Regional Development Inequalities in Turkey:
An Assessment on the Distribution of Investment Insentives

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Introduction:

Development may be regarded as a *goal* towards which countries strive, and also a *process* which involves casual relationships and lie at the heart of development process (Ingham, 1995: 33-34)) Yet there is no straight forward answer to what development means both in terms of a goal and in terms of process because development is a value word – it refers to whatever it is that someone thinks is "good" or to a process that achieves this desirable goal of being developed. Hence there has been different schools of thought which in essence assign different meaning to development since the rise of the development econimics as an academic disciple after the second world war.

Development economics can be analogous to art. Like the cultural arts, the understanding of the object studied varies among schools of thought and there has been competing explanations of development and underdevelopment since the birth of this disciple. Our diagnosis of the problems and the specification of change depend upon underlying theories. These theories, in turn, are grounded in our world view – the facts as we see them through our value biased eyes. Each different intellectual framework on development incorporates a set of values, beliefs and specific assumptions about the object of study and also employs distinctive central concepts and a distinctive methodololgy. Each school of thought, that is to say, incorporates the various features that are embodies in the original Kuhnian interpretation of a *scientific paradigm.*

Hence the concept of "paradigm" offered by Thomas Khun, helps us to organize these competing schools of thought. A paradigm is a world view, or an intellectual framework shared by a group working on or thinking about a particular topic, eg., economic development.. We may use the concept of paradimg as a device for clearly articulting the

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various building blocks of values, facts, therories and policies employed in the competing intellectual frameworks in development economics.

In table Table 1 in the anex the alternative paradigms that have emerged since the rise of development economics till to day are outlined in a specific analytical framework[2] The framework incorporates all the values, facts, underlying theories and policies employes in each paradigm of development . The three basic levels which a specific paradim is articulated are the *hard core*, *the protective belt* and the *policies .*

Hard core involves those methapysical assumptions and definitions regarding how to conceive the object of study. Hence these assumptions can not be verified nor falsified against ampirical data as they are value biased. With regards development the hard core involves *on the first hand* the value judgements and assumptions about what the meaning of development would be. They define the specific goal or end towards which countries should reach through the passage of time. The definition of this specific goal is guided by our value judgement on what is “good”. *The second component* of the hard core is defined as the basic unit of economic and political organization and decision making. Any theory on social issues such as development must be grounded on some assumption concerning the nature of the main decision making unit in the collectivity. Choices must not only be directed towards the achievement of some objective or goal; but the decision making unit must also be able to take such action as to assure the attainment of the goals. The development paradigms that were influencial prior to 1970s, an organic conception of the society was accepted and hence the basic unit of analysis was accepted as the “nation state”. The nation state has an existance, a value pattern, and a motivation independent of those of the individual human beings as it represents the common will or good. On the contrary an individualist conception of society views the individual as the basic unit of the decision making processes (Buchanan and Tullock, 1989)

The protective belt emcompasses the models and theories which back up the methaphysical assumptions in the hard core and can be verified or falsifed against objective data.

The political level component, completes the skeleton of the anaytical framework. Here the various policies, politicy tools and development strategies that are implemented are involved.

[2] For a comprehensive analysis of competing development paradigms and the paradigmatic sytematic utilised see M. Ogut 1998.

As long as a specific paradigm relates successfully to the questions addressed there is substantial "progress" in understanding and knowledge on the subject of study. On the other hand when the questions are not addressed with success , i.e., when there is a crisis in the paradigm this in turn gives rise to a quest for new paradigms. The structuralist paradigm of development that reigned development economics during the post-war period, development became increasingly identified with economic growth based on industrialization. After nearly two decades of emphasis on growth and capital accumulation through import substitution strategies, while there is diversity in GNP performance across countries, there is an almost universal increase in GNP per capita and also others indicators such as the share of industry in GNP.

Despite its success in raising growth rates of GNP, it became clear that economic growth however fast has failed to "tricle down" to the poor of the world hence has been not been a sufficent condition for relieving social distress, poverty, still less political democracy. Thus starting from 1970's the political and theoretical basis for structuralism eroded away giving rise to a paradigm crisis. The wide spread poverty in most of the developing countries and the increasing welfare gap between the South and North rendered it possible to problematize the meaning of development and it became increasingly necessary to redifine the phenomenon of development and to construct a credebile and broad framework of theory covering all aspects (political, socail, cultural and economic) of development;

Sustainable Human Development Paradigm (SHDP) as developed by UNDP and conveyed through the HumanDevelopment Reports launched each year since 1990, is one of these efforts of constructing a new paradigm of development after the crisis of growth oriented views. On the other hand the basic indicators to measure the progress in human development are Human Development Indext (HDI) and some other composite indices of HDI as prepared by UNDP.

