom I interviewed, the thesis concludes by arguing that the political determinants are more explanatory for the effectiveness of aid; stability of political environment provides the ground for utilization of aid. While the political conditions of the 1980s were convenient to negotiate a development assistance plan and undertake structural reforms, political and economic instabilities in the 1990s prevented Turkey from building a coherent policy of development and from building relations with IFOs with regard to development.

In addition, multilateral rather than bilateral agencies more effectively enforce the utilization of aid. With the condition for multilateral agencies that they should not create complications regarding the sovereignty of aid recipient countries. Hence, the second major factor for aid to take effect is the strength of the multilateral nature of aid agencies.

Third, macro-scale reforms that impose fundamental changes on the aid recipient country usually disregard the historical background, geographical limitations, political challenges, and sociological conditions of the country in need of aid. As a result, projects with specific purposes that focus on particular issues must be supported to overcome related difficulties in underdeveloped or developing countries.

Finally, the collaboration between aid agencies and aid recipient countries on human development issues such as health, education and urban infrastructure can only enable development by the empowering people and encouraging them to participate in employment and to invest. Otherwise, aid is consumed on ineffective government expenditures, necessitating more aid without

providing productivity and opening the politics of the aid recipient country to international influence through the use of aid as a political tool.

2

A New Institutionalization of International Finance, and Development Assistance

The global economy and international monetary system were put under the pressure by the world wars and a severe depression first in the market of the United States and then in international markets during the first half of the twentieth century. The international market needed to go through a transformation in response to the damage caused by the wars and crisis. The changing system that brought about the establishment of international financial organizations to regulate the international economic activities and promote economic growth opened up a new chapter of globalization. During the second half of the twentieth century, the Cold War between the US leading the liberal developed countries and the Soviet Union resulted in structural changes in national and the international economies, which later ended the Cold War in favor of the liberal developed world towards the end of the century.

Development assistance emerged as a tool at this conjuncture, first to help with the reconstruction of Europe following World War II and then to integrate developing and underdeveloped countries into the newly emerging global system in order to overcome the deep stagnation and inflation crisis of the 1970s. The effectiveness of development assistance was debated because of the political approach of donor countries vis-à-vis recipients of the assistance. Because it was used as a tool, the contributions of the aid to economic growth

and human development in developing and underdeveloped countries tended to be disregarded. Its effectiveness must be improved by understanding the conditions in which aid is given to a country and the country utilizes the aid.

This chapter reviews historical developments in the global economy and presents the causes and effects of the developments with reference to their dependence on the distribution of political power in the world. The sections are chronological, emphasizing the emergence of IFOs as a consequence of the need for restoring the monetary system and providing internationally-integrated economic growth. IFOs were created with the vision of building a politically and economically secure international environment, and they served an increasing sphere of influence sought by their founders. The paradigm of the missions of IFOs has changed in line with changing interests in the global economy. That development assistance takes shape according to the missions of the IFOs is discussed in the last section in order to point out to the reasons of assistance is donated and expected results of the reasons. In order to evaluate the role of development assistance in the Turkish context during its neoliberal transformation period, I critically examine discussions within the literature of development assistance.

§ 2.1 The International Financial System after the Bretton Woods Conference

World War I created uncertainty in the international system and distrust among states, which led them to pursue inward-oriented policies. Monetary policy changes from international integration to domestic goals were reflected in the external monetary relations. The liberal economic system called "laissez-faire" failed in the interwar period and completely collapsed by the Great Depression of 1929 in which confidence in the US economy which had become the insurer of the international market following World War I was lost. The uncertainty of the political environment following World War I and increasing tensions among countries undermined their confidence in the international arena, and the Great Depression devastated the international monetary system. During the interwar period, the international monetary system was influenced by interrelated political and economic developments. The

regulatory role of states and restrictions on international trade and capital flow climbed and the states were led to embrace protectionism. Economic regulations and intervention increased as states underwent war preparations near the end of the 1930s. Military expenditures started to rise especially in European economies, and state enterprises spread to enhance their military capacities. (Berend, 2006).

The outbreak of another world war inevitably ended international trade and investments and countries started to follow inward-oriented production. Markets were regulated in order to respond to wartime production and self-sufficiency needs, which in the meantime supported the growth of national economies. The markets regulated by central states proved functional, and the experience affected the economic system of the postwar period (Berend, 2006). Closed economies restrained the economic growth of major, powerful states with developed economies, which created the need for the restructuring and liberalization of international trade and finance as soon as circumstances allowed.

States were not willing to integrate into the global economy as a result of the Great Depression, and the wartime economy created inflation, depreciation of exchange rates, and the collapse of the gold standard (Foreman-Peck, 1983). When the war ended, major powers aimed to reconstruct the devastated international trade and finance system, and they undertook collaborative initiatives to restore the global economy and reestablish their power by expanding their markets.

A conference was held in Bretton Woods in the US with the participation of forty-four other countries for the purposes of restoration following the war and making new economic collaborations. There were many issues required for restoration. Creating employment and promoting growth to respond to increasing demand as a consequence of ending of the war, providing for the balance of payments, and loosening regulations over the market were the most significant needs of governments (Eichengreen, 1996).

John Maynard Keynes, a British economist who highly influenced the macroeconomics of the postwar period, and Harry Dexter White, a notable official at the Treasury Department of the United States, engaged in finding solutions for governments to manage the tasks. During the war, governments

discovered that regulating domestic markets was beneficial, and restoring an open global economy became difficult once the governments had developed a vision of political economies for their domestic objectives. Therefore, Keynes and White offered a solution that allowed governments to prioritize their domestic needs in the case of challenges from the global economy (Rodrik, 2011).

With their efforts and the participation of other officials from the forty-four countries that have been victorious in World War II, a new international economic system with rules configured to be more stable and regulated was established at a conference held in Bretton Woods, New Hampshire in July 1944. Keynes and White provided the philosophy for the global economy and institutionalized the new financial system with the creation of two international financial organizations: the International Monetary Fund and the International Bank for Reconstruction and Development, the latter of which later became the World Bank (Rodrik, 2011).

A highly ambitious plan for the international monetary system emerged as a consequence of the Bretton Woods agreement. Exchange rates, currency stabilization, and international investments were to be handled by the international financial organizations established in the agreement, and missions of liberalizing commercial policies and raising employment levels were to be undertaken internationally. The General Agreement on Tariffs and Trade (GATT) in 1947 was another institutionalized effort to liberalize trade and integrate the global economy (Scammell, 1975). Standardizing the approach to such macroeconomic issues served to build a stable foundation for international financial activities and political collaborations.

§ 2.2 New Institutionalization via the International Financial Organizations

The Bretton Woods system and international financial organizations (IFOs), like the IMF, the World Bank, and GATT were established following world wars in order to provide a secure environment for trade and capital flows, especially for their founders. There were also other organizations established as the result of the efforts to institutionalize political collaboration and integration. All these organizations were intended to strengthen alignments and

prevent further wars and economic crises. While organizations such as the European Union were attempts to obtain and protect political stability, the financial organizations established by the Bretton Woods agreement – the International Monetary Fund and the World Bank – sought to provide exchange rate stability and balance of payments equilibrium and to maintain international investments. Even though their missions diverged in time, they worked in collaboration and even made complementary agreements with countries in order to construct a globally-integrated economic system.

The International Monetary Fund was established as a financial organization that would help its members sustain their balance of payments by maintaining convertible currencies and stable exchange rates. The IMF fiscally assists countries suffering from deficit balances in order for them not to implement cautious restrictions on trade which would damage international trade and hence political relations (Eğilmez, 1997). This aim explains the politicized approach of IFOs which focus on global stability with integrated liberal economies.

Members make commitments to the IMF reserve; 25 percent in Special Drawing Right (SDR) – which can be considered the IMF's own currency – or in the currencies of other IMF members and 75 percent in their national currency based on their GDP and position in international trade according to a quota system (International Monetary Fund, 2016). Member states receive assistance from the reserve according to their total SDR at the IMF in order to respond to short-term balance-of-payment issues. Each member has voting rights according to their commitment to the fund's reserve. For instance, the commitment of the US amounts to 16.52 percent of the total reserve; therefore, it has the voting power of 16.52 percent of the total votes, making the US the leading country at the fund (International Monetary Fund, 2018).

According to Scammell, the IMF was established to manage short-run disequilibria in the balance of payments, yet the underlying belief upon the formation of the fund was that these disequilibria are temporary and self-correcting as also offered by the liberal idea, in other words, *laissez-faire*. Rather than creating certain principles for international trade and payments as was the actual aim of Bretton Woods, the fund undertook a liberalizing mission

under the influence of its home country and major shareholder, the US (Scammell, 1975).

The other organization set up by the Bretton Woods agreement, the World Bank, was originally an assistance agency for reconstruction following the war. Later, its function became to lend for the development projects of governments and private enterprises. Power plants, railways, roads, and other infrastructure are supported by the World Bank, a global agency leading public and private investments on the issue of economic development (Foreman-Peck, 1983). The managerial system of the bank is similar to the fund; contributors to the bank's reserve gain voting rights in proportion to their contribution.

The international free trade system was initiated by the US a little after the Bretton Woods agreement. At the Geneva conference held in 1947, twenty-three countries negotiated and agreed on the General Agreement on Tariffs and Trade (GATT) which lowered tariffs and trade barriers in international trade. In the 1960s, 80 percent of world trade started to take place within the system of the GATT, which eliminated trade restrictions and the interwar protectionist economic nationalism. The countries that participated in the GATT constituted the liberal First World (Berend, 2006).

The establishment of IFOs that imposed their rules and terms on member countries created an international financial system that brought about a loss of national sovereignty to a degree because the capability of endowment of the IMF and the World Bank has allowed them to become involved in policymaking processes concerning monetary issues such as the fixing of exchange rates, programming of public spending, and trade quota implementations (Scammell, 1975). The dominance of the US within the organizations and over their founding philosophy also makes their missions questionable. The largest contributor to the reserve of the fund and the bank is the most powerful voter and comes to dominate managerial and decision making processes. As a consequence, Scammell suggests, the new international financial system has been political rather than technical, which is observed in the case of the relationship between the IFOs and Turkey during the 1980s and 1990s. The power structure led IFOs to prioritize regions and countries for development assistance according to the interests of their major shareholders. On the other hand, the ability of domination of decision making in IFOs by major shareholders has

driven countries to join the IFOs and increase their contributions to the reserves of the IFOs to be able to increase their influence in the organization and hence in the international arena. While the strategic aspect of IFOs makes development assistance controversial, it also provides a politically more powerful status and greater financial capacity to the organizations.

The drive for the reconstruction of Europe gained momentum with the introduction of the European Recovery Program – the US Marshall Plan in 1948. The US offered significant financial aid for assisting with the reconstruction. Even though the aid was strongly politically-motivated as a consequence of the Cold War conjuncture, it contributed to the postwar prosperity and the building of a new cooperation within Europe (Berend, 2006).

Economic integration of Europe started with the Benelux tariff community which set up common external tariffs among Belgium, Netherlands, and Luxemburg in 1948. A customs union agreement between France and Italy led them to join Benelux. In 1952, the participation of France, Italy, and Germany in Benelux laid the foundation for an economic union – the European Coal and Steel Community (Berend, 2006) – which would later become the European Union. Even though it was founded with economic motives, the organization turned into the most powerful regional organization for political collaboration. Turkey applied to become a member of the community as early as 1959 (Ministry for EU Affairs, 2017) when it was implementing an inward-oriented economic program. Turkey perceived the political nature of the collaboration, and its application can be argued to be the result of its continuous seeking of international support, as discussed in the following chapters.

World War II taught the developed world significant lessons about collaboration and resulted in radical changes in the policies of international and European institutions. The change in the international monetary system gave governments a much different and more effective role in running and ruling the economy than ever before. While decreasing unemployment and improving living standards became almost universal objectives, governments were increasing international prices for their goods and economic growth by being involved in economics to such an extent (Foreman-Peck, 1983).

The economic growth and political stability obtained as a result of institutionalization via international organizations constituted the basis of the new

international system. Yet, the international system created by the developed Western countries; hence, it fueled the polarization between the First World and the Second World in the Cold War period, which strengthened the position of the US as the hegemonic power of the First World and gave it chance to spread liberal economic ideals and make the borders of the international market more transparent. The Cold War conjuncture normalized the erosion of the sovereignty of countries with the help of the sanctions of the international organizations.

2.2.1 *The World Bank*

This section analyzes the foundation, structure, and policymaking of the World Bank because the focus of the thesis is on its relations with Turkey. The World Bank became a special agency for the First World to influence less-developed, peripheral countries that constitute the Third World by determining the economic policymaking for developmental goals. The bank's assistance was concentrated in the Third World during the Cold War period and assured a developmental path for the Third World countries in accordance with that of developed Western countries. The bank is needed to be elaborated more thoroughly as a result of its capability to affect policymaking and the economic route of developing and underdeveloped countries under the influence of developed, Western countries.

There was confusion about the missions of the World Bank and the IMF when they were first established. The World Bank was originally established to assist with the reconstruction of ruined economies following World War II, yet this mission became irrelevant when the Marshall Plan of the US transferred aid to European countries for the same purpose. After their establishment at the Bretton Woods conference in 1944, the missions of the IMF and World Bank diverged and became distinct by the 1970s when the issue of development was at stake. While the IMF became involved in improving the balance of payments and exchange rate policies of industrialized and developing countries, the bank adopted the mission of assisting development in the developing and underdeveloped world (Scammell, 1975). IFOs gained a crucial role by virtue of their capability of endowment, and the bank has become the

most significant organization dealing with the mission of development assistance.

However, up to the 1990s only a few developing countries, especially in the Far East, utilized bank assistance in order to make investments to increase their exports and secure a place in international trade. Even though these countries were those capable of utilizing the assistance with their own knowledge, experience, and capital, bank resources were delivered as a result of the political alliances. In the 1990s, this focus eradicated with the end of the Cold War. Especially East European countries leaving the Soviet Union joined the World Bank and received support for their democratization and financial liberalization, which was also an important landmark in the relations of Turkey with the World Bank. Because competition for the bank's assistance increased, the bank introduced more strict conditions for lending, and the high volume of assistance to Turkey diminished (Eğilmez, 1997).

The World Bank today aims to improve long-term economic development and the alleviation of poverty by offering financial and technical assistance for reforming particular sectors, putting projects in action for educational and health system remedies, and building infrastructure for energy, water, and roads. The personnel of the bank is mostly specialists on certain issues, in certain sectors, using certain techniques in order to assist aid-receiving countries in their reforms and projects. The assistance of the World Bank is funded by the contributions of member countries to the bank's reserve and by the issue of bonds (International Monetary Fund, 2017). Membership in the World Bank is conditioned on membership in the IMF, meaning that only countries that are members of the IMF can apply to be members of the bank.

The World Bank Group is composed of five institutions, namely; the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). Two institutions – the IBRD and IDA – constitute the known World Bank and carry out the development mission in question. Even though each of these institutions has independent accounts and resources, they are all subject to one management (World Bank, n.d.).

The bank is managed by a Board of Governors on which all 189 member countries are represented via their ministers of finance or ministers of development. The Board of Governors, the ultimate policymaking unit of the bank, meets once a year at the Annual Meetings of the World Bank Group and International Monetary Fund. The Board of Executive Directors is constituted of twenty-five directors, six of whom are appointed by the six largest shareholder countries – the United States (possessing 16.5 percent of the vote), Japan (7.1 percent), China (4.6 percent), Germany (4.1 percent), France (3.9 percent) and United Kingdom (3.9 percent), respectively –, and remainder by the other member countries. This board works on-site at the offices of the bank in Washington, DC. The executive directors elect the president of the World Bank Group for a five-year term (World Bank, n.d.).

World Bank commitments are smaller compared to IMF lending, yet the terms of borrowing from the bank are much longer in accordance with its mission. Whereas IMF lending is for the short-term remedy of the balance of payments and must be paid back in three to seven years, the bank issues fifteen to twenty years long loans with up to a five-year grace period. The commitments of the bank are repaid at a lower interest rate than those of the IMF. The bank also provides technical assistance and grants to realize development goals and projects (World Bank, n.d.). All these efficiencies make World Bank assistance the most favorable form of borrowing for countries struggling with sustaining economic growth, providing better public services, and promoting the living standards of their citizens. By becoming members of the IMF en route to applying for World Bank development assistance, underdeveloped or developing countries are ensured to be integrated into the international monetary system and follow a liberal developmental path.

The reason developed countries become members and make considerable contributions to the bank, which is an organization promoting poverty alleviation and development, is to increase international welfare by organizing international trade and division of labor with a more balanced allocation of resources. Additionally, the countries can contract World Bank projects which are only open to the bank members' companies and organizations (Eğilmez, 1997). Practice reveals that strategic approach of membership in such IFOs – that is, the political and financial motives behind the funding of bank

assistance by the developed countries – is to establish a system serving the interests of developed countries and securing the political and economic environment. On the other hand, its multilateral structure with the participation of the world's most developed countries enables the World Bank to support and supervise the international economic system through its sub-organizations that serve the different financial needs of member countries and private investors.

§ 2.3 The Changing Roles and Policies of the IFOs

The need to change the Bretton Woods system in time led it to turn into a different system than it originally was. In addition to these changes, the decreasing influence of the US over Europe as a result of the uncontrolled inflation of the US dollar and the stagnation of international markets brought the system to an end. The increases in the price of oil because of the collective decision making of the Organization of the Petroleum Exporting Countries (OPEC) regarding oil exports caused a deeper crisis in the international economy by contributing to the inflation of the US dollar. The system inevitably collapsed with the crisis in international markets at the end of the 1970s, and the crisis led to the transformation of the international economy once again.

Protectionism and regulatory implementations were eliminated by the Bretton Woods agreement, which were a response to previous economic instabilities and World War II. The new system gave the rights to intervene in the economy and control capital movements to governments in order to assure their sovereignty in an internationally-integrated market (Berend, 2006). However, the system could not go into full operation after its establishment in 1944. The theory of system was failed by the difficulties in the international environment and it brought about the necessity to undertake structural changes. Scammell notes that the system had to be modified several times following its establishment, and when it finally took full effect in 1959, the international monetary scene was different than in 1944 (1975).

US investments in Europe, which contributed to its reconstruction and development following the war, were withdrawn as a result of the shrinkage of US markets in the 1960s, abandoning Europe economically. Once capital flows

from the US to Europe dropped by half, the balance of payments in Europe had been financed by these flows collapsed. In addition, European countries were implementing welfare regimes with high public expenditures, which resulted in political and social upheavals in France, Germany, and Italy. This led to overheated economies and wage explosions in Europe towards the end of the 1960s (Foreman-Peck, 1983). These financial troubles signaled threats to international markets.

Like the sterling-based gold exchange standard of the prewar period, the international exchange was based on the US dollar, which in turn was exchangeable for gold at a fixed price. However, the balanced budget doctrine of the prewar period had been abandoned, and increasing gold prices led to a dollar surplus by the late 1960s. The growing US dollar surplus in the market caused a loss of confidence in the dollar and undermined the credibility of the currency. In addition, the fixed exchange rate system deteriorated with speculative crises and came to a halt at the beginning of the 1970s (Foreman-Peck, 1983). Along with rising petroleum prices upon the intervention of OPEC, the United States' attack on Vietnam in 1973 and the prolonged war made the US dollar more fragile. The crisis resulted from the fragility of dollar as a consequence of increasing petroleum prices is called *petrodollar crisis*.

Very high rates of inflation were recorded in the world economy in the 1970s. The boom in the economy and full employment in the postwar period were followed by instability and stagnation. Trade and industrial output declined and unemployment increased. Exports were hit hard as a consequence of slow growth and the protectionist tendencies of states. The unusual rising of inflation and unemployment together was followed by a deep stagnation in economics, and a new economic term – stagflation – was introduced (Berend, 2006). Like many developed and developing countries, Turkey suffered from inflation and balance of payments deficits.

Recurrent political and economic crises in the 1970s brought about the collapse of the Bretton Woods system. The emergence of a new system involving the limited intervention of governments in markets was followed right away. Deregulation of state mechanisms in markets, reductions in public expenditures, and the privatization of public enterprises were offered as

solutions to overcome the crises of the 1970s. The new system had also international repercussions on international free trade and free movement of capital.

With the intervention of the developed, Western countries, international trade started to grow again incredibly rapidly. International agreements and institutions built following World War II became effective in the development of trade. Even though protectionism rose again at the beginning of the 1970s as a consequence of speculative crises and the collapse of the Bretton Woods system, Western powers overcame the crisis, even strengthened their trade positions, and took international integrity further with the Tokyo Round of 1979, and the Uruguay Round of 1986 which led to the establishment of the World Trade Organization (WTO) (Berend, 2006). Developing countries joining in international trade benefited from the growing global economy; trade and exports helped low and middle-income developing countries to increase their national incomes.

Even though the US disregarded Europe in the 1960s following its significant supports following World War II, the rebound from the *petrodollar crisis* provided a new system that benefited the European countries with a new cooperation that eliminated protectionism even more. The new form of international integrity brought about a fundamental change in the international division of labor and the global economy. Globalization in the late twentieth century was dramatically different than prior internationalization processes. Increasing economic interactions, capital flows, trade, and investments and created a both qualitatively and quantitatively more-integrated system of economics, which is termed neoliberalism (Berend, 2006). The transformed international system required broad room for the increasing volume of economic activities. New policies concerned the broadening of the system in the world.

Following the crisis of the late 1970s, it became necessary to integrate developing and underdeveloped countries into the international division of labor and the global economy. The prospects for furthering international integrity were called the Washington Consensus, a package of reforms determined by Washington-based organizations: the World Bank, the IMF, and the US Treasury Department. The Washington Consensus proposed a new free

market economy called neoliberalism and led IFOs to adopt new lending policies: policy-based lending. Development assistance in exchange for making reforms in line with the Washington Consensus strengthened the bargaining power of these organizations. However, it also resulted in controversies regarding the purposes of development assistance and its effectiveness (Danaher, 1994).

Transformations in the global economy – deregulating the state controls over market, reducing public expenditures, and privatizing public enterprises – were initially introduced with the liberal exchange rate system and the free movement of capital at the US and the UK. Other Western industrialized countries followed their lead and deregulated their markets one after another. The First World adopted deregulated, independent markets and monetary policies. A consensus among Washington-based organizations – the IMF, the World Bank, and the US Treasury – put forward the principle of self-regulating financial capital as the right economic policy for developing countries. The Washington Consensus instructed developing countries with three pillars: fiscal austerity, privatization, and market liberalization (Stiglitz, 2003).

The reforms of the Washington Consensus concerned maintaining macroeconomic stability by taking inflation and balance of payments under control, transitioning to an integrated, open world economy via trade and a liberal capital account regime, and building a free market economy with deregulations and privatizations. From the 1980s on, these reforms were endorsed as a recipe for development by the IMF and the World Bank through their stabilization and structural adjustment policies (Gore, 2000). The World Bank and other international banks accepted a loan system dependent on the approval of the IMF.