The aim of this paper is to address the fact that in Turkey, those regions which are undeveloped interms of human development are also those regions that received a small share from the overall "investment incentives" which is in fact one of the most important policy tools of the government in fostering regional development. With this aim the two interrelated anylsis are carried out: **first** the regional inequalities in Turkey are analysed based on human development indices, **second** the distrubution of investment insentives across regions between the period 1980-2001 are assessed. Finally we seek to clarify the policy implications for the above analysis and develop policy proposals regarding the re-structuring of investment insentives in Turkey as a means towards eliminating regional disparities. Data used in this study are: 1. human development indices on provincial basis published by UNDP, 2. investment insentives data on provincial basis published by Turkish Republic Treasury.

Theoretical Background : "Human Development Paradigm"

The two components which constitute the hard core of the Sustainable HumanDevelopment Paradigm are first the meaning development and second the basic unit of economic, political and culturel organization. A brief analyses of the hard core of SHDP would be as follows;

The Meaning of development;

The central concern idea in this paradigm has always been people –their needs, aspirations and their capabilities as the purpose of development effort and their empowerment as participants in the development process. Hence it is the process of enlarging people's choices by expanding human capabilities at all fronts. These capabilities include education, health , having access to the resources needed for a decent standard of living and some choices regarding "quality of life" including political, cultural and social freedom.

Putting people and the enhancement of their capabilities at the centre of development policy bears the very important implication that SHDP problematic once again the possible tension between *wealth maximisation* and *human development*. The perspective of HDI regarding this tension is that economic growth is an important means to serve human ends but it is not an end in itself. In other words what is decisive is not the aggregate level of GNP or its pace of growth, more important is the way how the fruits of this economic growth are shared – particularly on what the least privileged get and how much the additional resources are used to support public services for the provision of basic needs to those who are deprived of them. Thus the meaning of development is defined as ;

"Human development enables all individuals to enlarge their human capabilities to the full and to put those capabilities to their best use in all fields-economic, social, cultural and

political... it addresses both intergenerational and intergenerational equity, enabling the sharing development opportunities between present and future generations" (UNDP, 1994: 4).

Hence the meaning of development is defined as the process of enlarging people's choices by expanding human capabilities at all fronts. These capabilities include education, health, having acccess to the resources needed for a decent standard of living and some choices regarding "quality of life" including political and cultural freedom. We see that this contemporary definition of development is broadened into a pluralist concept includeing economic, social, political and environmental objectives which in fact may have trade-off among themselves. Some may even argue wheather sustainable human development may be seeking the impossible and yet others argue that the pluralist goals are the very challange and may hold out the prospect for a better world. On the other hand we have to keep in mind that the very concept of "sustainability" involves securing an optimum balance amoung conflicting goals inother words the term sustainability involves the sound management of goals which might have trade offs.

Basic Unit of Organization;

Globalization is world of transnational flows, a world of global interconnections, a world of global-scale capitalist imperatives from which there is no escape. And yet the localities and regions are gaining and increasing importance within the global economy and global society which is expressed by the term "global-local nexus" (Amin and Thrift1994:5). There is now a rich and diverse literature on what the local might mean in global terms. In general the term "local" means localities such as regions and cities rather than nations, and the term "global" to signify world wide processes.

The development paradigms that dominanted the post-war era, nation-state was accepted as the basic unit of coordination and decision-making; it was the main unit of identity formation, institutional representation and political governance. For instance phenomenon such as economic growth, competetiveness was mainly based around the national economy and nation state. However the primary coordination instrument of nation states is undermined by globalization and it has become more difficult for nation states to controle and manipulated economic activities with in their borders as domestic markets are subsumed into the global markets. This is linked to the failure of top-down hieararcy and the parcial hollowing out of nation state in which new policy networks are established; the state gives up parts of its power to supra-national bodies above it and sub-national bodies below, to be more effective in overall economic policy formation and implementation.