The most famous of the reform programs was the World Bank's Structural Adjustment Lending (SAL) in cooperation with the IMF. The trade liberalization and free movement of capital became the most significant aspects of reform and the mainstay of the new system. Underdeveloped and developing countries were encouraged to adopt the system in order for international capital to find convenient trading conditions and a suitable investment environment. The IFOs adopted the grand mission of transforming the economic

structures of their borrowers. Turkey became one of the first recipients and the prototype of the SAL (World Bank, 1988).

The policies of IFOs became conditions for assisting developing countries suffering stagnation, fiscal deficit, indebtedness, and unemployment. The IFOs not only helped particularly countries to realize their development goals but also by imposing conditions for lending and giving advice about development goals in order that the goals be in line with the IFOs' understanding of development. Thus, policy-based lending was adopted, and aid started to be used as a political tool. Even though the conditions were not always applicable and created instability in the economies of the borrowers, the ratio of conditional lending to IFOs' portfolio vastly increased and remained significant until the middle of the 1990s (Dreher, 2004). However, the macro approach to development assistance was proven ineffective given the failed durability of the structural adjustment reforms made in aid recipient developing countries (SAPRIN, 2004).

The Soviet Union and the other Second World countries in Central and Eastern Europe also underwent structural crises in the 1970s and 1980s. They could not sustain development and suffered stagnation together with inflation which put them heavily in debts. Soviet Russia withdrew from Afghanistan which it had invaded from 1979 to 1989 and ended its intervention policy in countries with which it was aligned. The policies of *glasnost* – openness – and *perestroika* – restructuring in the Soviet Union announced in 1989 revealed the collapse of the Soviet system. In 1991, the union was dissolved and socialism perished. The changing world order – that is, the emergence of the hegemonic system of the liberal West – and the changing borders at Central and Eastern Europe as a result of the emergence of new states free of Soviet intervention led to the abandonment of economic protectionism and the regulatory role of state in the world, and especially in Europe. Free market economies ruled by private interests and democratic governments dominated the new world order. The change in political structures brought about a change to the policies of IFOs and to their priorities for development assistance in the 1990s (Berend, 2006).

The Bretton Woods system collapsed with the abandonment of the fixed exchange rate system which was its core. Deregulation of trade policies and

the elimination of the restrictions for the international movement of capital were put into practice by many of the countries of the First World. The IFOs started to support developing and underdeveloped countries that aligned with the First World with respect to neoliberal reforms and the Washington Consensus in the 1980s. In the 1990s, the dissolution of the Soviet Union and the integration of former-Soviet countries into the global free market economy meant the hegemony of the new system. The IFOs prioritized the transition of formerly socialist countries to neoliberalism and focused development assistance on these countries, which again led to debates about the nature of development assistance.

§ 2.4 Development Assistance

The role of development assistance can be deduced from the institutionalization efforts and the goals of the organizations established since the end of World War II. However, it needs further attention because the effectiveness of the assistance has been debated since it was first proposed, and different answers were suggested regarding the circumstances under which it would contribute to the economic growth and promote living standards in recipient countries. Another highly debated issue regarding the assistance is its allocation; which factors do affect the donor countries' preferences of the allocation of assistance? The aid's allocation is related to the role of development assistance. Therefore, I introduce at this section the discussions about foreign aid, also referred to as development assistance, in order to evaluate the role of one IFO, the World Bank, in the development of Turkey in the 1980s – when it received significant amounts of aid – and in the 1990s – when the aid was limited compared to the 1980s –.

Foreign aid, which is intended to contribute to the development of low-income countries, generally refers to official development assistance and consists of grants and concessional loans funded by bilateral and multilateral agencies. Agencies of a single funder country that manages the assistance are considered bilateral, whereas agencies founded by a number of developed countries are multilateral. Official development assistance is a subset of official development finance which involves all financing activities of developed

countries in the developing world. Studies of development assistance generally apply to development finance, as well (Dollar & Pritchett, 1998). Therefore, I look at development assistance studies even though lending to Turkey since the second half of the 1970s – when it stopped receiving grants from the IDA and became an interlocutor of the IBRD – is development finance.

Foreign aid first became a question following World War II. For the restoration of countries devastated by the war and the promotion of growth and reduction of poverty in other parts of the world, Western states started to donate aid. Undoubtedly it also arose as a consequence of self-interested concerns such as building economically and politically secure environments for themselves and was a political strategy to strengthen alignments (Dollar & Pritchett, 1998). The allocation of the aid more clearly reveals the political motivations.

One of the policy research reports of the World Bank, *Assessing Aid* (Dollar & Pritchett, 1998), covers the most important findings of the studies on the effectiveness of development assistance. One finding is that aid results in growth in countries that have a good policy environment. Another suggests that aid contributes to poverty reduction by improving economic institutions and policies. Third, it is claimed that aid encourages private investment. Fourth, aid improves the delivery of public services by strengthening sectoral and local institutions. Finally, aid supports active civil societies that improve public services. Even though all the claims are challenged and many studies are produced arguing that aid has been ineffective in promoting growth, development assistance by the developed countries and IFOs did not stop and continues increasingly. Therefore, I critically examine the discussions and findings in the literature regarding the effectiveness in order to evaluate the role of aid.

2.4.1 *The Role of Policymaking in the Effectiveness of Aid*

The seminal article "Aid, Policies, and Growth" by Craig Burnside and David Dollar states that foreign aid contributes to the economic development of low- and middle-income countries that have sound economic policies. Following from a number of regression analyses made with the data obtained from the World Bank database regarding aid recipient countries and their policies,

Burnside and Dollar suggest that if fiscal, monetary, and trade policies of an aid recipient country are weak, aid money does not increase its GDP. In other words, the policymaking capacity of the aid recipient country's government determines its success in utilizing the aid and turning it into economic growth. Otherwise, aid is likely to be spent on ineffective government consumption. As a result, donors are recommended to pay attention to the policymaking in recipient countries so that will be effective (Burnside & Dollar, 2000).

Low- and middle-income countries which receive aid do not likely to have good macroeconomic policies and foreign aid does not encourage the adoption of such policies. Hence, it is hard to argue the aid becomes effective with better economic policies. Various studies also object to their argument that better policies enable aid effectiveness and lead to growth. Policy-based aid that aims to shape the economic policies regarding development becomes also debatable. Moreover, Burnside and Dollar also suggest that the strategic interests of donor countries more significantly explained aid flow than the quality of the policies of the recipient countries (2000).

William Easterly criticizes the article of Burnside and Dollar (2000) and argues that the impact of aid can only be understood in a longer term. By expanding the dataset of Burnside and Dollar that they used to conclude that aid makes a positive impact on growth in the presence of good policies, Easterly found an insignificant correlation. In addition, he argues the ineffectiveness of the *financing gap* model used by Burnside and Dollar and the World Bank, which suggests that aid helps increase investment and investment creates growth. According to Easterly, aid does not necessarily increase investment, and there is no significant empirical case from which to draw this causality. There may be no incentive to invest in the recipient country, and there can even be a motivation for not investing and maintaining the aid recipient position (Easterly, 2003).

Easterly suggests that a number of institutions must be existent or built as a precondition for development to take place. He draws special attention to one institution – case law – which reflects a bottom-up approach to law and enables a suitable environment for the economic regulation needed by the market and the law. Case law, rather than civil law, better provides for the establishment of supportive formal institutions such as property rights, contract

environment, and the rule of law. However, the West through the mediation of international financial organizations can neither build such institutions nor enact the beneficial laws. Moreover, the attempt to do so is a top-down approach that does not have the complex background of social norms, networks of relationships, and formal laws that create the institutions (2006, p. 99).

While Easterly criticizes Burnside and Dollar (2000) in his article "Can Foreign Aid Buy Growth?" (2003) and argues that aid effectiveness is not necessarily correlated with good policies, in *"The White Man's Burden"* he states that strong case law and established institutions are necessary for aid to be useful (2006). Easterly stresses the importance of public services as established institutions. He also states that underdeveloped countries may not even provide for the basic needs of their people; hence, they cannot benefit from even the most advantageous aid program. As a result, a number of aid agencies have started targeting underdeveloped countries that meet certain standards of functionality, democracy, and liberalism (2006). In other words, standards and capabilities of aid-recipient countries that enable the establishment of such institutions have far greater importance vis-à-vis the effectiveness of aid. This brings up the question of how organizations determine the standards and capabilities of countries in need of aid.

A study published by the World Bank, "A Case for Aid" (Wolfensohn, Stern, Goldin, Rogers, & Karlsson, 2002), offers two messages for development assistance: one, a good policy environment must exist in the recipient country because good policies provide stability for the market and efficient institutions, which in turn promise the private sector a secure environment in which to invest. The other message is that the commitment of a recipient country to reform is most important for foreign aid to become effective. Assistance in the forms of direct aid and adjusting donor countries' own trade policies to support a recipient country's exports can be effective depending on the recipient's level of commitment to reform (Wolfhensohn et al., 2002). In addition, if the project provides an increase in investment by attracting a financial flow to the country, it can be successful. The study notes the example of China for which the World Bank had only an advisory role. The expansion of the private sector and an open economy made China successfully attract private capital and investments to the country.

Bank assistance of financing and advice on structural adjustments in Turkey also contributed to the development of its private sector and encouraged foreign investors to move their capital to Turkey. Turkey's commitment was forceful in promotion of a private sector at its market. However, foreign development assistance is irrelevant when countries have strong policies and institutions that enable a secure investment environment and a strong commitment to reforms. These countries can make development plans and follow them through on their own. In addition, there are pressing warnings that aid may become harmful – that is, that aid money may create corruption through an uneven allocation or that it may discourage investment in order that effortless aid money continues flowing into the country. On the other hand, many scholars who work on aid effectiveness and the former Undersecretaries of the Treasury of Turkey from whom I received comments suggest that aid agencies use aid as a tool to influence their politically important partners, meaning that they pay little attention to the reform capacity of the country and to public trust in the governments they aid (Alesina & Dollar 2000; Easterly, 2006).

2.4.2 *The Role of Trade Liberalization*

Aid and trade partnerships provide financial support, and such cooperation can have a positive influence over regional and international political collaborations despite the aid's limited effectiveness. Private capital flows to the country through trade can readily be argued to contribute to development. Dollar and Kraay (2001) discusses growth in relation to trade in the developing world. Since it started in the 1980s, neoliberal economic policies have led to the expansion of trade which has brought about an increase in the growth rates in the late-globalizing, low-income countries. Lowering trade barriers and taking part in international trade has allowed the low-income countries to increase production and log record growth of their national incomes, which narrows the economic gap between them and the developed world. Recalling studies that show the negative impact of high inflation especially on poor people, Dollar and Kraay argue that the globalizing effect of neoliberalism has reduced inflation via opening up trade, which brought about an increase in the incomes of the poor at the same rate as the growth in country income (2001).

Jeffrey Sachs objects to the assertion that free trade provides growth to the degree that the poverty ends. Even though trade reforms result in an increase in national income, this increase on its own does not necessarily reflect public investments promoting a better standard of living. Moreover, the income raised via free trade has generally benefitted the richest. While the "trade not aid" campaign may be useful for middle-income countries in terms of increasing economic activity and national income, low-income countries need "trade plus aid" in order to deal with extreme poverty (Sachs, 2006, p. 281).

Sachs also reveals that countries with extreme poverty are not even able to provide basic services for their citizens. Aid aimed at mobilizing new investment fails in such places. The Structural Adjustment Lending program of the 1980s and 1990s adopted the formula that the recipients pay their share for the realization of reform conditions, and the IMF and the World Bank support them with aid. Sachs states that such programs cannot succeed because recipients cannot afford the costs of borrowing, such as the country share of bank assistance programs. He points out that the planning of aid must be more realistic in terms of the economic potential for recipient countries.

Nevertheless, the Turkish implementation of the Structural Adjustment Lending program carried out between 1980 and 1987 was arguably successful. Turkey became the first recipient of Structural Adjustment Lending and constituted a prototype for the program (World Bank, 1988; Kapur et al, 1997). Because Turkey was not a low-income country in the 1980s as Sachs indicates in his argument, it benefited from the loans and achieved growth. In addition, trade agreements provided economic growth in Turkey, as Sachs suggests. The Customs Union Agreement made in 1996 helped it adjust by strengthening economic institutions and contributing to the national income as a result of increasing imports and exports (Yılmaz, 2011). The conditional SAL assistance helped improve institutionalization and attracted private capital to the country, which in turn promoted better policymaking in the 1980s. Even though in the 1990s Turkey could not afford to borrow from the IMF and the World Bank, it was because of the change in the strategies of the IFOs along with Turkey's domestic problems that prevented Turkey from borrowing. This proves that the allocation of aid depends on political strategies rather than the aid's effectiveness.

2.4.3 *Multilateral Agencies vs. Bilateral Agencies*

Another argument concerning the effectiveness of aid differentiates between aid agencies with a multilateral organization and those with a bilateral organization. Jeffrey Sachs argues that bilateral agencies are more effective for aid because they provide more favorable agreements and transmit aid for specific, small-scale projects, unlike multilateral donors such as the World Bank. The World Bank and other multilateral donors usually deal with general problems and macro issues – and with solely one country at a time. Therefore, this kind of financial institution is not efficient at managing multi-country projects. Sachs suggests as a solution that regional cooperation via institutions and organizations must be enhanced to meet the increasing need for multi-country investment projects and to encourage shared governance. Bilateral agencies with special purposes must be supported to realize more small-scale projects that serve basic needs. He also thinks that regionally-grouped organizations have a restorative power within a region by putting pressure on individual countries to stay on the track of reform (Sachs, 2006).

Even though the World Bank is a multilateral agency and not a regional organization, its policy approach during the Cold War period can be interpreted as regional. The Cold War context created a demarcation between First and Second Worlds. The World Bank and other institutions pioneered by the US or the Soviet Union were regional groupings not in a geographical sense, but in a political one. Turkey stayed on the track of the World Bank's structural adjustment reforms in the 1980s and proceeded towards an open economy as a result of both internal and external political pressures. The World Bank has also made sector-specific adjustment agreements on agriculture, energy, and finance with middle-income countries, in addition to providing loans for small-scale projects such as infrastructure and enhancing education, which proved effective in the Turkish case. Therefore, the World Bank was an effective institution for the development of middle-income countries as Turkey, contrary to Sachs' criticisms.

A proper design and enhanced distribution of development assistance are obviously significant predictors of effectiveness. Low- and middle-income countries that cannot employ financial aid to increase productivity and investment need more advice and capacity-building with regard to policymaking.

Bilateral agencies, contrary to Sachs' suggestion, may not be effective policy-based lenders, which can have implications for the sovereignty of the aid recipient country (Alesina & Dollar, 2000). An agency trying to influence the politics of a country by imposing conditions in exchange for aid may elicit reactions from third parties in the international arena, which can also be the case for multilateral agencies. As mentioned earlier, the international financial system has brought about the problem of the erosion of national sovereignty because of the bargaining power of IFOs as a consequence of their capabilities of endowment. Regional organizations and multilateral international agencies may enforce conditions with fewer complications, give advice on policymaking, and pressure a recipient country to act in line with the organizations' policies.

In addition, IFOs entice developed countries to become a member and increase the developed countries contributions to the IFOs' reserve in order to increase their influence in the organization. As one former undersecretary of the Turkish treasury whom I interviewed emphasizes, membership in a multilateral agency and active participation in its decision making mechanisms are perceived as significant for a country's reputation in the international arena (Ayfer Yılmaz, personal communication, May 31, 2017). Even if IFOs lack a focused approach to the problems of countries in need of aid, they acquire a more powerful political status and greater financial capacity.

2.4.4 *Projects with Special Purposes*

International financial organizations such as the IMF and World Bank which are run based on the decisions of their major donors may not manage assistance processes with low-income countries that cannot comply with their terms or afford to borrow. However, as Jeffrey Sachs indicates, the organizations are still significant for the purpose of ending poverty. According to Sachs, the technical capacity, professional staff, and experience of IFOs can play an important role in economic consolidation and favorable globalization. The need for IFOs to closely cooperate with United Nations agencies that offer equitable representation for each country and projects with special purposes for specific issues can increase the effectiveness of aid (Sachs, 2006).

William Easterly shares Sachs's view that plans of the developed world to end the poverty cannot be effective. Grand operations against poverty produced via development studies are useful neither for detecting the causes of poverty nor for overcoming it. Easterly calls this kind of effort "a utopian quest" (2006, p. 25). He does not believe in the effectiveness of top-down, macro-scale reform programs such as the Structural Adjustment Lending of the World Bank. Transformation through aid is not possible according to Easterly, but aid can help to solve small-scale problems that require simple interventions. He identifies two types of development operators: *Planners* and *Searchers*. While *Planners* make grand plans and operations to end poverty, *Searchers* look for ways to answer the basic needs of the poor through small-scale projects. Even though *Searchers*' efforts are narrow in their effects, on the whole, they contribute to development for the poor more than *Planners* (Easterly, 2006, p. 33). The analysis in this thesis of the development assistance that Turkey received during the 1980s and 1990s also points to the fact that projects with special purposes offer more in terms of development than programs proposing structural changes.

Easterly further argues that large organizations fail to collect feedback about their grand efforts in distant parts of the world, which results in a significant deficiency for aid. Specialized organizations must be encouraged to intervene with respect to the specific issues in which they specialize, which can provide feedback and better contribute to the elimination of poverty. Specialization can also increase cooperation among organizations as Jeffrey Sachs suggests.

2.4.5 *Questioning the Effectiveness of Aid*

All the findings suggested by aid effectiveness studies are debated numerous times and objected because of their negligence in different aspects of their evaluations. On the contrary of the arguments that suggest foreign aid contributes to growth at democratic policy environments (Burnside and Dollar, 2000), studies examining the correlation shows that democratic environment and strong policymaking in monetary and fiscal issues do not lead to effective utilization of the aid money. The examination above shows also that the enhancing trade via promoting investment with development assistance can be

effective, yet depends on the recipient country's internal conditions and willingness in realizing development assistance plans as well as the donor's strategy. Multilateral structure of aid agencies strengthens the effectiveness of aid compared to bilateral agencies, and small-scale projects serve better than macro plans to development.

Nevertheless, a distinguished study by Raghuram Rajan and Arvind Subramanian (2005) corrects the flaw in cross-country regression studies of aid and growth and reveals that despite the fact that studies show a correlation between aid and growth, there is weak evidence that aid promotes growth. Rajan and Subramanian review the various datasets and determinants in these studies and conclude that almost no systematic positive effect of aid can be inferred. Aid may have even adverse effect in the growth of the country by weakening the country's competitiveness (Rajan and Subramanian, 2008). Barro and Lee also reach the conclusion that aid – IMF loans in particular – has a negative effect on economic growth according to the political and economic instrumental variables that they constructed (2005).

In their research, Rajan and Subramanian find that studies suggesting a positive correlation between geography and aid effectiveness are valid to a degree: aid works in certain geographies such as in tropical areas. They suggest that case studies are needed in such places to determine the underlying causes. Their study recommends directly evaluating the reasons aid results in growth in individual cases in order to improve the effectiveness of aid (Rajan & Subramanian, 2005). However, Easterly suggests that foreign aid could not be successful so far, and can never be as long as the aim of the aid is to promote development. His analysis leads to the conclusion that aid's role in development is highly restricted (2007). As a consequence of the increasing number of studies suggesting the same conclusion as the article by Easterly (2007), examining the correlation between aid and economic growth is insignificant.

Aid has been effective in a number of places such as Bolivia, which progressed from a shrinking economy in 1982 to two to three percent annual GDP growth by 1992 with the contributions of US aid (Dollar & Pritchett, 1998). Such examples of contributions cannot be disregarded and development assistance cannot stop because its effectiveness is highly limited. Dalgaard, Hansen, and Tarp (2004) reflect on the underlying structural characteristics of

effective aid and the circumstances that generate growth such that aid has a positive effect on productivity, yet to varying degrees. As a result, they argue that the effectiveness of aid must be ascertained within countries rather than by making cross-country regression analyses just as Rajan and Subramanian (2005). I believe this results from the political conditions that allow policy-makers to adopt the reform plans proposed by aid programs and from the reason that politics determine the allocation of aid by donors to certain areas.

2.4.6 *The Role of Politics*

The most important effect on development assistance is the political interests of donor countries. There are studies suggesting that the allocation of the assistance depends on political relations. Even though the aid's capacity regarding the promotion of growth is understood to be limited, developed countries continue giving aid and supporting the IFOs as a result of their political motivations. Political and strategic variables are more explanatory for the allocation of aid rather than the measures of poverty, democracy, and policy.

There is a consensus that aid was used as a strategic tool during the Cold War years and that geopolitics was central to the distribution of that aid. The study: "A Case for Aid" (Wolfensohn et al., 2002) suggests that since the end of the Cold War, aid has targeted poverty reduction in countries that can benefit from it as a result of having better policies and strong institutions. Wolfensohn et al. argue that aid effectiveness tripled in the 1990s as a consequence of IFOs' more powerful interest in poverty reduction with financial assistance.

Alesina and Dollar (2000) offer that changes in aid flow depend on the betterment of policies. If policy-making in the aid recipient country changes positively, the country receives more aid. Yet, they also argue that as well as the weak performance of a recipient country, the pattern of aid flows leads to the failure of aid to promote growth and reduce poverty. The study by Alesina and Dollar reveals that bilateral aid is allocated according to factors like colonial past and voting histories in the United Nations (UN). Rather than the strong institutions and better economic policies of the recipients, whether a country was a former colony affects the amount of aid it receives. Non-democratic former colonies and those with closed economies receive about twice as much aid as democratic non-colonies and non-colonies with open trade.

Alesina and Dollar show that the US rewards good policies at the poorest countries in addition to its strategic interests in the Middle East and alliance in the United Nations. The US delivers one-third of its total aid to Egypt and Israel in accordance with its Middle East policies. Colonial past and voting patterns in the UN explain the allocation of aid also for other Western powerful countries better than the political institutions and economic policy of the recipient country. While one major donor, France, particularly supports former colonies with development assistance, Japan has given more aid to countries that vote alongside it in the UN. The strategic interests of these three major donors determine their aid allocation rather than democratic values and poverty reduction goals (Alesina & Dollar, 2000).

The study of Alesina and Dollar emphasizes that strong institutions and better policies promising a generous market effectively attract private investment, such as trade and foreign direct investment. But low-income countries with relatively weak institutions benefit neither from private flows nor development assistance if the countries do not also offer something in the strategic interest of major donors. This is especially the case with bilateral assistance (2000). Development assistance provided by bilateral agencies is more patently interest-based, and the practice of buying political support in exchange for aid is observed more clearly in bilateral relations.

Nevertheless, considering the weight of the US and other Western powerful countries over the World Bank and the IMF, it is not completely wrong to interpret the bilateral and multilateral aids together. The 70 percent of total aid is disbursed by the US, Germany, France, and Japan (Alesina & Dollar, 2000) and they are also the major donors of the World Bank and IMF. As Burnside and Dollar draw attention, multilateral aid is allocated strategically, too. Even though each country's strategy is different, these countries act accordingly on their political ambitions and economic directions which are for a liberal democratic order of the world as discussed earlier in this chapter.

Barro and Lee (2005) also argue that countries that have stronger political and economic connections with the USA and other major Western powers receive more lending from the IMF, which – I argue – is also the case for the World Bank. The IMF loans are not responsive to better rule of law in countries. However, greater political and economic integrity with the US, the UK,

France, and Germany lead to greater amounts of lending from the IMF, which – Barro and Lee suggest – can be understood through the UN voting patterns showing the alignments in the UN and trade volume among the countries. Turkey's portfolio in the World Bank lending in the 1980s vis-à-vis the 1990s also reveals such a relation.

In the Cold War context, Turkey was a geopolitically significant partner of the US and other major donors to the organizations; hence, it was able to build close ties with the organizations and receive a great deal of development assistance. The 1990s were years when Turkey had to deal with a deep crisis on its own without receiving significant support from major international financial institutions such as the World Bank and the IMF. Therefore, contrary to what Wolfensohn et al. argue, that the end of the Cold War ended interest-based assistance practices and that the organizations were directed to give aid or lend in order to support countries in need is questionable. Formerly-socialist countries of Eastern Europe at the near periphery of the Western world started receiving significant support from IFOs in order to reform their economies as free market economies and to consolidate democracy in these countries following the dissolution of the Soviet Union in the 1990s. Besides, improving relations with Turkey after 2001 – when the major terror attack on the US took place and terrorism emerged as a vital threat to the developed, Western world – can also be interpreted as a strategic move. William Easterly points out that US-based agencies reserved new aid for allies of the US in its fights against terrorism, such as Pakistan and Turkey, following September 11, 2001 (2006, p. 192).

Following from the discussions I infer that aid can be utilized under the conditions that a country in need of aid has the right political conditions that allow the adoption of aid program and reform suggestions, and the country is a strategic partner to the US and other major donor countries so that it can receive the aid. Political determinants are more explanatory for the utilization of aid; how it is allocated and how it can be effective. The strategy in the disbursement of aid goes ahead of the effectiveness of aid. Therefore, the political determinants must be observed closely and the determinants must be analyzed to improve the conditions under which aid can be more effective.

2.4.7 *Conclusion*

In light of the examinations above, multilateral organizations are arguably more effective at poverty alleviation. Multilateral organizations with strong shareholders such as the World Bank have the power to credibly apply political pressure enabling them to make agreements and enforce the implementation of development assistance projects as well as having greater financial capacity. Regional organizations and multilateral international agencies can enforce conditions, give advice on policymaking, and pressure recipient countries to act in line with the organizations' policies without creating complications regarding the sovereignty of aid recipient states. For development assistance to be legitimate, multilateral agencies must be more engaged in such relations that political interests are less visible and less effective than in bilateral agencies. The technical and financial capacity, professional staff, and experience of the organizations play a significant role in the consolidation of a favorable global economic system.

However, multilateral organizations need to build collaborations with various United Nations Agencies that work on specific areas and collect information regarding their field of work as well as with local and regional organizations in order to gather reliable data to produce specific projects that respond to particular needs. Such specialized agencies and local organizations can also provide required feedback from the field to improve the projects and to increase the utilization of a significant source of aid and expertise from international organizations. In addition, the most significant aspect of aid is to empower people with health and education services and provide access to financial and political services. The provision of opportunities with the health and education services and financial and political participation can encourage people to take part in the production and contribute to growth, which is the only sustainable path of development. Agencies providing development assistance and the governments of aid recipient countries must promote a secure environment for investment and production and for the empowerment of their people.

As a result of the scale of the organizations, IFOs may not manage assistance processes with low-income countries that cannot comply with their terms or afford to borrow. Therefore, projects must be kept small-scale and

germane rather than seek to change the macroeconomic structures of aid recipient countries. William Easterly (2006) shares Sachs's view (2006) that the comprehensive plans of the developed world to end poverty cannot be effective. The effectiveness of top-down, macro-scale reform programs such as the Structural Adjustment Lending of the World Bank was limited and dependent on the will of recipient countries to implement the programs, as discussed thoroughly for the case of Turkey in the next chapters. Operations to terminate the poverty produced via development projects of the IFOs have failed because of their overarching approach which overlooks identifying the causes of poverty and underdevelopment and overcoming them.

Alongside the contributions of development assistance to growth and the efforts to improve its effectiveness, the assistance has a *realpolitik* aspect: geopolitics has become central to the distribution of aid. The capability of endowment of IFOs such as the IMF and World Bank constitutes a leverage by which major shareholders of the IFOs influence the politics of developing and underdeveloped countries rather than a source for poverty alleviation, promoting national income and human development. The management of the organizations which are guided by the decisions of their major shareholders allows the political approach. Scholars who work on aid effectiveness and the former Undersecretaries of the Treasury of Turkey from whom I received comments point out the role of aid as a tool to influence the recipients politically (Barro & Lee, 2005; Alesina & Dollar 2000; Easterly, 2006). The situation of Turkey in the 1980s vis-à-vis the 1990s proves the case for aid's strategic allocation.

Turkey is a middle-income developing country that had received loans in support of its development from international financial organizations as the World Bank and IMF. At the beginning of the 1980s, Turkey started to receive a significant amount of development assistance and managed to utilize the money to promote a private sector. Internal dynamics and the international conjuncture enabled the implementation of reforms, which later on started to undermine Turkey's experience. Internal challenges along with the changing strategy of developed Western countries, and hence of IFOs, became more forceful on the terms of development assistance that Turkey received in this later period. Strategy depending on political interest became more significant rather than the effectiveness for the disbursement and continuation of aid.

This evaluation offers in conclusion that the distinct qualitative analysis of Turkey helps to understand the role of development assistance under the external and internal political conditions. Individual studies made in such cases can extend the robustness of aid effectiveness by helping to deter strategic allocation of aid by remarking the strategy, and by identifying the political determinants enable aid to contribute to development.

§ 2.5 Conclusion

The discouraging international environment following World War I, the Great Depression and World War II undermined the international system and monetary policies of the liberal economy. Policies such as currency stability and gold convertibility were abandoned, the international market became uncertain. Hence, states started to pursue inward-oriented policies and abandon international trade and foreign investments. Inward-oriented production that provided growth supported closed economies and started to restrain the economic growth of major powerful states with developed economies that depended on international markets for greater development. They initiated the reconstruction of the devastated international trade and finance system at a conference in July 1944 held in Bretton Woods in the US with the participation of forty-four other countries.

The Bretton Woods system brought about the reconstruction of an internal monetary system that replaced the gold standard and provided for the balance for international payments. The creation of two international financial organizations, the International Monetary Fund and the International Bank for Reconstruction and Development – that later became the World Bank – institutionalized the new financial system. Whereas the International Monetary Fund (IMF) was established to help its members sustain their balance of payments equilibrium by maintaining convertible currencies and stable exchange rates, the other organization, the World Bank, was an assistance agency for development projects of governments and private enterprises that support energy, railways, roads, and other infrastructures. The efforts to institutionalize economic integration and political collaboration sought to increase the collaborations that would enable a fully-integrated international market and

the free movement of capital, bringing about ever-increasing profits. Rather than creating certain principles for international financial relations, the mission of IFOs became spreading liberalism under the influence of their home countries and major shareholders.

The managerial system of the major IFOs, the IMF and World Bank, allows contributors to their reserve gain voting rights in proportion to their contribution; hence the largest contributor to the reserve of the IMF and the bank is the most powerful voter and comes to dominate decision making and managerial processes. The largest shareholder country of the World Bank since its establishment has been the United States whose contribution today constitutes the 16.5 percent of the reserve of the bank that gives 16.5 percent of the vote to the US, and Japan is the second most powerful voter with the 7.1 percent of the vote that is less than half of the US's.

The capability of endowment of the IMF and the World Bank has allowed them to become involved in policymaking processes concerning monetary issues such as the fixing of exchange rates, programming of public spending and implementations of trade quotas. The dominance of the US within the organizations and over their founding philosophy makes their missions political rather than technical (Scammell, 1975). Hence, adapting to the international financial system through IFOs meant a loss of national sovereignty to a degree.

Following World War II, the rivalry between the socialist Soviet Union and the liberal US turned into a cold war with adherence gathering around both parties. The new international system supported by the US fed the polarization between the First World led by the US and the Second World led by the Soviet Union. The US thus became the supervisor and leader of the liberal international system of the First World which was constituted mainly of developed, Western countries. The Cold War conjuncture normalized the erosion of the sovereignty of countries with the help of the sanctions of the international organizations.

The World Bank lending has particularly favorable conditions for underdeveloped and developing countries vis-à-vis other international banks and financial organizations. However, the World Bank membership, conditioned on membership in the IMF, assures the integration of the underdeveloped or developing countries to be integrated into the international monetary system

and be committed to a liberal developmental path. The developed countries make contributions to the bank, which is an organization promoting poverty alleviation and development because they aim to increase the international welfare by organizing international trade and division of labor and to attain a secure financial environment. The ambitions reveal the strategic approach of membership in such IFOs. Moreover, the sub-organizations of the bank that serve the different financial needs of member countries and private investors enable to supervise the international economic system and to assure prospect the system.

In the late 1960s, the US dollar-based gold exchange standard led to a dollar surplus as a result of the increases in gold prices. Because the balance of payments equilibrium was overlooked, the growing US dollar surplus in the market caused deterioration of the fixed exchange rate system with speculative crises and increase in oil prices in the 1970s with the interventions of OPEC. The US abolished the fixed gold convertibility of the US dollar in practice in the 1970s, which brought about the collapse of the Bretton Woods system.

World economic system was under the heavy pressure of inflation and stagnation, and the emergence of a new system that involved limited government intervention to markets was demanded. Deregulation of state mechanisms in markets, reductions in public expenditures, and the privatization of public enterprises were offered, as well as international free trade and free movement of capital, as solutions to overcome the crises. The free market economy with broad international integrity created a different globalization process. Transformations in the global economy – neoliberalism – were introduced first in the US and then the UK initially.

Washington-based organizations: the IMF, the World Bank, and the US Treasury proposed a package of reforms to spread the neoliberal globalization in the late 1970s. The so-called Washington Consensus involved reforms for self-regulating financial capital and imposed the reforms as the conditions of the prospective lending agreements of IFOs with developing and underdeveloped countries. The World Bank in cooperation with the IMF proposed the most famous of the reform programs, the Structural Adjustment Lending (SAL), which was agreed with Turkey among numerous developing countries. IFOs which encouraged underdeveloped and developing countries to embrace

trade liberalization and free movement of capital adopted the grand mission of transforming the economic structures of their borrowers so that the international capital could find proper trading conditions and suitable investment environment. The IFOs' conditions for lending and giving advice about development goals became a political tool.

The crises of the 1970s also hit the Soviet Union and the other Second World countries in Central and Eastern Europe. The Soviet Union went under structural changes that revealed the collapse of the socialist Soviet system. When the union was dissolved in 1991, neoliberalism – the system of the developed, Western countries – became prevailing all over the world. The new world order was continued to be spread on former-socialist countries with the development assistance of IFOs.

Development assistance – foreign aid – was first proposed following World War II for the reconstruction of the countries devastated by the war. Especially the developed, Western countries continued to offer aid to promote growth and alleviate poverty in developing and underdeveloped countries. However, as it is stated many times, the foreign aid results from self-interested concerns of building an economically and politically secure international environment and a political strategy to strengthen alignments (Dollar &Pritchett, 1998). Even though it is a strategic approach, the aid is a crucial, much-debated issue for its contribution to development. Circumstances that allow utilization of aid vary from one case to another which makes the evaluation of its effectiveness harder.

One answer for the effectiveness of aid is that a strong economic policymaking capacity ensures the increasing growth by attracting investment through aid (Burnside and Dollar, 2000). The argument is objected and the causality between aid and investment in a country is found weak in other studies. On the one hand, if the country has a strong policymaking capacity and efficient policies regarding fiscal and trade-related issues, it does not need assistance for development. On the other, if its policymaking function is not strong enough, the recipient country may have no incentive to invest so as not to lose the aid recipient position and access to aid money (Easterly, 2003).

Development assistance must include analyses, policy-advice and building capacity for implementation of development projects as well as finances

(Wolfensohn et al., 2002). Trade partnerships, especially with the low and middle-income developing countries, can also provide financial support and promote growth with the expansion of production in these countries (Dollar and Kraay, 2001). Regional collaborations, as well as international cooperation as in the case of integration to neoliberal system alongside the developed, Western countries, contribute to increasing trade partnerships. However, the planning of aid must be realistic in terms of the economic potential of recipient countries because trade may not increase national income and provide welfare in low-income countries that deal with extreme poverty (Sachs, 2006).

The macro-scale reform programs of the multilateral agencies proved unrealistic for reducing poverty in most cases of aid. Scholars agree that the top-down, macro-scale reform programs cannot help detecting the background of laws, social norms, and networks of relationships causing the poverty and overcoming them. The developed countries and IFOs cannot build the policymaking environment for producing the right policies and institutions for development in aid recipient countries through the development assistance (Easterly, 2006; Sachs 2006). Therefore, projects for specific purposes focusing on particular issues in underdeveloped or developing countries must be produced to overcome their difficulties.

Whereas bilateral agencies with special purposes are more efficient in realizing small-scale projects that serve basic needs, multilateral agencies have a restorative power by putting pressure on individual countries to stay on the track of reforms with their political status and financial power (Sachs, 2006). Because the World Bank makes lending agreements on agriculture, energy, and finance with middle-income countries, it is helpful for small-scale projects such as infrastructure and enhancing education. Hence, a multilateral agency focusing on small-scale problems like the World Bank is an effective institution for the development of middle-income countries. On the other hand, bilateral agencies may not be effective policy-based lenders, which can have implications for the sovereignty of the aid recipient country. Imposing conditionality in exchange for aid elicits internal and external reactions, which can also be the case for multilateral agencies.

The policy-based lending of the aid agencies that influences domestic politics of recipient countries is not the only political tool of the donors of the

agencies. The strategic interests of major donors of the agencies determine the aid allocation rather than poverty reduction goals. When the practice of buying political support in exchange for aid is patently the case in bilateral assistance, targeting of aid by multilateral agencies also depends on political relations between aid recipient countries and major donors of the agencies. However, the strategic aspect of aid makes multilateral agencies attractive for developed countries to be a member and increase their contributions to their reserve in order to increase their influence in the management of the agency and hence in the international arena. Even though development assistance of the multilateral agencies is controversial as a result of their political motives and enforcement capability, the political motives provide more powerful political status and greater financial capacity for the agencies. Therefore, multilateralism is a significant feature for the aid agencies in order for their aid programs to be effective.

On the other hand, political and economic circumstances in the underdeveloped and developing countries that would allow the establishment of proper institutions for development are highly significant for the effectiveness of aid. Yet the determination of the standards and capabilities for the establishment of the institutions in countries that need aid is challenging. Examining the circumstances in which aid does and does not work is crucial for detecting underlying structural characteristics of underdevelopment and for the robustness of aid effectiveness (Dalgaard et al., 2004). In consideration of the quantitative cross-country studies that has been criticized for falsely asserting a correlation between aid and growth, I suggest that individual studies must be made to identify the political determinants that lead to the utilization of aid so that aid effectiveness can be improved. In addition, the strategy in the disbursement of aid must be revealed so that the strategic disbursement can be discouraged.

A qualitative research on the relationship between Turkey and the World Bank in the 1980s – when the loans contributed to the rise in productivity and growth – and 1990s – when lending agreements could not be negotiated between parties – can reveal the underlying circumstances enabling the aid agreements between parties and hence the conditions of the utilization of the aid in aid recipient countries. Considering the development assistance studies

pointing out to a weak correlation between aid and growth, and to strategic allocation of aid, I think that development assistance flowed in great amounts for a certain period and then did not for the consecutive period to the same country is a very interesting research area.

The questions can be asked regarding the close relationship between Turkey and the World Bank in the 1980s and ruptured relations in the 1990s: What does this contrast tell? How did internal political conditions in Turkey affect relations and its utilization of development assistance? What was the effect of external conditions? Was the relationship between Turkey and the World Bank a result of political strategy? The reform process heralding a neoliberal economic transition in the 1980s was a substantially top-down process put in place by the 24 January Decisions which were approved by an elected government. Yet they were put into action by a military authority that had taken power in a coup in 1980. How did the political environment influence the adoption of the reforms offered by IFOs, and how did the environment change later on so that the reforms were abandoned and IFOs lost interest in Turkey? The next chapters elaborate the discussion by reviewing Turkey's relations with the World Bank as well as presenting Turkey's macroeconomic policy framework between 1980 and 2000, the years in which the distressing process of economic transformation took place.

3

The World Bank- Turkey Relations in the 1980s

Deep crises occurred in international markets in the 1970s as a result of OPEC-led oil price increases that brought about decreases in national incomes and hence diminished the welfare policies of developed countries that were already suffering from inflation and stagnation. Money drainage from rich countries to petroleum exporting countries created a response; a new macroeconomic system that replaced the Keynesian model established at the Bretton Woods Conference in the 1940s. The new system liberalized trade and capital flows in international markets and configured economies to be based on free markets rather than state regulations. IFOs established as a response to World War I and the Great Depression adopted the new pursuit of integrating underdeveloped and developing countries into the new system. IFOs such as the World Bank, the IMF, and the Organization for Economic Co-operation and Development (OECD) changed their missions from reviving the wrecked economies following World War II to spreading new economic policies formulated as neoliberalism (Kapur et al., 1997).

As a result of the dramatic rise of petroleum prices and the deep depression, stagnation, and high unemployment rates in countries with which Turkey had important economic relations, the economic situation of Turkey became depressed at the end of the 1970s, as well (Yentürk & Kepenek, 2001). In addition, development plans based on import- substitution industrializing (ISI) model for the Turkish economy became stuck as a result of increasing

dependency on imports which emerged as a consequence of trying to cover the investment needs for industrialization. The imports for supplying the investment needs of ISI and reckless borrowing for the financing of import caused a severe current account deficit (Boratav, 2003). Turkey went into a deep debt crisis at the end of the 1970s. The crisis and the changing global economic structure led Turkey to adopt new economic policies in line with the global structure. To solve the current account deficit problem and the crisis, it agreed to a stabilization program with the IMF and applied for the financial support of the World Bank and the OECD. Turkey consented to very tight conditions in these agreements, not just because of its deep financial crisis, but as a result of an international depression that required a transition in the economies of peripheral, developing countries (Kazgan, 2002, p. 113). The depression and growing poverty in Turkey led to the embrace of radical decisions announced on 24 January 1980. The decisions were for Turkey to create a free market economy and integrate into the world system via trade and were also in line with the conditions of the IFOs.

The integration of Turkey into the global free market system with the collaboration of the IFOs, especially the World Bank, constitutes a good example to evaluate the role of development assistance. The collaboration between the World Bank and Turkey in the 1980s was at higher levels than it had been before and was beneficial for both parties in that period. Turkey constituted a case study for the plan of the World Bank to integrate peripheral, developing economies into the newly emerging global system. The bank observed the transformation of Turkey closely and kept it within the political collaboration under the umbrella of North Atlantic Treaty Organization (NATO), an organization for security cooperation among mainly the US and Western European countries. As well as responding to the current account deficit crisis in Turkey, the credit agreements with the international financial organizations, especially the World Bank, gave Turkey experience and a vision concerning structural economic changes, which is one of the most significant missions of development assistance. Therefore, a project of development assistance, which is evaluated to be a failure for the most cases as discussed in the previous chapter, can be practical under the conditions of mutual interest and willingness. Whereas the success of development assistance projects depending on

countries' interests reveals the political nature of aid, aid also depends on the domestic conjuncture of the recipient country as the thesis concludes by comparing the relations between Turkey and the World Bank in the 1980s vis-à-vis the 1990s.

In order to support the arguments above, this chapter presents Turkey's relations with the World Bank as well as with other IFOs, while providing a macroeconomic policy framework of Turkey from the late 1970s to the 1990s, years in which both domestic and international crises arose and an economic transformation of the world market took place. In order to grasp the reasons why Turkey developed good relations with IFOs in this period, the first section of the chapter explains the political benefits of the collaboration for both Turkey and the IFOs. The second section puts forward that the collaboration was desirable and useful for Turkey because it assisted with the process of reform, policymaking for a structural change, producing a strategy for international collaborations, and development planning. The third section looks at how domestic and international conditions enabled the agreements for structural change between Turkey and the World Bank and made an economic transformation in Turkey possible. The fourth section reveals the difficulties inherent in the agreement with the World Bank and other IFOs in order to show that the challenges of the transformation to politics undermined the utilization of aid.

§ 3.1 Political Collaboration

Turkey became a member of NATO just after its formation and took sides with the US and West European countries against socialist bloc countries. In the conjuncture of the Cold War, Turkey had a geopolitically significant location and hence was supported in the international arena. This support not only had a political dimension but also had financial backing. Turkey developed good relations with the World Bank and other IFOs that had not only financial roots but were also reciprocally political.

Turkey joined the World Bank and the IMF right after their foundation by their founding members. The International Development Association (IDA), one of the five sub-organizations of the World Bank, offered grants to support

Turkish development until 1972. When Turkey rose from the group of low-income countries to the group of middle-income countries, it was able to borrow from International Bank for Reconstruction and Development (IBRD). Ayfer Yılmaz, a former Undersecretary of the Treasury Department, emphasizes that Turkey was always concerned about being part of international organizations. Yılmaz's comments suggest that Turkey perceives that being a founder, member, and donor are significant instruments for gaining political power and prestige and influencing international politics (personal communication, May 31, 2017), which stress the political nature of such organizations.

In the 1970s, even though Turkey rose to the level of middle-income countries, it was going through an economically rough period. Political instability in the 1970s as a result of coalition governments and tense social movements diverted government attention from economics, and politicians relied on the remittances of Turkish workers in Europe and foreign debt for foreign exchange and the financing of imports. The foreign debt could not assist to overcome crises despite getting heavier.

The initial steps for the SAL program were taken prior to the 1980s and the 24 January Decisions. Following the crisis of 1977, Ziya Müezzinoğlu, the Minister of Finance, sent a letter to the World Bank informing it that Turkey intended to rely on exports in its subsequent, fourth, five-year development plan which would be put in action in 1978. The World Bank produced and offered Program Loan in response, which would finance high-priority imports for production and meet the import needs of exporters (World Bank, 1982). Turkey accepted the program loan which was a step towards the export-oriented industrialization model.

Tevfik Altınok, a former General Manager and Undersecretary of the Treasury Department, states that Turkey planned to transform into a free market economy system and applied to the World Bank to finance of the transitory reforms. Altınok argues that Turkey prescribed the reform process of Structural Adjustment Program to the World Bank. According to him, Turkish staff working in the financial departments of the state produced the 24 January Decisions including measures such as the liberalization of foreign exchange, foreign capital, and state economic enterprises. The staff took these measures to the World Bank to seek support. He claims this is the reason Turkey became

the first recipient of SAL and constituted a prototype (T. Altınok, personal communication, June 14, 2017). Even though Öniş, Webb, and Mundial note that the 24 January Decisions were prepared in secret and not even the minister of finance was informed of the program (1992, p. 33), Altınok states that whole executive staff of the financial departments worked in collaboration to prepare and implement the program (personal communication, June 14, 2017).

Prior to the 24 January Decisions, Turkey and the World Bank agreed on the Program Loan in 1978, which was as a precursor to the SAL. The program disbursed $150 million over three years and was completed in 1980. It involved a mid-term review of export policies and measures in order to provide export competitiveness. Süleyman Demirel, the prime minister, considered turning to an export-led growth model from the import-substitution model and implementing an open economy in Turkey, which took place as a consequence of years of work. The program loan of the World Bank had a longer perspective for leading fundamental reforms included in the structural adjustment program included, which was implemented in over ninety countries after 1980 (World Bank, 1982).

The structural adjustment program in Turkey was agreed to in June 1980, and the stabilization program of the IMF regarding the transition to an open economy was put into practice in March 1980. These collaborations put into action just after 24 January Decisions were remarkable because they signify that Turkey already had the support of the World Bank and IMF when it initiated the reform period. The program loan had been a preparatory phase. However, the World Bank had undertaken program loan projects with a number of developing countries such as Sri Lanka, Korea, and Peru before Turkey. Therefore, SAL cannot be claimed to have been Turkey's own formulation. Turkey may have prepared its own program of reforms during the program loan and structural adjustment program, yet the World Bank had already changed its mission in favor of implementing open economies in developing countries following the crises of the 1970s, as discussed in the previous chapter.

Elaborating on the crises of Turkey, Öniş and Riedel argue in a report produced for the World Bank that the economic crises of Turkey were homegrown and internally-rooted. According to them, economic policies pushing

growth beyond its potential generated excessive aggregate demand generated in the public sector. The crises in Turkey in the 1970s coincided with major global crises and increased the impact of the domestic crises. Yet, they were not the reason for the crises in Turkey. The balance of payments and withdrawal of external credit problems were the reasons for the crises (Öniş & Riedel, 1993). Öniş and Riedel suggest that Turkey generally tried to build broad coalitions with international financial organizations by accepting conditions that it could not fulfill. While the argument that the economic crises of Turkey were homegrown is debatable, agreements with IFOs enforcing conditions on Turkey surely made the economics complex. Promising to adopt policies it could not execute led to economic instabilities and, in turn, crises.

Mahfi Eğilmez also suggests that even though Turkey was one of the major recipients of World Bank development assistance, the assistance could not be utilized fully as a result of the inability to prioritize the development issues and to set aside the finances to deal with those issues (personal communication, June 13, 2017). In accordance with the main argument of this research, the instability and crises of the 1990s arose partly because of Turkey's exaggerated eagerness to come to an agreement with the World Bank and accept the conditions of the Structural Adjustment Lending (SAL) as a result of *reactive state behavior,* as Öniş and Şenses argue. External dynamics and external actors – namely neoliberal globalization and IFOs assisting the process – affected the policy transformation in Turkey as a result of its reactive conformance to international norms (Öniş & Şenses, 2007). Political responses to agreements with IFOs, extemporaneous attempts at transformation through the medium of the World Bank's SAL and other development assistance agreements in Turkey reveal the limited capacity of development assistance.

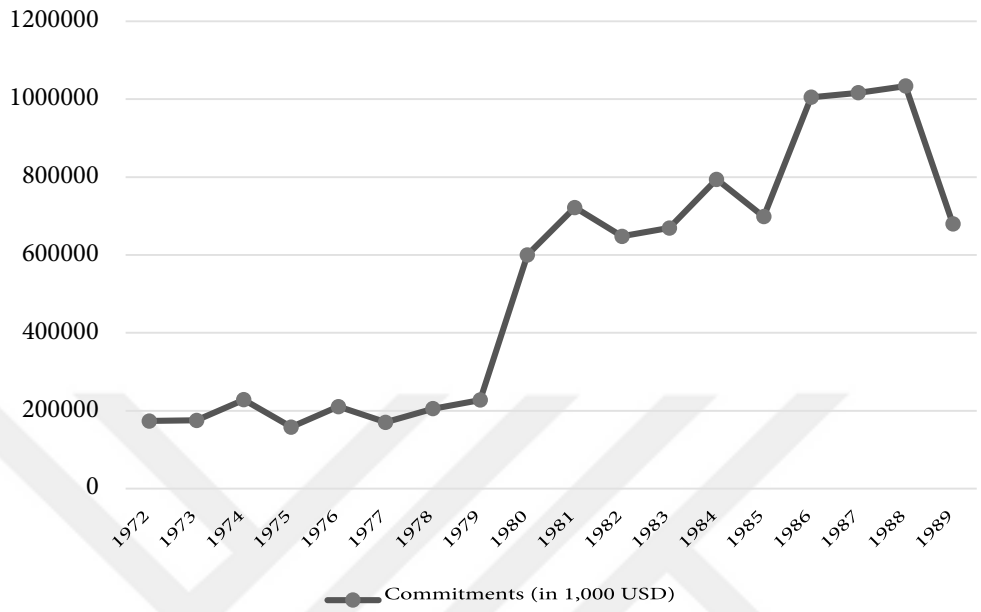
The lending programs supported by the IMF, the World Bank, and the OECD concerned restructuring the Turkish economy according to the policies of Western countries seeking to restructure peripheral economies in order to overcome their own economic stagnation in the 1970s and increase their profits by expanding their markets. Along with the US and the European Union, IFOs forced Turkey to accept free trade and privatization because of its heavy foreign debt (Öniş, Webb, & Mundial, 1992). They were motivated to lend to Turkey because of its bold attempts to radically transform its economy

into a free market system (Öniş & Riedel, 1993), which were also a model for transforming other developing countries.

As a result of international and domestic conjuncture, and reciprocal political interests, the 1980s was the perfect time to build relationships with the World Bank and other IFOs and to attempt economic restructuring. The timing was convenient from the perspective of the World Bank because Turkey became the first country to undergo structural adjustment and therefore constituted a prototype (Kapur et al., 1997). Ayfer Yılmaz notes that Turkey's being a prototype was significant for the World Bank because it was a democratic, middle-income country going through a transformation from a closed to a free market economy. The World Bank observed and assisted the transformation in each sector. The process was a great experience influencing the bank's further agreements with other countries. Yılmaz also draws attention to the fact that Turkey became a model following the dissolution of Soviet Union for the transition of former socialist countries into free-market economies in the 1990s. For instance, the World Bank imposed some of the same reform conditions on Yugoslavia as it did on Turkey. As a result, the World Bank paid special attention to Turkey's economic progress to produce a successful case study (Ayfer Yılmaz, personal communication, May 31, 2017).

The other reasons for the special attention of the IFOs – the IMF and the World Bank in particular – on the reform of the Turkish economy and its integration into international free market economy were that the Islamic revolution took place in Iran in 1979 and that Turkey was a neighbor of the Soviet Union. The rising threats of socialism and political Islam in the region increased Turkey's geopolitical significance as a NATO member (Kapur et al., 1997; Rodrik, 1990). While Turkey struggled to achieve stability and stop inflation, the IFOs labeled Turkey a success story of policy-based lending programs and continued making agreements for such programs one after another from 1980 to 1985 (World Bank, 1988). The international developments of the late 1970s coincided with the increasing interest of the World Bank in Turkey (Figure 3.1). The approach of the bank shows that development assistance has a political aspect of collaboration with developing countries. The strategies of the agencies providing assistance direct the flow of assistance.

Figure 3.1 IBRD Commitments to Turkey in the 1970s and 1980s



SOURCE World Bank (2018a)

The report written by Öniş and Riedel (1993) points out that foreign policy concerns like Islamic Revolution of 1979 in the Iran and Iran-Iraq War of 1980 were reasons for the willingness of the IFOs to collaborate with Turkey. Öniş and Webb also draw attention to the increasing geopolitical importance of Turkey for NATO as a consequence of the invasion of Afghanistan by the Soviet Union and the revolution and fall of the Shah in Iran. They offer that the OECD Consortium was orchestrated in order to reschedule the foreign debts of Turkey; the motivation was to support allied countries financially through international organizations (1992). Turkey was one of the countries which received the biggest amounts of lending from the World Bank in the 1980s. Along with the Latin American and Southeast Asian countries which were going through severe economic difficulties, Turkey was subject to the special interest of the World Bank until the late 1980s.

Table 3.1 Countries receiving the most from the IBRD (in 1,000 USD)

Years	Turkey's rank and its withdrawal	First country and its withdrawal	Second country	Third country	Fourth country	Fifth country
1981	6th 560,000	Philippines 1,376,060	Brazil 1,039,000	Mexico 1,021,000	Indonesia 893,873	India 740,000
1984	3rd 794,300	India 1,721,400	Indonesia 987,200	_	Colombia 740,480	China 616,000
1986	3rd 1,277,150	Brazil 1,620,000	India 1,493,200	_	Mexico 1,272,000	Indonesia 982,100
1987	5th 956,630	India 2,478,000	Mexico 1,695,000	Indonesia 1,418,000	Brazil 1,393,500	_
1989	10th 604,500	Mexico 2,325,500	India 2,126,300	Indonesia 2,007,400	China 1,221,100	Brazil 933,000
1990	12th 401,200	Mexico 2,562,000	Indonesia 1,565,200	India 1,243,000	Philippines 1,008,000	Brazil 905,000

SOURCE World Bank (2018b)

Considering the scholars' view on strategic interests behind assistance, which are reviewed in this thesis (Alesina & Dollar, 2000; Barro & Lee, 2005; Easterly, 2006), it is reasonable to think that controversies in the Middle East led to concerns of regional unrest in the United States and other major First-World funders of the World Bank – and to a will to support Turkey against potential regional threats. The approach is compatible with the reasons the World Bank was originally established: to build an economically- and politically-secure environment for developed countries, and a political strategy to strengthen alignments (Dollar & Pritchett, 1998). The studies by Alesina and Dollar, and Barro and Lee reveal the political motivations behind the allocation of development assistance which is disbursed according to factors like the colonial past and regional interests of donor countries, and to influence voting at the United Nations (UN). Therefore, the organizations of the Washington Consensus – the World Bank and the IMF – are highly likely under the influence of the politics of their home and major donor country, the US.

Moreover, the Structural Adjustment Program was policy-based lending, which the World Bank produced as an instrument for the first time in its

history. The bank offered loans to countries in exchange for policy changes in the economics of those countries in the 1980s, and only countries badly in need of World Bank loans accepted the conditions. Structural adjustment loans and policy-based lending gave the World Bank bargaining power which provided more influence and prestige to its officials (Danaher, 1994). The program clearly provided leverage to the bank, and the bank intentionally produced the policy-based lending instrument to gain the leverage (Harrigan, Mosley, & Toye, 1995). It is natural that the bank had political motivations in involving Turkey in SAL. Turkey did not sufficiently follow through on reforms in the 1980s, yet the bank stopped releasing commitments to Turkey towards the end of the 1980s coinciding with a time in which Turkey's geopolitical significance decreased.

§ 3.2 Learning Development

Turkey joined a number of World Bank projects and agreed to stabilization programs with the IMF before 1980. However, IMF and World Bank-backed programs put into practice in the 1980s were more comprehensive with respect to areas of reform and policymaking that configure a development plan. Assistance and guidance of the IFOs led Turkey to undertake a more premeditated process of reform and policymaking for structural change. The bargaining processes and negotiations with the IFOs helped Turkey to produce a strategy for international collaboration and to plan development when Turkey's foremost agenda was economic development.

The collaborations with the IMF and the World Bank contributed to the positioning of Turkey in the First World in the international system. Among authoritarian and socialist countries that characterized the region in the 1980s, Turkey thought to become a liberal, democratic country following the military coup. Besides the political advantages, Turkey had economic benefits. Even though it used the program loan and other structural adjustment loans to finance imports, which were in fact intended to provide competitiveness for export products, World Bank lending helped Turkey to gain vision and raise experts with scholarships and funding for abroad training, as Ayfer Yılmaz suggests. Yılmaz also points out that Turkey gained experience collaborating

with international organizations and the skills to produce strategies and negotiate (personal communication, May 31, 2017).

The World Bank provided the financial resources, human capital, physical capital, and infrastructure to Turkey in the 1980s, which were prerequisites for economic development. Aside from money it lent and project conditions mandating the infrastructure building, the bank provided expertise to assist in the investment in and finance of those sectors would contribute to development. Tourism was one of them. Nevzat Saygılıoğlu draws attention to the fact that public investments in Antalya attracted capital through which tourism flourished and employment at different skill levels was created. Highway construction among metropolises enabled logistics (personal communication, May 31, 2017). Contrary to what Easterly (2003) suggests, World Bank assistance did not discourage investment to continue receiving aid money. Though limited, it promoted an incentive to invest in Turkey in the 1980s when Turkey was willing and focused on its development.

In *A Case for Aid* (2002), Wolfensohn et al. emphasize the importance of the proper design of development assistance which makes analyses, gives advice, and builds capacity for policymaking and implementation of the policies. They also suggest that assistance might not be as efficient as intended; therefore, an assistance project must provide an increase in investment by attracting financial flows into the country. As the undersecretaries state, the projects contributed to a vision of development and the finance of profitable sectors, which in turn attracted more investment in Turkey.

Moreover, the World Bank, a multilateral international organization, had not many difficulties because of assertions that it was violating sovereignty of the aid recipient country. Whereas a bilateral agency trying to influence the politics of a country by imposing conditions in exchange for aid may elicit reactions from third parties in the international arena, regional organizations and multilateral international agencies can enforce conditions, give advice on policymaking, and affect the policies of a recipient country without such complications, as discussed in the previous chapter. The World Bank caused such reaction neither internally nor externally. Despite the reputation in the Turkish public eye that the IMF was a US tool, agreements with the World Bank were not seen as related to the US (Kapur et al., 1997). As a consequence, the

World Bank helped Turkey learn development without giving the impression of intervening and prioritizing political interests.

Although Turkey was going through a crisis at the end of the 1970s, the import substitution economic model adopted during those years provided for capacity-building in manufacturing and industry, private sector production, private banking, and a degree of improvement in agriculture. Business affiliations in the construction sector with Middle Eastern and North African markets in the 1960s and 1970s allowed the Turkish business environment to gain acquaintance of those markets. The economic activities of Turkish contractors attracted Turkish banks into Middle Eastern markets. As a consequence, banking and construction sector services partly opened up the Turkish economy to international markets in practice. Business people involved in service exports to the Middle East supported the reform program and the liberalization process announced upon the 24 January Decisions (Kazgan, 2002). The affiliations contributed to Turkey's experience of the open economy following the neoliberal transformation and the collaboration with the World Bank which encouraged investments both domestic and abroad provided confidence in greater openness for the business environment in Turkey. As a result, Turkey had the most optimal conditions for such an economic transformation in the 1980s and it became the most convenient time for benefiting from relations with IFOs.

§ 3.3 The Conditions Enabling the Agreements

The domestic conditions in Turkey, as well as the international conjuncture, made it the perfect time for utilization of development assistance and making a fundamental economic change in the 1980s. Former undersecretaries from whom I received comments expressed the utmost significance of the government's agenda to make policy changes and implement the policies. They indicate that when economics is prominent on the agenda of a government, the government can make important decisions and support reforms. The political and economic developments of the 1980s enabled the acceptance of the conditions of agreements with IFOs and enabled the reforms to be put into action.

Turkey was a scene of political and social crisis in the 1970s characterized by rising armed conflict among partisan groups, terror attacks, and severe tensions among political parties. In addition, the severe economic crisis of the late 1970s brought about the necessity of fundamental change. The military coup of 1980 was intended to ease the tensions, suppress the conflicts, and provide stability for politics and social life. In the late 1970s, the whole executive staff of the Ministry of Finance, the Undersecretary of the Treasury, the State Planning Organization, and the Central Bank agreed that fundamental changes to the economic system were required and suggested these to the government (T. Altınok, personal communication, June 14, 2017). Following the coup, the burden of debt and a severe deficit of foreign exchange became the most vital issues for the government, and economics came to dominate the agenda in the 1980s. The domestic conditions – the coup, the military rule from 1980 to 1983 which repressed social movements and provided a relatively-secure environment, and banned former politicians from politics until 1987, thereby undermining political competition – helped to prioritize the agenda. Without no important resistance, Turkey could accept the conditions of IFOs and implement neoliberal reforms. Because social rights such as the rights to strike and collectively bargain, were suspended, social groups that actually bore the burden of the reforms could not react to the pressures of the new economic policies (Boratav, 2003).

In 1983, elections were held and the Anavatan Party (ANAP) of Turgut Özal, who was the deputy prime minister in the military government, became the governing party. Özal was a former staff member of State Planning Organization and then the World Bank, and he also took part in preparing the 24 January Decisions along with the governing Justice Party of Süleyman Demirel. Due to his experience at the World Bank, Özal had command of the content of the new economic policies and their direction. He was thus appointed as the state minister in charge of economics to the military government that took over control on 12 September 1980 and enabling him to employ the radical reforms of an open economy and a free market mechanism (Pamuk, 2014). The macroeconomic transformation of Turkey was the result of committed statesmen, a group of technocratic bureaucrats and their leader, Turgut Özal.

Especially after Özal formed a party and was elected to the government, his team accomplished the transformation.

When Özal was elected as prime minister, he continued the reform process started by the 24 January Decisions and fulfilled Turkey's agreements with the IFOs. Özal was committed to the deregulations. He lowered quotas and tariffs on imports and opened the economy to foreign competition. He had the opportunity to implement these reforms with the support of IFOs and as a result of the military takeover that enabled a stable political environment and suppressed the real wages and incomes of the agricultural producers so as to enhance the fiscal balance and international competitiveness which were the requirements of the new policies. The reforms were to improve the balance of payments, to bring inflation under control, and to create an export-led, free market economy integrated into international markets (Pamuk, 2014). Attempts to integrate into the international market started with the transition to a daily exchange rate system in 1981. Regulations over foreign direct investment were loosened, a capital markets law was enacted, and duty-free zones were established in order to attract more investment (Kazgan, 2002).

A World Bank report draws attention to the fact that economic growth came to be first on every Turkish government's agenda in the 1980s. The governments took an overwhelmingly strong role in managing the economy and providing for the people (World Bank, 1989). The 1980s became the years when efforts for democratization were also put. Following the military intervention in 1980, democratic consolidation became the other significant aspect of the 1980s' politics. The military government and then the elected governments were in a powerful executive position as a result of the financial and political liberalization acts from above (Kazgan, 2002). Development was the top issue of the top officials of the country.

Despite impediments which cast doubt on the permanence and stability of the new economic system, industry built during Turkey's import-substitution period enabled production for export. Reforms provided the greatest improvement in exports in the 1980s. The idle capacity of industry built during the ISI period was employed, and the manufacturing industry grew 9 percent annually as a result of increasing exports. Export rate quintupled between 1980 and 1988 (TurkStat, 2017), and GDP growth recorded in the 1980s was the most

significant since World War II. The share of manufactured goods for export increased in all developing countries, but among middle-income countries exports grew the most in Turkey (Kazgan, 2002; Pamuk, 2014).

When Turkey had close relations with the World Bank between 1980 and 1987, the country received significant financial and informational resources. Turkey made five structural adjustment lending agreements with the World Bank which committed $300 million on average between the years 1980 and 1984. From 1985 until 1988, Turkey received four sectoral adjustment loans for the agricultural, financial, and energy sectors, each of which exceeded the amount of SAL commitments. According to the World Bank classification in *World Development Report 1989*, Turkey was among low- and middle-income developing countries. While Turkey's GDP growth was 5.2 percent in the period from 1980 to 1987, the average of the low- and middle-income developing countries was 2.1; the inflation rate was 37.4 percent in Turkey, whereas 36.7 was the average of these countries (World Bank, 1989). While the inflation rate was similar to the low- and middle-income developing countries average, Turkey recorded more growth than most of these countries. Turkey made noticeable improvements in the 1980s compared to the averages of these countries.

Although Turkey implemented tax reform and rationalized public investment with the adjustment policies of the 1980s (World Bank, 1988), the liberalization process led to an unstable economic environment over the next decade because the legal basis for the new market policies had been neglected. The fiscal balance needed to be sustained before opening up the economy to foreign investment yet, "rather than rules and regulations, personal decisions and arbitrary behaviors became effective at the implementation of the new policies" (Pamuk, 2014). It brought about a short-term, interest-based exercise of the reforms. Increasing populism and spreading patronage hindered the reform process in turn.

Free trade created an environment where economic growth had a rapid pace and the national income was rising. Nevertheless, as Jeffrey Sachs suggests, the liberalization of trade was not directly reflected in standards of living and the poverty rate (2003). Özal, in order to ensure victory in subsequent elections in the late 1980s, tried buying support in exchange for the benefits of development assistance provided by the IMF and World Bank. The allocation

of the rising national income was another issue; even though public investments had increased, low-income groups in the society were not benefitting from the wealth created other than through patronage. Populism and patronage were the results of consistent instability in Turkish politics, which were increased with the 1987 Referendum that abolished the political ban on Özal's opponents, created a challenge for the Özal government and escalated political competition. As a consequence, the instabilities halted the suitable conditions of the period for restructuring and prioritizing the development agenda.

§ 3.4 The Impairment of Relations

The failure to institutionalize new economic policies led the deregulations to create a weak economic system. The undisciplined financial sector, which constituted the focal point of the new system, became deterring for development. Turkey deviated from the reform process and hence defaulted on agreements with the World Bank and IMF. Not fulfilling the conditions of the loan agreements impaired relations between Turkey and the IFOs, especially the World Bank. The burden of policy-based agreements such as structural adjustment and unstable implementations such as sufficient privatization made the liberalization process disputable. The consequences of the liberalization process for Turkish economics started to limit the utilization of development assistance and making further agreements for receiving assistance. The reasons resulting in the impairment of relations were not only related to the complexities in implementation of the reforms, economic difficulties and Turkish political environment, but they were also the outcomes of international political environment and changing policies of the IFOs. Yet, the international conjuncture and the changes in IFOs' policies are discussed in the fourth chapter. This section looks at the inadequacies of Turkish economics.

According to Öniş and Webb, over time, financial liberalization and democratization reforms required deeper elaboration and consultations with other actors – associations and interest groups that could challenge the government's policymaking. Öniş and Webb suggest that Turkey did not continue macroeconomic reforms as a result of the loss of popular support, the inability of bureaucrats to pressure politicians to recover fiscal deficits, and politicians'

personal decisions and efforts concerning economic issues (1992). Politicians had adopted and implemented most of the structural economic changes themselves, and the failure to institutionalize led the macroeconomic transformation to become a personal matter of certain politicians and bureaucrats who later lost power to compel politicians to continue policy changes (T. Altınok, personal communication, June 14, 2017). Therefore, once people were no longer interested in reforming the economy, politicians prioritized matters that would provide them with political support. The threat of losing government offices and the challenge to their power paradoxically drove executives to adopt policies that undermined democratic and financial liberalization.

The heavy burden of new economic policies on workers and other lower classes was no more tolerable by the end of the 1980s. The labor unions regained their rights to strike and collectively bargain, and they objected to falling real wages. The ban on former politicians was abolished and non-governmental organizations started to work actively again, which created a more democratic environment in which resistance to the heavy burden of the reforms of the 1980s that was put on the shoulders of the lower classes arose (Kazgan, 2002). Reestablishment of the social rights and abolishment of the ban on the pre-1980's politicians pushed the ANAP in the direction of populist policies; they raised wages and salaries of public workers, granted significant subsidies to the agricultural sector, and enabled low-interest loans from public banks. As a consequence, the fiscal balance deteriorated and the fiscal deficit grew abruptly.

Indebtedness became the most significant aspect of the beginning and continuation of the reforms. Although it was not reflected in all social groups, the rising national income as a result of increased exports enhanced production and improved the balance of payments. Turkey paid the interest on its foreign debts and started to pay the principal, which meant that Turkey had become a resource-transferring country to the World Bank (Evgin, 2000). Turkey even gained the trust of IFOs and became safe for foreign capital with its increasing export volumes and improving portfolio performance. The building of trust in the Turkish market enabled Turkey to borrow more and to attract investment.

Turkey started to borrow from different sources once it equalized its balance of payments with the support of the World Bank. Agreements with the World Bank also helped Turkey to manage indebtedness, and it could reach out to other financial organizations and banks for borrowing. In order to finance public spending to promote the private sector, public borrowing is made at weekly intervals rather than yearly intervals. Starting in 1985, borrowing started to increase with weekly tenders, and debts increased tremendously (A. Yılmaz, personal communication, 31 May, 2017). Mahfi Eğilmez points out that municipalities and offices other than the treasury and finance departments of the government started to borrow on their own. The ratio of Turkey's foreign debts to its GDP increased significantly and attracted the attention of the other countries, as well. That led the World Bank to be more careful about lending to Turkey. The lack of discipline with respect to borrowing led to unmanageable indebtedness and a committee was established to bring borrowing under control (M. Eğilmez, personal communication, June 13, 2017).

Turkey started to fail to apply the structural adjustment program in the second half of the 1980s. Saygılıoğlu states that Turkey could not afford to pay its share of the commitment of the World Bank. The fiscal deficit in the Turkish budget did not allow it to invest in programs that would pay off in long run; meanwhile, Turkey was troubled by monthly and daily economic problems (personal communication, May 31, 2017). After the fifth SAL program was finalized in 1988, no other structural adjustment agreement was signed with the World Bank.

Liberalization of the financial market brought both improvements and risks. A number of precautions were taken to protect the Turkish currency and restrain inflation when the country suffered severe stagnation in 1988. Interest rates were raised to protect the Turkish Lira, and attempts to bring inflation under control included increasing foreign exchange reserve in the country by limiting imports and raising exports. Indirect taxes were increased, but domestic demand fell. Nonetheless, GDP growth slowed to 1.5 percent and inflation rose to 70 percent by 1989 (Kazgan, 2002).

The exchange rate regime was completely liberalized in 1989 with Decree No. 32 of the Law for the Protection of the Turkish Lira, which removed all restrictions on the convertibility of the Turkish Lira and capital movements.

Foreign exchange liberation and free movement of foreign capital eliminated barriers to borrow, and besides printing money, Turkey started to borrow from diverse international public and private sources accelerating the depreciation of the currency. Even though these regulations were designed to promote investment in the country, they provided easy inflows and outflows of capital, which created a fragile financial system (Pamuk, 2014).

Tevfik Altınok notes that unlimited convertibility was the continuation of a reform to Law No. 1567 for the Protection of the Turkish Lira, which delegated the authority to determine exchange rates from the government to the Central Bank. While the reform created confusion about authority over currency, Decree No. 32 paved the way for current account deficit and inflation throughout the 1990s, which made the Turkish economy dependent on external capital flows and highly fragile with respect to inflows and outflows (Gemici, 2013). In 1990, the Gulf War, which led to an outflow of foreign capital from Turkey, resulted in rising interest rates, devaluation of Turkish currency, and stagnation.

Deregulation of trade in the 1980s was conducted first under the control of the IMF and then the World Bank. In 1988, Turkey agreed to abolish the fiscal support of its exports via a "tax refund" by becoming a party to the General Agreement on Tariffs and Trade (GATT). When the promotion of exports with tax refunds was stopped, exports could no longer be supported. In addition, the IMF condition of transition to unlimited convertibility of the Turkish Lira, accomplished by Decree No. 32, attracted short-term capital inflows after 1989. The regulations (deregulations) made according to World Bank and IMF conditionality in the 1980s and the rules and terms of GATT – that was later institutionalized as the World Trade Organization (WTO) – created an open, vulnerable financial system over which Turkey had only weak control, and resulted in an increase of imports and repressing of exports. In addition, whereas its foreign debt was $13.5 billion in 1980, towards the end of the 1980s it had an increase to $104.5 billion, which exceeded half of its GDP, Turkey had to pay $11-12 billion in annuities for its debts at the beginning of the 1990s (Kazgan, 2002).

Government finances became highly undisciplined. The burden of public borrowing was put on the financial sector – that is, the government asked the

financial sector to compensate for the budget deficit. The financial sector restrained from the private sector because of macroeconomic uncertainties resulting from undisciplined borrowing and financing. While a redundant effort was made to protect the banking sector, the financial reforms were not backed by the establishment of necessary institutions and instruments (Atiyas & Ersel, 1992). Institutionalization could have provided discipline for government borrowing and finance, yet the 1980s were spent trying to postpone an examination of the fundamentals of reform and taking care of daily issues. The increasing lack of discipline undermined the determination to make reforms in pursuit of development assistance and collaboration with IFOs.

§ 3.5 Conclusion

The 24 January Decisions and the agreements with the IFOs built an export-oriented, free market system, although flawed, and opened up the economy which provided significant growth in Turkey's exports and a noticeable increase in national income as well as creating a new bourgeoisie that benefited from the promotions of exports and constituted the clientele network of the governing party (Kazgan, 2002). However, the failure to institutionalize the reforms, produce the rules and regulations necessary for a "free" financial sector, and manage the relations of indebtedness led to deeper crises and continuing instability in the following decade. While politicians tried to manage instability, they overlooked development. Relations with the World Bank to try to promote growth were also neglected. Development assistance, which was – albeit partially – efficient up until 1988 as a result of the willingness and ambitions of both Turkey and the World Bank, failed given their negligence coming into the 1990s.

The World Bank, IMF, and OECD were all interested in the transition of the Turkish economy from an import-substituting industrialization model to an export-oriented, internationally-integrated, market-based model in 1980. They provided financial resource to Turkey for it to overcome current account deficit and indebtedness and to import raw materials and intermediary goods to jumpstart export-oriented industry. The collaboration with Turkey at the beginning of the neoliberal 1980s was favorable for IFOs for three main

political reasons: first, the conjuncture of the Cold War – bipolarity in the World that drove adherence gathering around the polars –, second, as a test of neoliberal restructuring for developing countries, and third, to produce an instrument – policy-based lending – to increase the political influence of the IFOs.

The invasion of Afghanistan in 1979 by the Soviet Union increased tensions between the US and the Soviets. In addition to the escalating socialist threat in the Middle East, the US lost an important ally with the fall of the Shah in Iran in the region in the same year. The geopolitical significance of Turkey as a NATO member neighboring the Soviets and Iran increased, and the rising threats of socialism and political Islam in the region led Turkey to seek the support of Western democratic powers. The special attention to Turkey was seen when the lending to Turkey in the 1980s is compared vis-à-vis the 1970s and Turkey's portfolio rank is considered. Western powers provided significant development assistance to Turkey through IFOs, and Turkey eagerly agreed to policy-based loans with the IFOs. However, Turkey's overly eager approach to agreements and radical reforms brought about drastic problems arose as a result of the reactive behavior in accepting the conditions of IFOs and faced severe results in the following decade.

Second, the deepening crisis in the liberal markets of developed countries led their IFOs – the IMF, World Bank, and OECD – to produce lending programs designed to restructure peripheral economies in order to overcome their own economic stagnation in the 1970s and increase their profits by expanding their markets. Turkey had the support of the World Bank and the IMF when it initiated a reform program and became the first country undergoing the structural adjustment and constituted a prototype. The World Bank observed and assisted the transformation of Turkey – a democratic, middle-income country – from planned economy to free market economy, which became a great experience for the bank's further agreements with other countries (A. Yılmaz, personal communication, May 31, 2017).

Finally, the World Bank produced the formula – policy-based lending – in the 1980s. The IMF supported the lending agreements called Structural Adjustment Lending. Policy-based lending gave the bank bargaining power which provided more influence and prestige to the bank's officials (Danaher,

1994). Countries in need of financial resources had to submit to the conditionality of the bank, clearly providing capability of enforcement to the bank. The prestige and the capability of enforcement of the bank and other IFOs attracted developed and developing countries' increasing interest and were driven the countries to contribute more to the reserve of IFOs, which provided the IFOs higher financial capacity and more political power.

On the other hand, Turkey benefited from the bargaining processes and negotiations with the bank by learning the process of reforming the economy, policymaking for structural changes, planning development and producing a strategy for international collaborations. While Turkey gained experience collaborating with international organizations and developed skills to producing strategies and negotiate, the World Bank policy-based lending helped Turkey to gain vision for the future and raise experts with scholarship and funding for abroad training. Transformation of its economics with the collaborations of the IMF and the World Bank also contributed to the positioning of Turkey in the First World countries in the international system. The World Bank assisted Turkey with the financial resource, physical capital, and raising human capital to provide a liberal economic development in the 1980s.

The policy-based lending of the World Bank did not face significant opposition in Turkish politics and from its public. Because the World Bank is a multilateral international organization with the mission to assist developing countries, it was not suspected of violating the sovereignty of aid recipient countries with its conditionality. Moreover, agreements with the bank provided confidence in the Turkish business environment for export-oriented production. The bank collaboration increased internal and external investments in Turkey by assuring a profound economic transformation. Turkey was deemed a success for structural adjustment lending (World Bank, 1988; Öniş & Riedel, 1993).

Political and economic developments in Turkey made agreements between Turkey and the World Bank and structural change possible to an important degree. Current account deficit and an inability to pay debts in the late 1970s brought about a severe economic crisis that made fundamental changes to the economic system necessary, which was clear to the whole executive staff of the financial offices of the state. In addition, the coup in 1980, the military

rule from 1980 to 1983 which repressed social movements and provided a relatively-secure environment, and banned former politicians from politics until 1987, thereby undermining political competition – enabled the attempts for the fundamental changes. Without no important resistance from opposing politicians and the social groups who were most affected by the reforms, Turkey could accept the conditions of IFOs and liberalize the economic system.

Turgut Özal, who took part in preparing the 24 January Decisions, was appointed as the state minister in charge of economics to the military government that took over control on 12 September 1980. He could employ the radical reforms of an open economy and a free market mechanism with a decisive group of technocratic bureaucrats, especially after he formed a party and was elected to the government. With the rise of Özal's party – ANAP –, a new bourgeoisie emerged with state-support of a private sector via the suppression of the real wages in order to build export-oriented industries that would create a surplus and buy of the privatization of state economic enterprises (Boratav, 2003). The private sector led to development in Turkey for a while. However, a significant component of these emerging private sector actors was part of a growing clientele network around the government party. Towards the end of the 1980s, clientele relations and populism became the nature of politics and hence of economics, especially after the 1987 Referendum abolished the political ban on Özal's opponents and created a challenge for the Özal government.

Turkey could not continue the structural changes and reforms as a result of the loss of popular support to the agenda. Politicians of the 1980s adopted and implemented most of the structural changes in economics on their own. The failure to institutionalize led the macroeconomic transformation to become a personal matter of the certain politicians and bureaucrats who later lost power to compel politicians to continue policy changes, once the politicians lost their interest. The former undersecretaries – whose comments I received – suggest that the eagerness of Turkey and IFOs to integrate Turkey into the neoliberal free market system was diminished along with the changing domestic and international conditions.

Once Turkey started to borrow from different sources, it did not continue the reform process and abandoned following the tight conditions of the World Bank and the IMF on the structural changes. Turkey made stand-by

agreements with the IMF, applied to project loans of the World Bank that did not involve macroeconomic policy conditions, and borrowed from the diverse international public and private financial organizations and banks. Eradication of enforcement vis-à-vis policymaking gave Turkish politicians room to handle the domestic issues on their own and ignore policymaking for development.

Such complexities undermined the reform process and the relations with IFOs in the later period. Starting in 1988, the economy started to worsen and relations with the IFOs, especially the World Bank structural changes weakened throughout the 1990s. The transformation from an inward-oriented, ISI economic model to an export-oriented, open economy was challenging enough; Turkey's eagerness to agree to the IFOs' conditions and push the limits of its economic and institutional capabilities by accepting the structural adjustment agreements resulted in the instability and crises of the 1990s. However, the collaboration between Turkey and the World Bank was beneficial for both parties in the 1980s. Turkey constituted a case study for the plan of the World Bank to integrate peripheral, developing economies into the newly emerging global system. The bank observed the transformation of Turkey closely and kept it within the political collaboration under NATO. As well as responding to the current account deficit crisis in Turkey, the credit agreements with the IFOs, especially the World Bank, gave Turkey experience and a vision concerning structural economic changes. In conclusion, the collaboration between Turkey and the World Bank in the 1980s revealed that development assistance projects can only be effective under the conditions of mutual interests, dependency, and the willingness of each party to take steps.

The factors that impeded the reform process led to an important difference in the quality of relations between Turkey and the World Bank in the 1990s. How the change in the political agenda and the alternating of financial resources together with international dynamics affected the relations of Turkey with the World Bank and other IFOs and effects of these changes on development assistance are elaborated upon in the next chapter. Comparing Turkey's relations with the World Bank in the 1980s vis-à-vis the 1990s provides a clear grasp of the change in Turkey's political environment which reveals the

conditions in which a development assistance project between IFOs and recipient countries is agreed and the project takes effect.

4

The World Bank -Turkey Relations in the 1990s

The development assistance agreements of the 1980s necessitated further reforms and institutionalization which required eradicating clientele networks and replacing existing institutions that served governing politicians, which would lead to their facing oppositional political institutions and losing popular support. The crisis resulting from the inadequate implementation of neoliberal reforms was fully revealed at the end of the 1980s in Turkey. Inflation rose uncontrollably, and macroeconomics were highly unstable. Given rising political competition, the political environment of the 1990s was distinct from the conditions of the 1980s that enabled collaborations with IFOs to carry out reform programs. Escalating competition among political parties, conflicts among coalition partners within governments, economic problems requiring urgent responses, and domestic security issues prevented a long-term economic vision, the implementation of structural changes for development, and the improvement of institutions which were the aim of policy changes in the 1980s. Coalition governments of the 1990s chose to postpone the problems and did not undertake significant policy changes that would make them lose support in the short run.

Even though Turkey continued paying its debts in the 1990s, the decade was a period of serious instability. The factors that impeded the reform process also led to an important difference in the quality of relations between Turkey and the World Bank in the 1990s. Turkey disregarded lending agreement

terms requiring structural adjustment reforms. As a consequence, following five SALs, four Sectoral Adjustment Lendings (SECALs) and numerous other credits from the World Bank, relations with the bank were broadly impaired. The World Bank stopped adjustment lending to Turkey in 1988 until Turkey resumed with the structural reforms. While Turkey had the fifth-largest portfolio at the bank in 1988, by 1993 the portfolio of Turkey was one of the weakest (World Bank, 2005).

While Turkey was sinking into instability and crises in the 1990s despite development assistance from the World Bank and other IFOs, the IFOs were redefining their role within the changing world conjuncture. The situation of Turkey in the 1990s proves the limited capacity of development assistance: the changing strategies and differing agendas of the parties prevented further collaboration and assistance by undermining their will and policymaking processes. This chapter looks into Turkey's relations with the World Bank as well as with other IFOs while providing the macroeconomic policy framework of Turkey from 1990 to 2000. I look for reasons why relations between Turkey and the World Bank weakened in the 1990s compared to the 1980s in order to grasp the political determinants of aid's disbursement and effectiveness.

The first section explains the effect of the agenda change at the government: escalating competition among political parties, conflicts among coalition partners within governments, economic problems requiring urgent responses, and domestic security issues prevented Turkey to develop a long-term economic vision, to implement the structural changes for development, and to improve its institutions. In order to respond to economic problems, Turkey chose to borrow from whichever sources it could. The second section reveals that being able to reach alternative sources for borrowing led Turkey to avoid difficult conditions and the severe expectations of the World Bank vis-à-vis structural adjustments. The third section looks at macroeconomic weaknesses based on political instabilities that hindered attempts at institutionalization and policymaking necessary for the continuation of the reforms of the 1980s and prevented Turkey from borrowing from the World Bank. The policy of the bank in the 1980s also had ill consequences and the policy requests of the World Bank were different in the 1990s than those in the 1980s. The mission of the bank had changed from creating globally-integrated liberal

economies to alleviating poverty, the conditions for developing countries were modified, and the bank swapped out the Middle East for Eastern European region in its priorities, as I mention in the fourth section.

§ 4.1 Agenda Change in Domestic Policy-Making

The military takeover in the 1980s and the banning of existing political parties and politicians created political partitioning on the left and the right. Following the abolishment of the ban, parties from the different fractions led to political instabilities in the 1990s when none of the parties managed to win a sufficient majority of the votes on its own. They formed coalition governments that were incompatible and short-lived. Fractionalization in politics, instabilities, and fluctuations in the economy as a result of deficient liberalization of finance created a crisis-prone environment in the 1990s. Short-term interests of the governments brought about negligence with respect to establishing institutions and building development capacity that could respond to the crisis. They drove government parties to patronage, which deepened fiscal indiscipline. The governments tried to postpone a big crisis until their short lives in government came to an end (Pamuk, 2014). The priority for government agendas throughout the 1990s became attaining political power rather than making economic policy and regulations, as had been the case in the 1980s.

Mahfi Eğilmez, a former Undersecretary of the Treasury, emphasizes the significance of a consistent policymaking process that allows adopting and implementing reform offers as structural adjustment. This is possible with a single-party government that can rapidly decide upon and make policy changes. However, the abolishment of the political ban that the military government had imposed on politicians of the pre-1980 period in a referendum in 1987 resulted in competition in the general elections and led the dominant party of the 1980s, the ANAP, to rely on clientelism to sustain its power. In addition, Eğilmez comments that being in power for a long time can result in fatigue for single-party governments, which was the case for the ANAP government towards the end of the 1980s after having implemented liberalization reforms for a decade. The falling popularity of the party led it to seek to regain the people's support via populist practices, diverting the party's attention from the

technicality of economics (personal communication, June 13, 2017). Öniş and Riedel also note that when the agenda of the government becomes to sustain power, political imperatives start to overshadow economic imperatives (1993).

Kurtuluş Gemici notes from his interview with Ekrem Pakdemirli, the Minister of Finance under the ANAP government and a close associate of Özal's, that the economic policies of the ANAP government became more and more concerned with political power towards the end of the 1980s. The suppression of wages and agricultural prices was lifted, and a significant increase was made in 1989 to seek public support for the upcoming presidential elections (Gemici, 2012). Tevfik Altınok, another close associate of Özal's, states that when Özal ran in the elections for the presidency, he abandoned his technical approach to political and economic issues. Economics, which is a technical issue, was no longer the focus of the government by the end of the 1980s. Altınok points out that the heavy responsibility on politicians leads to such diversions within politics, and personal ambitions also stood in the way of the continuation of economic transformation in the 1990s (T. Altınok, personal communication, June 14, 2017).

Governments in the 1990s which were constituted of incompatible coalition partners became a source of political instability and hence inoperative economics. Nevzat Saygılıoğlu explains it by example: when one coalition partner party has control over a financier bureau at the government, such as the Undersecretariat of the Treasury, and another over an investor bureau, such as the Ministry of Transportation, unsuccessful cooperation among parties leads to the inability to build infrastructure suggested by the Ministry of Transportation because the Treasury refuses to budget it, which undermines the development in the end (personal communication, May 31, 2017). Such coalitions were common throughout the 1990s, and parties tried to undermine each other's potential vote shared in the upcoming elections by impeding economic investments.

Each key party had different ambitions, and the disagreements among the partner parties of the government damaged collaboration with the World Bank with respect to adjustment lending policy conditions. The bank was only effective when the Turkish government was willing to work with it in collaboration. World Bank programs and projects promise institutional development

only when the collaboration is strong (World Bank, 2005). Only programs and projects backed by strong will of the bank and the Turkish government were successful during the neoliberal reform process.

The World Bank was more resolute concerning its programs and conditions and did not negotiate in the 1990s. The bank asked developing countries to continue making structural adjustments and major policy changes. Coalition governments in Turkey could not agree within themselves to implement World Bank programs and except the conditions of structural adjustments. Various public institutions in Turkey sought World Bank support for minor projects and applied for project-based lending (N. Saygılıoğlu, personal communication, May 31, 2017). Though structural and sectoral adjustment programs that require the willingness and determination of the government had stopped by the end of the 1980s, around thirty minor project agreements were made with the World Bank in the 1990s.

Moreover, crucial problems such as security issues and terrorism diverted the attention of the government from economics. The fight against PKK terrorism in Southeastern Turkey led to immense military expenditures. Tensions with the Greek government arose with disputes over the Aegean Sea, and internal controversies as a result of relationships between politicians and illegal organizations increase distress in Turkey, making economic issues secondary. Such controversies damaged the economy which had been integrated into the global market, but without protection. Foreign exchange liberalization and free movement of foreign capital eliminated barriers to inflow and outflow, creating a fragile system. Unrests in Turkey and at the international conjuncture created an expectation of the devaluation of the Turkish currency resulting in a rapid outflow of foreign capital and hence pressure on the national budget to manage the current account deficit and inflation (Pamuk, 2014). For instance, just after the full liberalization of foreign exchange in 1989, the 1990 Gulf War led to an outflow of foreign capital from Turkey, which resulted in rising interest rates, the devaluation of Turkish currency and stagnation.

At the end of the 1970s, Turkey was suffering a severe balance of payments and foreign exchange crisis that prevented Turkey from paying its debts and consequently made economics the focal point of policymaking in the following decade. Moreover, the international conjuncture – bipolarity, the Cold

War, financial problems that socialist countries were going through, and pressure from international financial organizations to adopt liberalization in order to strengthen the First World – made economics the most significant topic in the 1980s. Under such conditions, collaboration with the World Bank was strong and the Turkish government was determined to undertake economic restructuring. Nevertheless, the crisis that hit Turkey at the end of the 1980s was not as severe as the crisis of the late 1970s. Turkey had developed export-led production and was able to attract foreign currency to the country. In addition to the fragmented structure of power in the Turkish government which precluded making collaborations with international actors, being able to pay debts with the help of alternative financial relations gave it room for financial maneuver in the 1990s. Therefore, Turkey paid less attention to economics and structural change in the 1990s, which undermined the effectiveness of the development assistance of IFOs.

§ 4.2 Alternative Sources of Borrowing

The World Bank loans contingent on structural adjustments have been complex, and the conditions have never been favorable for low- and middle-income developing countries because the process is overwhelming for their public institutions. Conceding to the World Bank omits the decision making authority of public institutions, and the conditions of the agreement and implementation of the projects surpass the executive capacity of those institutions (Woods, 2006). Turkey had to borrow from the World Bank in the 1980s because it, like many low and middle income developing countries, had no alternative. The tight conditions of the World Bank have been disadvantageous because of its burden on public institutions. Because of their strict conditions, only countries that cannot borrow from elsewhere are driven to make agreements with the World Bank, which reveals a poor economic sight of the borrowing country. Therefore, Turkey chose to weaken relations with the World Bank when it had alternative borrowing sources. Coming into the 1990s, Turkey could borrow from various sources because it had surpassed the period of severe crises and had learned the process of borrowing and the relations of indebtedness (A. Yılmaz, personal communication, May 31, 2017).

Altınok and Eğilmez stated in interviews that like every developing country that has the chance to borrow from a variety of financial organizations, Turkey preferred not to accept the conditions of the World Bank. The reason for the stagnant relations with the World Bank was having alternatives for borrowing. Turkey could borrow from different organizations and it criticized and objected to World Bank policies in the 1990s. In addition to not fulfilling the conditions of its earlier loans, Turkey's critical approach to the World Bank in the 1990s downgraded the existing relations and deterred the bank from building new relations (T. Altınok, personal communication, June 14, 2017).

Additionally, the buoyant private sector that followed the burst of the 1980s, informal exports – that is, "suitcase trade" – with the former Soviet Union which generated six to eight billion dollars a year, the growth of rich economies that required labor power which attracted Turkish workers who instigated the flow of remittances, and returns from tourism investments of the 1980s made Turkey confident in the 1990s. Even though macroeconomic stabilization could not be attained, the role of development assistance diminished and collaboration with IFOs lost its appeal (World Bank, 2005).

Macroeconomic stabilization is provided with proper public spending of the borrowed money to the social sectors – that is, in the capacity to build skills and institutions and create welfare mechanisms – which would ensure growth and reduce poverty (Jayarajah, Branson, & Sen, 1996). These, especially welfare mechanisms, were neglected in the Turkish case. The stabilization of macroeconomics would allow structural adjustment reforms to be durable, yet fiscal indiscipline, populist practices, and the lack of a debt strategy wrecked the budget and damaged the process. Meanwhile, the weak welfare mechanism undermined the human development. The policy environment in Turkey in the 1990s made further policy changes and the implementation of development assistance reforms impractical.

§ 4.3 The Inadequacy of Turkish Policies

The policy environment in the 1990s in Turkey hindered the process of economic transformation and the relations with IFOs that were supporting the transformation. The World Bank evaluated Turkish politics of the period as

incapable of producing a policy design needed for efficiency and growth (World Bank, 2005). Reforms were not supported by the necessary institutions, and deregulation paved the way for corrupt applications such as discretionary funds through which financial resources were conveyed to groups with which governing party leaders had clientele relations. Such difficulties led to the inability of the government officials to adopt an agenda that would allow following through on the conditions of agreements with IFOs.

The 1997 World Development Report by the bank evaluated the performance of the Turkish economy. The degree and speed of integration into the world economy in the 1980s was deemed outstanding (World Bank, 1997a). Turkey globalized at an outstanding rate in trade because reforms to macroeconomic policy such as its exchange rates system, fiscal policy, and trade policy were easy to implement. There was a limited attempt for institutional restructuring. These reforms which were adopted quickly in developing countries even by the small technocratic elite were a response to internal and external pressures brought about by political and economic necessities. However, reforms requiring regulation, restructuring, and institutionalization such as social services, finance, infrastructure, and public works were not fully and successfully attained in the most of these countries. The reason is that such institutional reforms cannot be implemented quickly and require profound changes to governance and "a complete overhaul of long-established systems of patronage and corruption" (World Bank, 1997a, p. 13). The report draws attention to both kinds of reforms. Good policies and improved capability of state institutions are necessary to procure development.

Turkey carried out its macroeconomic policy reform in the 1980s in response to a domestic and international economic crisis and a political stalemate. However, just as the report suggests, it fell short of continuing with reform when institutional changes came into the equation, because this necessitated eradicating clientele networks among politicians and interest groups, replacing existing institutions that served the interest of governing politicians, and undertaking more serious political implications such as facing political opposition and losing popular support. In addition, Turkey could not manage to keep international capital within the country and turn it into investment. The international capital flow to Turkey, as with most middle-

income countries, was driven by government bonds, stocks, and banking and trade credits that were interim, high-profit, and unstable investments (World Bank, 1997b). The short-term inflows and outflows contributed to the instability of the Turkish economy in the 1990s.

The bank conditioned further agreements to return to structural adjustment agenda in the 1990s. At a time when the bank was working on strategic changes, it proposed an agreement to Turkey during a crisis in 1994, the conditions of which were as strict as the SALs. Ayfer Yılmaz, then Undersecretary of the Treasury, states that Turkey also did not have the reserves to pay its share of the World Bank commitment. Nevzat Saygılıoğlu also suggests that the reason Turkey did not continue with the adjustment program was that it could not pay its share of World Bank program expenses. The World Bank typically covers 50-60 percent of the budget of a project or program in the borrowing country; the borrowing country pays the rest so that the project or program is realized. Not only could it not afford to borrow, Turkey also could not budget the programs because of the incompatibility among government parties whose priority was to stay in power rather than make long-term structural economic regulations.

Turkey made an agreement with the IMF in 1994 about withdrawing an amount of debt that its quota allowed, which created a financial resource for Turkey sparing it from the obligation to consent to the World Bank. The condition of a policy-based loan the same year was to anchor the Turkish Lira to the dollar, which would create deflation and lower the prices of imported goods at a time when Turkey had an excess supply of goods (A. Yılmaz, personal communication, May 31, 2017). Turkey chose to make a sizeable devaluation. The economy of Turkey during the 1994 crisis was more resilient than anticipated, and Turkey managed to overcome the crisis (World Bank, 2005). Turkey was also able to pay off its debts in the 1990s, which meant that it could have fulfilled the commitment to World Bank programs. Nevertheless, Turkey again had no interest in IMF and World Bank programs and their broad economic restructuring because of its internal political conditions.

The structural regulations initiated in the 1980s could not be systematized and did not turn into a new model for the 1990s. The public budget deficit grew, and the domestic and foreign indebtedness of sub-government public

institutions increased significantly. The indebtedness led to a rise in interest rates and hence hindered investments. Many countries were defaulting on payments to the IMF and World Bank, which led the organizations to adopt stricter conditionality. Pre-conditions were presented in the lending agreements. Pre-conditions such as drafting laws and offering law proposals to parliament made indebtedness more difficult for low-income developing countries (M. Eğilmez, personal communication, June 13, 2017). For instance, in the Country Assistance Strategy Report, the World Bank proposed "providing additional financial support under the condition of launching an effective medium-term program of structural reforms, within a macroeconomic framework satisfactory to the IMF" (World Bank, 1997b). Such conditions could not be met in the controversial political environment of Turkey, which reveals that the political environment of the aid recipient country determines the degree of utilization of the development assistance.

For Turkey, loan agreements with international financial organizations were used to finance imports in the 1980s because the country was going through a period of foreign exchange deficit. It neither produced a strategy for development and nor spared the borrowed money for a development strategy as a result of this deficit. The indebted money was transferred abroad through the financing of imports (A. Yılmaz, personal communication, May 31, 2017). The argument of Burnside and Dollar (2000) that weak policies in the aid recipient country leads indebted money to be consumed by ineffective government expenditures is partially true for the case of Turkey: the money was spent on the private interests of government parties and mostly financed imports, which did not provide effective spending with respect to a development strategy and institutionalization.

The failure to institutionalize and the postponement of the problems that reforms brought out resulted in the crises of the 1990s. These severe economic crises also resulted in political instability, yet the reasons for this were rooted in the defective implementation of economic reforms. As Şevket Pamuk (2014) suggests, politics determined the progress of economic reforms, their degree, and their range. As an example, the privatization process became a political contest for populist purposes. Some state economic enterprises (SEEs) could not be privatized because the government did not want to lose

control over such great production facilities. The process hindered neoliberal reforms and the fulfillment of the conditions of IFOs (Pamuk, 2014). The governments neither prepared a privatization program nor created institutions for the sale of state enterprises to the private sector and as a result, privatization did not take place effectively. Those SEEs that were privatized led to deeper complexity because opposition parties brought the takeovers to the court and had them annulled. The annulment of the privatization of SEEs by the courts made the process uncertain for foreign investors, and they pulled their interest out from Turkish SEEs and other state-owned financial institutions (Kjellström, 1990). The institutionalization of reforms could have protected the reforms from the adverse effects of political instability, yet internal conditions in Turkey did not allow efforts to be put into institutionalization.

Domestic finance became even more complicated. Exports were encouraged and supported at the cost of the public. A policy of giving tax refunds for exports led to fictitious exports, in other words, "suitcase trade" (N. Saygılıoğlu, personal communication, May 31, 2017). In addition, public investments were financed with numerous discretionary funds and investment projects were contracted to unknown parties – mostly interest groups with clientele relations with politicians in government –, which undermined fiscal discipline and made the finance system more uncertain.

Import liberalization, which was an aim of the structural adjustment program, was also impaired as a result of the clientelism. Liberalizing the import of foreign goods was first delayed and then regulated with serious policy changes that entailed tariffs and quotas. Instead of deregulation, as suggested by the program, lists were created and approved of goods the import of which were to be liberalized, restricted, or prohibited. These lists were altered and altered again over the years. The import of almost all consumer goods was liberalized by the end of the 1980s, yet then tariff protections were raised (Baysan & Blitzer, 1990). Şevket Pamuk states that the lists were often changed arbitrarily, depending on clientele relations between the business environment and the government (2014). Import liberalization could not be attained in the years to the degree specified by the structural adjustment program of the World Bank; instead, it was established in accordance with the internal conditions of Turkey.

Turkey tried to remain integrated into the international system so as to attain macroeconomic stabilization. It took part in new international trade agreements and maintained international collaborations to legitimize the government actions within the internal conflicting conditions with international support. Because of hard political and economic times, Turkey did not pay sufficient attention to foreign economic affairs. Neglecting foreign economic affairs was not a policy, but a result of political instability. Apart from coalition conditions and conflicts within the country, macroeconomic instability arose as a result of instabilities in international finance. Carry trade, which is hot money flows from one country to another, provided short-term financing of the market, yet it did not constitute a reliable source and led to instabilities by increasing indebtedness (A. Yılmaz, personal communication, May 31, 2017).

Turkey benefitted from the development assistance of the World Bank by promoting exports and increasing trade which contributed to its economic growth, confirming the argument of Jeffrey Sachs mentioned in the second chapter of this thesis. However endemic conditions in Turkey prevented a full benefit. Even though the share of foreign trade (exports and imports) in the GDP was 10 percent at the beginning of the 1980s, rose to 20 percent in the middle of the 1990s, and to 30 percent in 2000 (TurkStat, 2017), domestic and international unrest made the Turkish economy fragile and vulnerable to external effects. The global market was threatened with severe stagnation with the East Asian crisis in 1997, which hit emerging economies such as those of Brazil, Russia, and Turkey. The 1997 East Asian Crisis did not directly affect Turkey, but Russia's bankruptcy the following year led to a shrinkage of the Turkish market (Özatay, 2009). The IMF was deeply concerned and created programs for these countries. Macro instabilities that were ongoing throughout the 1990s caused a crisis in the public sector in Turkey in 1999. Turkey had to accept the IMF stabilization program that proposed stabilization at exchange rates in order to decrease the inflation, which on the other hand ignored the fiscal deficit and significant damages given to the economics by financing private banks with public banks. The Turkish government, which was constituted of a coalition, could not provide the political commitment and the program was not able to reach its goals (A. Yılmaz, personal communication, May 31, 2017). The crisis paved the way for economic depression in 2001.

§ 4.4 The Inadequacy of World Bank Policies

The World Bank constitutes a key part of the international financial institutional constructs along with the International Monetary Fund, both of which aim to promote an open, liberal international economy. In the late 1990s, the mission of the World Bank to assist middle-income countries to achieve balanced, externally-oriented growth was changed to the mission of alleviating poverty in the world. The bank made great contributions to the comprehension of the concept of development and developed methods that included creating an open trade system, attracting investments, and integrating into the international system with collaborations and agreements (Einhorn, 2006). However, the development assistance strategy of the World Bank has been widely criticized for not being properly designed for each developing country asking for assistance. Even though the bank presented Turkey as the most successful case of the SAL program, it later had to admit its policies were inadequate for the implementation and resilience of the program (World Bank, 1997b).

The World Bank implemented the same program, SAL, for every low- and middle-income developing country in the 1980s and early 1990s as a result of its ambition to create a global, free market system. However, its universal remedy did not work because it could not reach to local problems and needs. In Turkey, Turkish academics contributed to the bank's programs and consultations, and the bank built good relations in the private sector in the 1980s, but such contacts were not kept in the 1990s (World Bank, 2005). The bank programs could not be efficiently and consistently carried out in interaction with the local.

The findings of the Structural Adjustment Participatory Review International Network (SAPRIN) detected that the World Bank's focus on trade liberalization in the structural adjustment program helped increase export rates, yet a continuous increase of import rates accompanied it. Instead of building export-led industry in countries that borrowed from the bank, local industries failed to compete with imported goods and went out of business, creating unemployment and a current account deficit as a consequence. Additionally, liberalization – the removal of government control – weakened the state as an

institution and strengthened a small group of private interests politically and economically, which undermined the capacity of the state to implement complementary and corrective reforms (SAPRIN, 2004). These findings are supported by the Turkish experience of structural adjustment to a degree. Imports grew along with exports and loans were used to finance imports which eventually created a current account deficit and uncontrollable inflation, which in turn led to the abandonment of development assistance programs.

The conditions of the loans in the structural adjustment program were trade liberalization, privatization, and market stability, which were also the key points of the Washington Consensus of the 1980s which foresaw a global, free market system. Stiglitz remarks that such policies cannot be sustainably imposed by loan conditions. Even though the programs contributed to the capacity of the countries by creating an environment that attracted investment, by allocating resources, and by producing a development strategy, Stiglitz notes that the method of enforcing conditions to effect policy changes undermines democratic processes (Stiglitz, 1999).

Regulations (deregulations) made according to the World Bank and IMF conditionality in the 1980s and according to the rules and terms of GATT, which was later institutionalized as the World Trade Organization (WTO), created an open, vulnerable financial system over which Turkey had only weak control, and resulted in an increase of imports and repressing of exports. In 1988, Turkey agreed to abolish fiscal support of exports via "tax refunds" upon becoming a party to GATT. When the promotion of exports with tax refunds was stopped, exports could no longer be supported. Turkey approved the IMF condition of transition to unlimited convertibility of the Turkish Lira, which increased imports and attracted short-term capital inflows after 1989. The growing current account deficit was compensated for with irrational borrowing from various financial organizations and international banks. Whereas the foreign debt was $13.5 billion in 1980, towards the end of the 1980s it had an increase to $104.5 billion, which exceeded half of its GDP, Turkey had to pay $11-12 billion in annuities for its debts at the beginning of the 1990s (Kazgan, 2002).

The IMF offered to anchor the Turkish Lira to the dollar in 1994 when Turkey was in a crisis. Turkey did not accept it at the time but had to accept it

later in 1999. The results were cheap imports and expensive production in Turkey. Turkey did not have a system that could balance the overvaluation of the currency; therefore, another economic crisis erupted at the end of the 1990s, in 2001, and this time the whole economic system was dismantled. Turkey had to accept the conditions to restore its economic system, yet responsibility for the new economic program was on the government. The programs to which Turkey had agreed with the IMF and World Bank could not compensate for the bad course of economics. And interestingly as Ayfer Yılmaz points out, Turkey entered a major economic crisis while the programs with the IMF and World Bank were ongoing. According to Yılmaz, these organizations never believed that Turkey would overcome the bad economic situation it had gotten into following the crises of the 1990s. Indeed, Country Assistance Strategy (CAS) evaluation report of the World Bank admits to the lack of interest regarding the macroeconomic development of Turkey (World Bank, 2005, p. 55).

The World Bank started to search for ways to solve the problems with structural adjustment and a macro-scale approach to economic problems. The bank resorted to decentralization – empowering its country offices and creating different programs for different countries in contact with the local authorities – under the CAS in the late 1990s (A. Yılmaz, personal communication, May 31, 2017). Project-based agreements of the World Bank already proved more efficient in development assistance.

In 1997, the World Bank developed a CAS for Turkey, analytical endeavors of which allowed more effective management of lending. The bank had already been more successful working in dialogue with authorities on micro-scale projects. Vast migration movements within Turkey to big cities brought about increasing poverty and a falling standard of living in the 1990s. The World Bank contributed to the improvement of health services and provided financial aid to families in need with its projects (World Bank, 2005). The Marmara Earthquake Emergency Reconstruction (MEER) project of the bank enabled the rebuilding of settlements that were most damaged in the 1999 earthquake in the Sea of Marmara. Ayfer Yılmaz emphasizes the success of the MEER project as a result of World Bank expertise, execution, and supervision and the focus on a simple – simple in terms of reasons and solutions – problem (personal communication, May 31, 2017).

Basic education projects implemented by the World Bank in the 1990s also successfully spread education to rural areas. The projects assisted the Ministry of Education in improving the curriculum for basic education, in the training of teachers in different pedagogic approaches and computer literacy, and in increasing the accessibility of education materials for disadvantaged groups, all of which contributed to the social development of Turkey. The bank also supported the Turkish program for eight-year compulsory education which helped to create educational opportunities for low-income groups. Even though access to education and its quality was improved, the progress was interrupted with ineffective management by the Ministry of Education as a result of the frequently changing ministers that the company changes in the governments during those years (World Bank, 2005). The fragmented political structure of the state as a result of short-lived, incompatible coalition governments also affected implementation of such micro-scale projects.

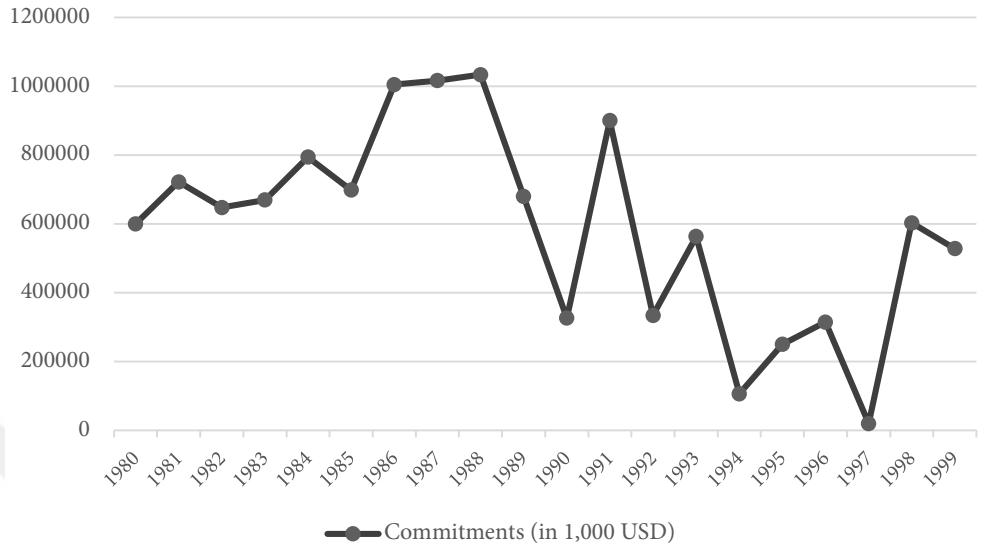
Another example, the improvement of tourism, as Saygılıoğlu notes (personal communication, May 31, 2017), was the result of investment in infrastructural development. The highway projects of the World Bank in the 1980s and the even larger commitments made with the two sequence projects – the State and Provincial Roads project in 1991 and the Road Improvement and Traffic Safety project in 1995 – furthered the construction of interprovincial roads in Turkey (World Bank, 2005). Besides improving highways and road safety, the projects contributed to the enhancement of the tourism sector, which became a significant source of foreign exchange and became attractive for private investment. The reason such projects were more successful can be explained by the fact that defining the problem, advising, taking action, and supervising were easier and more attainable for the World Bank.

Those William Easterly (2006) calls the Searchers– producers of micro-scale projects – are proven to be more effective at implementing World Bank projects, even though the bank is a large-scale organization. A better definition of the problems taking into regard local complexity and the inspection of the carrying out of projects bring about effective policymaking and proposing effective solutions to problems, which eventually increase the effectiveness of development assistance, as seen in the projects in Turkey in the 1990s.

The success of the structural adjustment program was limited because of its scale. The program was too ambitious and the conditions were too heavy for the Turkish government to follow. The bank's assistance was either not responsive to the problems of low- and middle-income developing countries or was not applicable in the context of the country in question (World Bank, 1997b). Turkey and other low- and middle-income developing countries that received SAL did not have the capacity to implement the reforms all at once, not only in terms of the necessary institutions but also of the political agenda. In these countries, the foundation for building institutions is highly volatile. Turkey did not put economic development first on the agenda for various reasons after the 1980s. From the World Bank's perspective, the process of such programs could not be managed and supervised because of their grand scale. The grand scale of the programs also meant that they could not be adapted to the local. Local issues, needs, and challenges needed to be elaborated and understood more carefully so that the program could adapt to them. The World Bank did not have that power with Structural Adjustment Lending; neither has Turkey the power to adapt to such programs.

More importantly, organizations such as the World Bank and IMF are not free of political influence and did not only seek a fully-integrated, developed world economy. The US, the major donor to international financial organizations such as the IMF and World Bank, influences the assistance decisions of these organizations. The study of Alesina and Dollar (2000) draws attention to the strategic flow of aid and suggests that the US favors Israel and Egypt, especially for bilateral aid, in line with its policy interests at the Middle East (1998), as mentioned earlier. Barro and Lee (2005) also point out to that greater political and economic integrity with the major Western powers brings greater amounts of assistance. Turkey was a significant partner for US policies regarding the Middle East; hence, it received special attention in the 1980s in terms of development assistance, as seen when the Figure 3.1 and Figure 4.1, – that shows the deteriorating relations between the World Bank and Turkey in the 1990s –, are compared.

Figure 4.1 IBRD Commitments to Turkey in the 1980s and 1990s



SOURCE World Bank (2018a)

Contrary to the study A Case for Aid (Wolfhensohn et al., 2002) which suggests that geopolitics ceased to be central to the distribution of the aid after the end of the Cold War and that aid has targeted poverty reduction in lower-income developing and underdeveloped countries, Mahfi Eğilmez argues that the US increased its influence over the policymaking processes in these organizations following the dissolution of the Soviet Union and collapse of socialist economy in the second world. Eğilmez believes that the World Bank had no apparent political motivations in its agreements with developing countries during the Cold War period, and the political influence of the US over the World Bank and the IMF was not evident until the end of the Cold War in 1991. According to Eğilmez, the US started to influence the organizations in the 1990s at which time the policy offerings in the IMF and World Bank loan conditions came to be in line with US foreign policies. He also notes that country representatives who visited the IMF at the end of the 1990s were advised to meet with US Treasury authorities (personal communication, June 13, 2017).

After the dissolution of Soviet Union, the politically-motivated assistance of the World Bank flowed to Eastern Europe to restore a liberal ideology in these former socialist countries in the 1990s. Gülten Kazgan (2002) indicates that the EU has directed its investment on Eastern Europe in the 1990s following the dissolution of the Soviets. Neighbors to the EU were meant to be constituted politically more stable and economically self-sufficient countries because they were seen as prospective members of the union. In addition, these countries would attract investment from Europe during the privatization of their public enterprises that had the capacity for heavy industrial production which was needed in Europe (Kazgan, 2002). Ayfer Yılmaz also notes that the World Bank and the IMF were heavily involved in the region after the Soviet Union collapsed (personal communication, May 31, 2017).

Table 4.1 Countries receiving the most from the IBRD, (in 1,000 USD)

Years	Turkey's rank and its withdrawal	First country and its withdrawal	Second country	Third country	Fourth country	Fifth country
1992	7th 619.20	Brazil 1,344.00	Mexico 1,313.00	Indonesia 1,256.30	China 1,252.70	Peru 1,150.00
1993	12th 273.50	Argentina 1,760.00	China 1,445,20	Indonesia 924.10	Morocco 809.00	India 771.64
1994	15th 250.00	China 2,944.93	Mexico 2,115.00	Russian Federation 1,923.80	Indonesia 1,538.30	India 1,081.00
1996	14th 255.00	Russian Federation 1,922.50	China 1,400.00	Ukraine 1,259.81	Indonesia 1,193.70	Argentina 946.40
1998	7th 956.10	Argentina 3,814.75	China 2,343.00	Mexico 1,767.20	Indonesia 1,672.40	Russian Federation 1,500.00
2001	1st 2,200.00	_	Brazil 1,654.15	India 1,649.00	Argentina 1,165.69	China 979.50

SOURCE World Bank (2018b)

With the end of the Cold War and the declining turmoil in the region for the USA led Turkey to lose its position of being a geopolitically strategic partner. The international financial organizations dominated by the US and Western

European countries leaned towards the former socialist countries in Eastern Europe in order to establish liberal economies in the countries and integrate them into the core of global free market economy. The change in these countries' and hence IFOs' agenda precluded a new collaboration with Turkey for the continuation of the development assistance. As Turkey's reversion seen at Table 4.1, the share of commitments the Russian Federation, Ukraine and Romania receives from the bank increased (World Bank, 2018). Even though the bank's lending resource was also raised in the 1990s, it neglected Turkey until the crisis of 2001 – which is the worst economic crisis in the Republic of Turkey. Whereas Turkey was an important ally locating at a geostrategic point during the Cold War in the 1980s, the cooperation between the World Bank and Turkey was remarkable, and in the 1990s when Turkey no longer occupied a strategic position for the Western countries dominating the World Bank, the cooperation became insignificant.

§ 4.5 Conclusion

At the beginning of the 1980s, Turkey was willing to adapt to the policies of World Bank lending. Turkey could afford loans from the bank and it could pay its share of the adjustment lending. Therefore, the bank had realistic plans for the transformation of the Turkish economy in terms of realizing the reforms. Yet in the 1990s, Turkey found the conditions too hard and given various political and financial difficulties, it did not follow the development assistance programs of IFOs. Even though the public budget was tight, Turkey could borrow from other different international financial actors without conditions and could place trust in its private sector. The bank, on the other hand, was busy with different agendas and unwilling to make agreements with Turkey. Relations with the World Bank were weak in the 1990s compared to the 1980s. These weak relations reveal the complexity of development assistance. The political environment of the 1990s in Turkey was different than the 1980s'. Escalating competition among political parties, conflicts among coalition partners within governments, economic problems requiring urgent responses, and domestic security issues prevented a long-term economic vision, the implementation of structural changes for development, and the improvement of

institutions, which were the aim of the policy changes of the 1980s. The military takeover in the 1980s and the banning of existing political parties and politicians created political partitioning on the left and the right. Following the abolishment of the ban, parties from among the different fractions led to political instabilities in the 1990s when none of the parties managed to win a sufficient majority of the votes on its own. They formed coalition governments that were incompatible and short-lived. The priority for government agendas throughout the 1990s became attaining political power. Hence, the government parties were driven to patronage – the easiest way to attain support – that created more instability in the economy and loosened the fiscal discipline. These issues created a crisis-prone environment in the 1990s.

The change in the agenda damaged the collaborations with the IFOs and especially the World Bank. In order to continue with the adjustment policies, the Turkish government must be willing to work in collaboration with the bank. Although the programs and projects backed with the strong collaboration of the government and the bank were successful to a degree in the 1980s, the fragmented structure of power in the Turkish government precluded deciding the necessary policy-changes and making such collaborations in the 1990s. Increasing terror incidents and security problems in Turkey also got in the way of consolidating the power structure and prioritizing the economic agenda.

Moreover, being able to borrow from different public and private financial sources led Turkey to veer away from World Bank lending and the structural adjustment program. The current account deficit and indebtedness crisis of the late 1970s did not allow Turkey to borrow elsewhere. The complexity of World Bank lending has never been favorable and is disadvantageous because of its burden and deleterious effect on the sovereignty of public institutions in middle-income developing countries (Woods, 2006). Therefore, when Turkey managed to find alternative borrowing sources, it avoided the difficult conditions and expectations of World Bank lending these are the structural adjustments. Turkey developed a private sector attracting foreign exchange to the country via exports and foreign investment in the late 1980s. As a consequence, the role of development assistance was diminished and collaboration with the IFOs lost its appeal (World Bank, 2005).

Additionally, Turkey had difficulties sparing reserve for its share of a commitment from the World Bank. The former undersecretaries note during the interviews that Turkey did not continue with the adjustment program because it could not pay its share of World Bank program expenses. Turkey could not budget the programs because of the incompatibility among government parties whose priority was to stay in power rather than to make long-term structural economic regulations.

Macroeconomic weaknesses of Turkey in the 1990s hindered attempts at institutionalization and policymaking necessary for the continuation of the reforms of the 1980s and prevented Turkey from making agreements with the World Bank for programs like the structural adjustment. The agreements of the 1980s necessitated eradicating the clientele among politicians and interest groups, replacing the existing institutions serving to the governing politicians and undertaking more serious political implications such as facing political opposition and losing popular support. Coalition governments of the 1990s chose to postpone the problems and did not undertake significant policy changes that would make them lose support in short run. Another challenge for macroeconomic stabilization was to keep international capital in the country and turn it into investment, yet political instability and weak financial regulations brought about rapid inflows and outflows of the capital. The short-term inflows and outflows contributed to the instability of the Turkish economy in the 1990s.

Many low- and middle-income countries defaulted on their debts to the World Bank and IMF in the late 1980s and 1990s. Therefore, the organizations adopted stricter conditionality and the modified conditionality made borrowing harder for middle-income countries. The dissolution of the Soviet Union also resulted in a priority-change in the bank's mission. The aim was to integrate newly emerging Eastern European countries bordering the European Union into the neoliberal, democratic system of the First World.

Finally, policies of the World Bank were widely criticized, and the consequences of its structural adjustment program were especially harsh for the economies of developing countries. The development assistance strategy of the bank was not properly designed for each developing country asking for assistance. The bank implemented the same program, SAL, for every low- and

middle-income developing country in the 1980s and early 1990s as a result of its ambition to create a global, free market system. However, its universal remedy could not respond to local problems and needs (SAPRIN, 2004).

The SAL programs were only partially successful because of their scale. The program was too ambitious and heavy for the governments of the low- and middle-income developing countries to follow. The bank's assistance was neither responsive to the problems of these countries nor thoroughly applicable because of the financial and political capacity of the country in question (World Bank, 1997a). Local issues, needs, and challenges needed to be elaborated and understood more carefully so that the program could adapt to them. Such programs can be more successful as a consequence of that defining the problem, advising, taking action, and supervising are easier and more attainable.

The 1990s were an unstable political and economic environment in Turkey as a result of incompatible coalition governments without a vision, clientele relations, consistent inflation rates of around 70-80 percent, and insecure financial sector constituting the backbone of the economy (Kazgan, 2002). Free trade increased the dependence of Turkey and created an environment heavily influenced by international markets. Liberalization of capital inflows and outflows without providing for fiscal balance made the economy vulnerable to external crises and led to more severe fluctuations. Turkey became the most affected among middle-income countries by the capital flows during the neoliberal globalization wave of the 1980s and 1990s (Pamuk, 2014). The risky conditions of the Turkish economy could only attract capital to short-term, high-profit investments. The national capital of Turkey followed the same tendencies as international capital. These tendencies created more instability and fragility in the economy. Turkey benefitted little from integration into the world system, globalization of free trade, and movement of capital. Pamuk describes the 1990s as the most difficult time for Turkey since World War II because neoliberal globalization was an unsteady and troublesome process (2014). In my view, the situation in the 1990s was the consequence of inadequate policymaking and reform in the 1980s, which were hasty responses to the development assistance of IFOs.

Elaborating on the relationship with the World Bank, I suggest that even though there were many agreements in the 1980s, their success remained limited because of their major approach and because that the continuation of the relations was affected by political strategies which were changed along with the changes in the international conjuncture. The Undersecretaries of the Treasury whose comments are noted in this thesis unanimously express the effectiveness of project-based assistance in Turkey during their time in office as well as the limited success of SAL. Minor project agreements in the 1990s were more successful compared to structural adjustment programs. The studies evaluating the effectiveness of development assistance cannot definitively conclude that assistance brings growth (Rajan &Subramanian, 2008; Dalgaard et al., 2005; Easterly, 2007). However, assistance cannot stop despite the ambiguity of its effectiveness. Therefore, the fact that the most apparent effects of development assistance are observed with small projects must lead the organizations to adopt more of that sort of projects.

William Easterly suggests that the development assistance of IFOs under the influence of Western powers cannot build the most crucial institutions for the development of a country: the case law and civil law. "Their attempt is a top-down approach which lacks the complex background of social norms, networks of relationships and formal laws that create the institutions (2006, p. 99)." As a consequence, the assistance projects and programs of organizations like the World Bank can aim to promote strategy making, expert training, and development planning skills in a country rather than targeting macroeconomic changes and structural adjustments. The undersecretaries from whom I received comments also suggest that the most successful aspect of the assistance program is the promotion of strategy making, expert training, and development planning skills.

The political motivations of the IFOs, whether visible or invisible, affect the missions and policies of the organization in line with their major donors and home countries. The US, the major donor to international financial organizations such as the IMF and World Bank, influences the assistance decisions of these organizations. Political alliances, the geopolitics of a country, and economic collaborations relate to the strategies of IFOs. Following the dissolution of the Soviet Union, Turkey lost its geopolitically significant

position for IFOs dominated by the US and Western European countries. Their interest swapped from the Middle East to Eastern Europe bordering countries of the EU in the 1990s (Kazgan, 2002). Political strategies directing the flow of aid undermine the legitimacy of IFOs and their development assistance mission.

IFOs must strengthen their multilateral character in order to enhance their role in development assistance. Multilateralism prevents a strategic approach to development assistance by outweighing countries that have political interests. Whereas stronger multilateralism weakens the strategic aspect of IFOs, it can also prioritize small-scale projects dealing with specific problems over macroeconomic restructurings. Small projects in response to public expenditures on health, education, infrastructure, and specific sector issues contribute to human development and limit political influence – both in terms of domestic misuse of aid money by authorities and international enforcement of particular policies.

5

Conclusion

In this thesis, Turkey is examined as a case study in order to evaluate the political determinants influencing the utilization of development assistance: strategic disbursement of aid and political conditions in the aid-recipient country. The thesis focuses on the World Bank and its mission – after its transformation that started to aim to restructure of the economies of the underdeveloped and developing countries – in connection to the bank's relationship with Turkey in the 1980s and 1990s when Turkey was favored by IFOs and the Turkish economy went under a structural change.

The thesis begins by presenting a historical framework of the period from the interwar years to the 1980s in order to show the changes in the international financial system and the emergence of international financial organizations which effectively created a global economy by integrating developing and underdeveloped countries into the financial system of the developed world. In the 1980s, the Cold War and the collapse of the financial system established following the world wars revealed the necessity to change liberalism, deregulate, and further free the market. IFOs then adopted a new tool – policy-based lending – to spread the ideals of the new financial system and take development assistance a step further. The domination of the US over IFOs, especially the World Bank in the scope of this thesis, shaped those organizations' policies and relations, as clearly observed in the Turkish case.

Chapters 3 and 4 focus on the relationship between the World Bank and Turkey in the 1980s and 1990s, respectively. The contrast between the close relations in the 1980s and the impaired relations in the 1990s reveals that an international conjuncture that increased the significance of Turkey's geopolitics, which influenced the development assistance of the World Bank to Turkey. The internal conditions of Turkey compelled structural change, and a strong political alignment enabled agreements with the World Bank and the embrace of the radical reforms in the 1980s. Yet in the 1990s, when the international conjuncture and the internal conditions of Turkey reversed, development assistance in Turkey was ineffective in the structural reforms.

In light of the discussions in the thesis, I argue that the internal political conditions of an aid-recipient country and the international political conjuncture are the underlying determinants that lead to the utilization of aid. Aid is allocated according to the political interests of the donors rather than economic and democratic standards of the countries in need of aid. And the stability of politics in the aid recipient country determines the effective use of aid money and even to come to an agreement with aid agencies. As the arguments of the thesis at this concluding chapter unfolds, evaluations made as a consequence of the analysis of World Bank reports and interviews conducted with four former undersecretaries who worked for the Turkish Republic Prime Ministry Undersecretariat of the Treasury in the 1980s and 1990s, and carried out the relations with IFOs, are summarized.

§ 5.1 A New Institutionalization of International Finance, and Development Assistance

A discouraging international environment following two world wars and the Great Depression that arose in the interwar period led countries to turn to inward-oriented economic policies. As a result of the Great Depression, and the wartime economy created inflation, depreciation of exchange rates, and the collapse of the gold standard, major developed countries of the West initiated the reconstruction of the devastated international finance with a conference held in the Bretton Woods in the US in 1944. The system that was established by the Bretton Woods conference brought about the reconstruction of

an internal monetary system that replaced the gold standard which had been providing the balance for international payments. The new financial system was institutionalized by the creation of two international financial organizations – also known as the Bretton Woods institutions –: the International Monetary Fund and the World Bank.

The International Monetary Fund (IMF) was established to provide the balance of payments equilibrium by maintaining convertible currencies and stable exchange rates among its members, whereas the World Bank was set up for the assistance of reconstruction following the war. The World Bank assistance has involved mainly development projects that support governments and private enterprises in improving health, energy, roads and other infrastructures. The managerial system of the World Bank and the IMF grants contributors to the reserve of the IMF and the bank voting right according to their contribution, making the biggest contributor dominant over decision making and managerial processes. The United States has been the largest shareholder country of the fund and the bank since their establishment. Today, the contribution of the US constitutes the 16.5 percent of the total reserve of the bank leading it to possess 16.5 percent of the votes, and Japan comes second with 7.1 percent which is less than half of the US's votes. The US influence over the organizations and their founding philosophy has been inevitable and it makes the missions of the IFOs questionable; whether they are truly technical or political. Because the capability of endowment of the World Bank and IMF allowed them to become involved in policymaking processes concerning monetary issues of borrowing countries, membership to the IFOs, adopting the principles of their financial system and becoming their borrower meant a loss of national sovereignty to a degree.

The Cold War period following World War II led the liberal US to increase its influence as a countermeasure to the rising socialism with the Soviet Union. As a result, the US became the founder of the new liberal international financial system and continued to support the liberal First World constituted mainly by the developed Western countries, and the Third World developing and underdeveloped countries. The Cold War conjuncture normalized the political strategy of endorsing the IFOs' sanctions and the eroding sovereignties of countries with the conditionality of the assistance provided by the IFOs.

While the Bretton Woods system was disintegrating in the 1960s as a result of the deteriorating balance of payments in the international market because of a US Dollar surplus, OPEC-led oil price increases in the 1970s brought about the collapse of the system. The heavy pressure of inflation and stagnation in the world economic system during these years resulted in the emergence of a new system involving limited government intervention in markets, deregulation, full trade liberalization, and free movement of international capital. The stagnation of the markets of the developed countries necessitated integrating more countries into the liberal economy so that international trade could grow and profitability could rise again. The free market economy with broader international integrity led to a different globalization process via IFOs and to policy-based lending agreements that sanctioned deregulation and liberalization.

The Bretton Woods institutions; the IMF and the World Bank were established to ensure the continuation of international financial relations by barring trade restrictions and also the continuation of political relations in order to prevent further devastating wars. The institutionalization efforts served to restore a secure environment for international financial activities and political collaborations which would integrate international markets. The IMF adopted the mission of spreading liberalism with the influence of the United States which is the home country and major shareholder of the fund (Scammell, 1975) and later in the 1970s, the fund, and the World Bank started to give adjustment loans that conditioned reforms of macroeconomics and certain sectors of countries, and along with other IFOs adopted the grand mission of transforming the economic structures of their borrowers like Turkey.

The organizations, the World Bank and IMF that are based in Washington and the US Treasury Department made a consensus to spread the new liberalism – that is neoliberalism – in the late 1970s. As a consequence of the so-called Washington Consensus, the World Bank in cooperation with the IMF proposed the Structural Adjustment Lending (SAL) that is the most famous of the reform programs of the Washington Consensus. Alongside Turkey which constituted a prototype, numerous underdeveloped and developing countries embraced liberalization of trade and capital, privatization of state enterprises, and floating exchange rates with the SAL in order for the

international capital to find suitable trading conditions and investment environment to overcome the stagflation of the 1970s.

The World Bank needs further attention because of its capability to affect policymaking and the economic route of developing and underdeveloped countries in line with the bank's original mission to promote development via assistance, which is shaped under the influence of developed, Western countries. Policy-based lending provided bargaining power to the bank which increased its prestige by providing it the chance to be more influential. Countries have to accept the conditions of the bank and make reforms in accordance with the bank program in order to receive loans. Because the bank has the most favorable terms of borrowing for payments and no other alternative is found to lend to countries in deep need of assistance, the borrowing countries do not generally have an important leverage in agreeing with the bank.

Development assistance, or foreign aid, originally proposed for the reconstruction of countries following World War II, and its effectiveness was discussed especially after the emergence of policy-based lending. The effectiveness of policy-based lending which involves macro-scale reform programs such as the Structural Adjustment Lending of the World Bank was proven to be limited because the programs depend on the will of recipient countries to implement them, which hinges on the internal conditions of the country. Moreover, the programs for enhancing trade via promoting investment with development assistance can be effective, yet they also depend on the recipient country's internal conditions and willingness in realizing development assistance plans.

Political determinants explain the conditions allowing the utilization of aid better. In order to improve the conditions under which aid can be more effective, the political determinants must be observed closely. The strategy in the disbursement of aid is one of the determinants for the utilization of aid. The allocation of aid depends on political strategies rather than the aid's effectiveness. Being a strategic partner to the US and other major donor countries increases the chances to receive the aid. As the thesis states many times, the assistance is originally the consequence of self-interested concerns such as building secure international environments for economic and political collaborations.

Because the development assistance was used as a political tool to favor strategic partners and influence the policymaking in developing and underdeveloped countries, the contributions of the aid to economic growth and human development in these countries tended to be disregarded. Aid has been significant for developing and underdeveloped countries in realizing goals as improvement of economic decision making via advising and human development via small-scale, issue-based projects despite the development assistance studies that propose the existence of strategy in the disbursement of aid and a weak correlation between aid and growth. The effectiveness of aid can be improved by understanding the conditions of a country, which enables aid agreements and utilization of the aid. The qualitative analysis of Turkey helps to understand the importance of the role of the external and internal political conditions in the utilization of development assistance. Once the strategic allocation of aid is remarked, and the political determinants that enable the agreements of aid are identified, the robustness of the effectiveness of further aid can be extended.

§ 5.2 The World Bank -Turkey Relations in the 1980s

The international conjuncture and the political collaborations of the developing or underdeveloped country are significant for the allocation of aid, as seen in the strategic approach to aid. The international developments of the late 1970s coincided with the increasing interest of the World Bank in Turkey. IFOs paid special attention to Turkey in the 1980s mainly because the Cold War conjuncture was feeding a rivalry between the liberal First World and the socialist Second World and because it was a test of the neoliberal reforms for the restructuring of developing countries through the tool of policy-based lending.

Turkey received five consecutive structural adjustment loans and a number of sectoral adjustment loans from the World Bank in the 1980s as a result of its geostrategic significance for the developed, Western world in the Cold War context. The Soviet invasion of Afghanistan in 1979 increased tensions with the US, as did the Islamic Revolution in Iran in the same year in which the regime was replaced and the Shah of Iran – who was an important ally of

the US in the Middle East against a rising socialist threat in the region – was overthrown. Turkey had a geopolitically significant position because it was a NATO member neighboring the socialist Soviets and Islamist Iran, which were also threats to Turkey that drove it to seek the support of Western democratic powers.

Another reason Turkey had the support of the World Bank and the IMF is that it became the first country undergoing the Washington Consensus reforms of the IFOs and constituted a prototype, which can also be considered as a strategic motivation. The Turkish government in 1980 announced the transformation of the economy from an inward-oriented, import-substitution model to an export-oriented, free market system with the 24 January Decisions in accordance with the advising of Washington Consensus and the agreements like the SAL involving the conditions of IFOs. The World Bank especially cared about the transformation of the Turkish economy because as a prototype the transformation of a democratic, middle-income country from a planned economy to free market economy was a significant reference for the bank's further agreements with other countries. Whereas Turkey was offered as the prototype and the success story of the SAL in the 1980s, the positive effects of the SAL were debated later.

Nevertheless, the import-substitution model of the Turkish economy led to a current account deficit in the late 1970s and as borrowing grew as a result of the need for foreign exchange, indebtedness turned into a crisis. The IFOs – the World Bank, IMF, and OECD – supported Turkey to overcome its crisis and transform its economy from an import-substituting industrialization model to export-oriented, internationally integrated market-based model. The lending would finance imports of raw materials and intermediary goods to jumpstart an export-oriented industry.

In line with the comments of Tevfik Altınok suggesting that Turkey prescribed the liberalization reforms in response to its crisis, the SAL offered to Turkey in the late 1970s became a particular answer to it's critical economic and political problems. The neoliberal reforms, although flawed, provided a noticeable increase in national income and created a new bourgeoisie that benefited from the promotions of exports for trade liberalization and constituted the clientele network of the governing party. The collaboration with the

bank encouraged the export-oriented production and domestic and international investments to the Turkish economy by assuring a profound economic transformation with announcing Turkey a success story for structural adjustment lending.

The World Bank assistance to Turkey included both the financial resources and the raising of human capital in order to provide a liberal economic development. Its transformation with the collaborations of the IMF and the World Bank also contributed to Turkey's positioning in the international system among the First World countries. Turkey thought to become a fully liberal country among the authoritarian and socialist countries that characterized the region in the 1980s. As Wolfensohn et al. (2002) draw attention to the importance of the proper design of development assistance which makes analyses, gives advice, and builds capacity for policymaking and implementation of the policies, the former undersecretaries Ayfer Yılmaz and Nevzat Saygılıoğlu emphasize the capacity-building aspect of the structural adjustment agreements for raising experts and strategy making as the significant contributions to Turkey when negotiating with international organizations and making agreements.

The political and economic situation of Turkey in the 1980s enabled the agreements between Turkey and the World Bank for a structural change and the proceeding of the agreements. The economic crisis of the 1970s as a result of the current account deficit and indebtedness revealed the necessity of fundamental changes in the economic system and the whole executive staff of the financial offices of the state agreed to make the changes. All the four undersecretaries I interviewed underscore that the stable political conditions that allowed the prioritization of the development agenda in the 1980s enabled the implementation of fundamental changes. Military intervention in the state between 1980 and 1983 suppressed the social movements that were creating an insecure, uncertain political and social environment in the 1970s. The banning of politicians of the 1970s from politics until 1987 provided political stability enabling attempts for fundamental changes. Turkey accepted the conditions of the agreements with the IFOs for the reform of the economic system without no important resistance from politicians in the opposition and social groups that were most affected by the reforms (Boratav, 2003).

Turgut Özal's Anavatan Party supported the development of private sector at the hands of a new group of industrialists and businessmen via the suppression real wages, the creation of quota lists for import goods, and the privatization of state economic enterprises, which favored the clientele network of the party. The private sector contributed to the development of Turkey with booming exports. Turkey made noticeable improvements in the 1980s compared to most of the low- and middle-income developing countries.

When the 1987 Referendum abolished the political ban on the politicians of the 1970s imposed by the military rule, a challenge for the Özal government was created, and it steered Özal to populist practices to increase his support. The increasing rivalry in politics led to a loss of interest in the agenda of the restructuring of economics and development at the end of the 1980s. As a consequence of the adoption of policies that would pay off in the short-run, the structural changes and reforms did not continue. Internal conditions which enabled the adoption of the radical reforms that transformed the economy then started to impede the process later.

In the 1980s, most structural changes in economics were adopted and implemented as a result of the struggles of particular politicians, and the neglect of the institutionalization of the changes meant that macroeconomic transformation had been a personal matter dependent on particular politicians and bureaucrats who no longer had the power to maintain the agenda once popular interest was lost. The success of development assistance projects also depends on the recipient countries' political conditions. Even though Turkey did not sufficiently follow through on reforms in the 1980s, the bank stopped releasing commitments to Turkey towards the end of the 1980s coinciding with a time in which Turkey's geopolitical significance decreased.

Whereas the development assistance agreements are made according to the interests of donor countries which reveal the political nature of aid, aid's utilization depends on also the political environment of the recipient country. The collaboration between Turkey and the World Bank in the 1980s revealed that development assistance projects can only be effective under the conditions of mutual interests, dependency, and the willingness of each party to take steps.

§ 5.3 The World Bank -Turkey Relations in the 1990s

The changing political agenda from development to gaining popular support and the sustaining of clientelism rather than the promotion of private sector impaired the reform process and relations with IFOs that had been supporting the development program of Turkey and economics started to worsen. The complexities hindering the reform process led to an important difference in the quality of relations between Turkey and the World Bank in the 1990s, as seen quantitatively in Table 5.1.

Table 5.1 World Bank Projects and Commitments (in one million USD) in Turkey

Years	Number of Projects	Total Credits
1980-1989	62	7,866
1990-1999	31	3,945

SOURCE World Bank (2018a)

The challenging transformation from an inward-oriented, ISI economic model to an export-oriented, open economy and Turkey's eagerness to agree to conditional agreements of IFOs that surpassed its economic and institutional capabilities resulted in the instability and crises of the 1990s. Turkey was eager to accept the conditions of the policy-changes offered by the IMF and the World Bank because it was aware of the need for an economic restructuring in the 1980s. The eagerness of Turkey regarding the agreements with IFOs and implementation of the radical reforms of the policy-based lending can also be interpreted with analysis of the reactive state behavior: the political strategy of seeking of support from the Western powers in the international arena. As the analysis offers, drastic problems arose as a consequence of accepting the conditions of IFOs without a thorough examination concerning its internal conditions. When trying to conform to the ideals of the new international economic structure, Turkey neglected institutionalization and providing a basis for the reforms. Instead of adapting to the ideals, Turkey tried to adopt them leading to severe issues in the following decade.

The reforms of the 1980s needed to be advanced with institutionalization which meant eradicating clientele networks, and enacting policies that would

give rise to an opposition by political institutions, and losing popular support (World Bank, 1997b). Turkey neglected to institutionalize free market and deregulation as well as to manage the borrowing of public institutions from IFOs and other international banks. The vulnerability of the finance sector and increasing indebtedness led to deeper crises than in the 1970s and to continuing instability in the 1990s. The instability of the 1990s resulted in negligence with respect to development as well as to the relations with IFOs for development assistance. Development assistance was – albeit partially – effective until 1988 as a result of the decisive approach and enthusiasm of both Turkey and the World Bank. Yet in the 1990s, both Turkey and the World Bank occupied with different agendas and their relations were impaired.

Rising competition among political parties created a much different political environment in the 1990s than the 1980s. When the political partitioning on the left and the right as a result of the ban by the military takeover in 1980 did not generate single party governments in the elections, the parties formed coalition governments that were incompatible with contradictory policy agendas of the parties, and hence short-lived. Conflicting coalition partners of governments could not respond effectively to the urgent economic issues and domestic security issues. The security problems in Turkey brought about a very heavy burden on the public budget with the immense military expenditures, and also impeded consolidating the power structure and prioritizing the economic agenda.

The priority of the political parties was to obtain political power via clientelism and populism, which were the easiest ways to attain support. The changing agenda of the 1990s' governments led to instabilities in the economy by deepening the fiscal indiscipline and prevented a long-term vision of economics, implementation of structural changes for development, and improvement of institutions, which were aimed with the policy changes of the 1980s. Coalition governments of the 1990s did not adopt significant policy changes that would make them lose support in short run and ignored the macroeconomic weaknesses unless a crisis erupted. Ayfer Yılmaz and Nevzat Saygılıoğlu, as then Undersecretaries of the Treasury, state that, for Turkey, making agreements with IFOs and sparing its own share for the commitments

of the IFOs became almost impossible as a result of the economic instability and the fragmented structure of the government.

In the 1990s, when a number of countries that defaulted on payments grew, the bank introduced stricter conditions for lending. The changing conditionality of World Bank borrowing was too hard for Turkey as a consequence of the political and financial difficulties facing it. In addition, Turkey could borrow from private sources and different international financial actors as a result of its expanding private sector, without conditionality. Even though the World Bank has favorable repayment conditions for underdeveloped and developing countries compared to other international banks and financial organizations, enforcement power of the bank as a result of the conditionality dissuades countries from applying for bank lending. As a result, only countries that cannot borrow from elsewhere apply to the bank. Therefore, when Turkey managed to find alternative borrowing sources, it avoided the difficult conditions and expectations of the World Bank lending that enforced certain implementations in exchange for the loan.

On the other hand, collaborations were no longer desired also by the IFOs as a result of the changing international political conjuncture. As Ayfer Yılmaz and Mahfi Eğilmez emphasize, the World Bank had a different agenda in the 1990s following the dissolution of the Soviet Union. The priority of the bank became the newly-emerging Central and East European countries that neighbor the European Union and needed structural economic change in order to be integrated into the neoliberal, democratic system of the developed, Western world. The loss of the World Bank's interest in Turkey in this period reveals the strategy in the bank's allocation of development assistance.

Wolfhensohn et al. (2002) argue that the distribution of the aid was no longer related to geopolitics after the end of the Cold War and that aid has targeted poverty reduction in lower-income developing and underdeveloped countries. However, Mahfi Eğilmez states that the US increased its influence over the policymaking processes in these organizations following the dissolution of the Soviet Union and the collapse of the socialist economy in the second world. The World Bank and the IMF were heavily involved in the region after the union collapsed, as also noted by Ayfer Yılmaz (personal communications, 2017).

Turkey experienced deep political and economic instabilities as a result of the incompatible coalition governments, clientelism, steady high inflation rates, and an unstable financial sector in the 1990s. Yet, the World Bank was not concerned about the economic situation of Turkey as it was in the 1980s, although the instabilities and crises of the 1990s were the consequences of ineffectual policymaking and reform process of the 1980s with regards to the deregulation of finance and liberalization of trade, which were made as hasty responses to the conditions of development assistance by the bank and other IFOs. On the other hand, agreements kept being made for minor projects with the World Bank in the 1990s. Such projects were more successful than the structural adjustment lending and other agreements proposing fundamental changes. Whereas the success of the structural adjustment program was limited because of its scale, defining the problem, advising, taking action, and supervising were easier and more attainable for the World Bank in small-scale projects for specific issues.

The collaboration between Turkey and the World Bank for the structural changes in the 1980s was advantageous for both parties in a way. Turkey became a case study for the World Bank which adopted the mission of integrating peripheral, developing economies into the newly emerging global system. Besides observing the transition from an ISI model to an export-oriented economy, the bank contributed to the political stability of the region, which was also the aim of the political collaboration of the NATO. The loans of the World Bank as well as of other IFOs helped Turkey to respond to its current account deficit crisis in addition to providing experience and a vision of structural economic changes. Whereas Turkey was an important ally locating at a geostrategic point during the Cold War and constituted a case study in the 1980s, the cooperation between the World Bank and Turkey was remarkable, and in the 1990s when Turkey was no longer a strategic partner to the Western countries dominating the World Bank, the cooperation became insignificant.

In sum, by comparing the relationship between Turkey and the World Bank in the 1980s vis-à-vis the 1990s, this thesis provides a clear grasp of the change in Turkey's political environment which reveals the conditions in which a development assistance project between IFOs and recipient countries is agreed and the project takes effect, and it suggests that a development

assistance project depends on the internal and external conditions of an aid recipient country; stability of the political environment in the country, the country's eagerness to adopt the project, and the mutual strategic interests and interdependency of the country and the aid agency.

§ 5.4 Main Lessons and Findings

The thesis mainly argues that internal and international political conditions affect the aid. Aid is used as a political tool for donor countries which the countries use to protect their political and economic interests and to influence domestic politics of recipient countries via strategic disbursement as well as policy-based lending. And, internal conditions of aid recipient countries, – prioritization of a development agenda, dedicated policy makers, a unified decision making mechanism, and most importantly, the stability of the political environment – affect making agreements of development assistance and the utilization of the assistance.

The support of domestic power groups and the international community contribute to the constitution of the favorable internal conditions for aid's utilization. Turkey succeeded in negotiating five consecutive structural adjustment agreements with the World Bank and implement reforms in the 1980s as a result of the military takeover in 1980 which put the economic policy program into practice – that was adopted by Süleyman Demirel government and supported by IFOs, – and as a result of the strong motivation of the IFOs to restructure the Turkish economy.

Another factor affecting aid is related to the aid agencies themselves. The strategy in the disbursement of aid goes ahead of the effectiveness of aid. The strategic aspect of the aid is less apparent in multilateral agencies, wherein party countries outweigh each other, rather than bilateral agencies. Domination of these agencies is possible by their home countries and major donors, therefore multilateralism in the management of the agencies must be strengthened to contribute to more democratic decision making. The expertise of such agencies provides more effective policy advice, technical assistance, and capacity-building. In addition, the attractiveness of multilateral agencies as the most significant basis for international collaboration improves the capability

of influence by drawing countries to become parties and contribute to their reserves, which strengthens the financial capacity of agencies and makes them more prestigious and powerful by imposing conditions for endowment.

However, multilateral organizations can not necessarily succeed in every development project and program. Ambitious plans to restructure the macroeconomics of a country usually disregard the historical background, geographical limitations, political challenges, and sociological conditions of the country in need of aid. As a result, projects with specific purposes focusing on particular issues must be supported to overcome related difficulties in underdeveloped and developing countries.

Finally, the collaboration between aid agencies and aid recipient countries must concentrate only on human development only – that is, enabling development through the empowerment of the people and encouraging them to join financial activities. Otherwise, aid is consumed on ineffective government expenditures and necessitating more aid without providing productivity. While the domestic politics waste the aid money with inefficient use, it opens the politics of the aid recipient-country to international influence and the aid money continues to be used as a political tool.

5.4.1 *For the Aid-Recipient Countries*

Even though there are not unanimous factors for development assistance to become effective in low- and middle-income countries, policymaking capacity and the strength of institutions are most referred to in the literature. Integration into international trade is also offered as beneficial to the promotion of production in a country and increasing the national income through rising financial activity. Low- and middle-income developing countries may have a foundation of strong policy and the economic potential to enable trade and expand their markets, yet the case of low-income countries dealing with extreme poverty may hardly allow for a successful assistance. Moreover, measuring the capacity and standards of a country for policymaking and institutions is challenging for international agencies. Low- and middle-income countries also have differing political environments for generating economic policies and political institutions. Therefore, when considering policymaking and institutions, each country must be evaluated individually. Political and

economic conditions vary from one country to another; however, those conditions allow for the establishment of the proper institutions for development and for aid to be effective in capacity-building of those institutions.

In the thesis, I explained why relations between Turkey and the World Bank were weaker in the 1990s vis-à-vis the 1980s. Comparing Turkey's relations with the World Bank in the 1980s to the relations in the 1990s reveals the dramatic change in Turkey's political environment as well as the conditions in which a development assistance project can become efficient. In summary, the factors impeding the reform process in the 1980s led to the important difference in the quality of the relations between Turkey and the World Bank in the 1990s. The change in the political agenda and alternate financial resources together with internal dynamics such as security issues affected the relations of Turkey with the World Bank and other IFOs, and the implementations with regard to development assistance.

Turkey was in a crisis as a result of the current account deficit and indebtedness in the late 1970s. When the need for a structural transformation of the inward-oriented economic model was accepted, the coincidental international conjuncture led IFOs to become involved in the restructuring of the economies of developing and underdeveloped countries, and these IFOs – the IMF, World Bank, and OECD – offered development assistance to Turkey. Turkey became the prototype of SALs – the development assistance offered cooperatively by the IMF and World Bank – and was announced as their success story in the 1980s.

Even though detrimental to the democratic environment, the military rule of 1980-1983 repressed oppositional social groups and certain politicians. Appointing Turgut Özal as the deputy prime minister in charge of economics showed the military government's allegiance to restructuring reforms of Süleyman Demirel government. Özal, who was one of the architects of the 24 January Decisions and a former employee of the World Bank, adopted the reforms and decisively put deregulations in practice. The single-party government of Özal implemented the program of the IFOs without significant opposition until 1988. With the abolition of the political ban on pre-1980 politicians, Özal started to be challenged in the second half of the 1980s, and he tried to retain support via the new industrialists and businessmen of the

1980s who constituted the clientele network of the party. Clientelistic relations and populist practices to retain support reversed the internal conditions that had enabled the prioritization of the development agenda and policymaking. In addition, changes to the international conjuncture in the 1990s meant that the geopolitical significance of Turkey for international financial organizations dominated by the US and Western European countries was lost. The diversity of the agenda of these countries and hence that of the IFOs prevented new collaborations with Turkey for the continuation of development assistance. Therefore, a development assistance project can only be practicable under the conditions of the mutual interest and willingness of both the aid recipient countries and the aid agencies.

The internal dynamics of Turkey and the international conjuncture enabled the utilization of development assistance in the 1980s. A politically stable foundation, the compatibility of government offices, committed statesmen, and the prioritization of the economic agenda enabled the implementation of reforms to create a free market economy. However, in the 1990s, in addition to the heavy burden of national security issues, clientele relations, and – worse – corruptions in politics deepened the financial instabilities. Financial instabilities and short-term responses to these instabilities by coalition governments as a result of the incompatibility of coalition partners prevented a long-term vision of economics and policymaking regarding development. The political instability created and deepened financial instabilities.

Reviewing the case of Turkey in the 1980s and 1990s Turkish lead me to the conclusion that aid is effective under the conditions that a country in need of aid has the political conditions that allow the adoption of aid program and reform suggestions, and the country is a strategic partner to the US and other major donor countries so that it can receive the aid. The internal conditions of an aid recipient country – the main agenda, prior political issues, and security and stability of the political and economic environment – are highly significant for the utilization of aid. The domestic conjuncture of the recipient country determines the success of the aid; a development assistance project can be effective depending on the political stability of the aid recipient country as well as its eagerness to adopt the project. And, external conditions such as the geopolitical significance, the mutual strategic interests, and interdependency of

the country and donors of aid agencies enable development assistance agreements.

5.4.2 *For the Aid Agencies*

Four main lessons for aid agencies to improve the effectiveness of their development assistance are drawn from the case study of Turkey examined in the thesis. The lessons can be explained under the headers: strengthening multilateralism, providing technical assistance for capacity-building, prioritizing projects with specific purposes, and concentrating on human development.

5.4.2.1 Multilateralism

From the perspective of aid agencies, the most important factor for aid effectiveness is multilateralism. Strategic interests of the major shareholders of aid agencies influence the allocation of aid more so than poverty reduction goals. Besides, policy-based lending affects domestic politics and is used as a political tool by the donors to the agencies. This strategic targeting of aid has implications for the sovereignty of the aid recipient country. Both multilateral and bilateral agencies may have an undermining influence on sovereignty as a result of the political approach, yet bilateral agencies create more problem as a result of their more apparent interests when imposing conditions in exchange for aid. The discussions in this thesis conclude that the political aspect of aid is less apparent in the multilateral agencies given that party countries can outweigh each other in voting.

As there was no negative perception in Turkish politics and among the Turkish public regarding policy-based lending by the World Bank, multilateral international organizations with the mission to assist developing and underdeveloped countries alleviate poverty had a better reputation than bilateral agencies regarding political interests. Multilateral agencies also more effectively enforce countries to adopt reforms and continue the implementation of policy offers as a result of their higher financial potential and politically powerful statuses.

The policies and missions of IFOs, although not as apparent as bilateral agencies, are influenced by the political motivations of major donors and home countries. Political alliances, the geopolitics of a country, and economic

collaborations have connections with the assistance strategies of IFOs. The US, as a founder and the home country of and major donor to the IMF and the World Bank, influences the assistance decisions of these organizations. The dominance of the US over IFOs enables the supervising of the international economic system and assuring the prospect of the system by the US. The changing priorities of the US can change the assistance policies and their directions. Even though a study by James Wolfensohn, the former president of the World Bank, and other bank officials (2002) argues that World Bank assistance was free from US influence with the ending of the Cold War in the 1990s, the end of war only changed the target of the allocation according to the emerging conjuncture.

The domination of an IFO and political motivations behind development assistance weaken the legitimacy of that IFO and its development assistance mission. Stronger multilateralism at the agencies would prevent a monopoly over decision making, and the legitimacy and efficacy of development assistance could be achieved to a greater degree. Therefore, multilateralism must be strengthened in IFOs, and a more participatory management and democratic policymaking mechanism must be assured to enhance the effectiveness of these agencies and hence their development assistance.

5.4.2.2 Technical Assistance for Capacity-Building

The technical capacity, professional staff, and experience of multilateral agencies such as the World Bank play a crucial role in improving living standards and consolidating economic systems in aid recipient countries. The role of World Bank in development assistance is significant because of its effectiveness in supervising the utilization of aid. When the institutions of a country are weak, aid money is likely to be misused. However, the bank provides policy implementations regarding health, education, quality of the infrastructure or whatever is to be built with the aid money via its expertise, technical assistance, and supervision.

Policymaking advice for structural change, producing a reform program, planning development, and building strategies for international collaboration were benefits for Turkey as a result of its relations with the bank at the years examined in the thesis. The former undersecretaries whose comments are

noted in this study evaluate the collaboration for Turkey as a significant experience and chance to develop skills to produce strategies and negotiate for collaborations and to gain vision and raise experts with scholarships and funding for abroad training by the bank. Policy advice and capacity-building are as important as finance for development assistance.

5.4.2.3 Projects with Specific Purposes

Development assistance that is provided by developed countries and IFOs cannot be successful in restructuring the economy and building a policymaking environment which enables development in an aid recipient country because it is an overly ambitious plan that disregards the historical background, geographical limitations, political challenges, and sociological conditions of the country in need of aid. Macro-scale reforms aiming to establish policies and institutions have often proven ineffective in reducing poverty, as stated in the works cited in this thesis. As a consequence, aid must involve projects with specific purposes focusing on particular issues in underdeveloped and developing countries to overcome related difficulties.

The structural adjustment program of the bank was proven ineffective in responding to local problems and needs. Because of its ambition to create a global, free market system, the bank implemented the same SAL program in many low- and middle-income developing countries in the 1980s and early 1990s. Yet the program was exceedingly ambitious, and the reforms were impractical for the governments of these low or middle-income developing countries; local issues, needs, and challenges were often disregarded. Such programs would be more successful if a careful analysis were to reveal the internal conditions of the aid recipient country and definitions of the problem, advising, technical assistance, and supervision were suggested. However, implementation of smaller-scale projects focusing on specific needs and challenges is easier and more attainable.

For the case of Turkey, the ambition of World Bank programs in the 1980s to reform macroeconomics limited its practicality. Microscale projects of the 1990s more successfully realized their goals, such as projects regarding infrastructure enabling the building of interprovincial highways which contributed to tourism. The major approach to development prevents policy-based

lending programs from being adapted to local. The former undersecretaries in their interviews unanimously expressed the effectiveness of such project-based assistance in Turkey during their times in office as well as the limited success of the SALs. Because the most apparent effect of development assistance is observed in small projects, organizations must pay more attention to special purpose projects. The effectiveness of IFOs with their expertise can add to the implementation of small-scale projects that prioritize infrastructural and sectoral enhancements and human development rather than macroeconomic restructuring.

5.4.2.4 Human Development

One study by Öniş and Webb (1992) suggests that the continuation of the reforms and liberalization process of Turkey in the 1980s depended on the prioritization of human rights and the inclination for democratic consolidation. However, none of the conditions of the agreements with IFOs involved human development and democratic consolidation. Discussions regarding the relationship between Turkey and IFOs do not generally concern the empowerment of the people. Human development is conceived as secondary to economic policymaking when the case of aid to Turkey is debated. Moreover, even though the undersecretaries whose opinions are noted in this thesis stated many times that the failure of reforms and the economic crises of the 1990s were the result of political instability, they neither point to the issues of the political empowerment of the people and democratic consolidation as necessary conditions for the success of reform nor as a solution to the crises.

Nevertheless, the most significant aspect of aid is the health and education services, empowerment of people and providing them with access to financial and political services. Also, sustainability can be achieved by encouraging people to participate in production and contribute to growth. Agencies for development assistance and the governments of the aid recipient countries must promote a secure environment for investment and production and empower people to join in. This brings up the question whether political instability, rivalry among politicians, their fear of losing power, and the resulting inability to implement permanent policy change for Turkey in the 1990s could

have been averted with policymaking for human development empowering people to invest and produce.

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