Thus there is an influencial change which anticipates a return to the region as the basic unit economic, cultural and political organizaiton as a result of the crisis of the national state based system of coordination and organization. From the view point of development economics, regions are not conceptualised as autarkic arenas of homogeneity and authenticity bounded by similar religion, ethnicity or culture seperate from global influences, instead region is seen a real territorial arena of social interactions within the global which places emphasis on its strategical position regarding the "the competetiveness of the region", "region's development", "regional networks" and "institutional thickness" (Amin and Thrift, 1994).

This account of "region" as the basic unit of organization amounts to a recognition of the fact that the basic requirement for success (interms of securing competitiveness and economic growth) within the global processes is *on the one hand* the presence and proximity of various insitituons and *on the other hand* the *existance of networks* amongst them. In other words a strong institutional presence, that is a plethora of insititutions of different kinds (including firms; financial institutions; local chambers of commerce; training agencies; trade associations; local authorities; development agencies; unions and etc) constitutes a necessary condititon for success . However it is hardly a sufficent one, the second factor is a high level of interactions (or netwroks) amongst these institutions in the local area. Thus the growing salience of *presence and proximity of institutions* and the *networks amongst them* (which is summed by the phrase "institutional thickness") is the main reasond why the "region" is taken as the basic unit of economic organization in this contemporary development paradigm.

Even though there is on going debates on the meaning of development there are apriori steps to be taken before any policies can be formulated for sustainbale development. A fundamental step is therefore to find indicators to measure sustainable human development.

One such exercise is to be found in the UNDP Human Development Indices[3] such as HDI, HPI and other composite indeces.

Regional Disparities in Turkey:

Development Policies Implemented Since 1960s

Up to the middle 1970s Turkey maintained statist inward oriented import substitution development strategy. The essential features of such policies included high levels of protection to a number of industries, with a very wide range of rates of effective protection; fairly detailed and complex quantitative controls and bureaucratic regulation, both over imports and capital flows and various price controls in the domestic markets (Krueger, 1983: 39). This development strategy permitted the establishment of an industrial base and attaining relatively high rates of economic growth. However the performance of the previous decades deteriorated due to the external shocks of the quadrupling of oil prices and the world recession while the inward oriented policies rather than adjusting to the external shocks aggravated the prevailing situation. By 1979, Turkey's borrowing positions were virtually exhausted and it became increasingly difficult to obtain the foreign exchange necessary to sustain the import substitution strategy and drifting the country into a balance of payment crisis where industrial production fell by 5.6 percent accompanied with a severe decline in gross national product (Balassa, 1983: 437-438)

Turkey started the 1980s with a stabilization-cum-liberalization experiment under a military rule aimed at redressing the situation and changing the inward oriented development strategy Turkey followed in the previous years. 1980 economic reforms had the twin objectives of reducing the rate of inflation and improving the balance of payments, as well as structural reform measures with a view to turning the Turkish economy in an outward direction and giving an increased role to the market forces. Turkish economy gradually opened up to global markets initially by the current account liberalisation in 1983 and the new legislation in 1989 effectively lifted restrictions on inward and outward financial transactions by residents and non-residents alike hence liberalising the capital account. The program enjoyed

[3] *The Human Development Index (HDI)* is based on three components longevity, educational attainment and per capita income hence reflects the most basic achivements of human development. With normalized values for these three variables the value of index ranges from 0 to 1. The HDI value for a country show the distance that it has already travel towards the maxımum value of 1 and also shows comparisons with other countries. There are other composite indices (GDI, GEM and HPI) which complite HDI analyses.

some initial success and was widely praised as an example of successful transition from an inward to an outward development strategy and generously supported by multilateral institutions. Supported by favourable exchange rates and massive incentives in the form of tax rebates manufacturing exports shot up in the early 1980s and the average GDP growth rate stayed above 6 per cent per annum during 1983-1987 . However for several reasons - the economy being under the whim of international short term capital flows being one of the major ones, the macroeconomic imbalances reappeared after 1987 and the miracle unravelled soon after. (Pieper and Taylor, 1998: 51-52) .

It is clear that the primary objective of the development policies pursued in Turkey since 1950s has focused on increasing the rate of output within the economy over a period of time and it has been assumed that rapid growth of GNP suffices to bring about higher standards of living in the entire society. There can be little doubt that increasing national wealth increases the quality of life and it is an important means towards fight against depravation. The experience of Turkey through its growth oriented development strategies demonstrates this fact as the GDP per capita has increased from 1965 to 1998 from US$ 791 to US$ 6,484 which is a considerable improvement. However this improvement says little about the inequality component of development . Turkey is progressing yet not in the most desirable pattern, achievement of increasing wealth are not distributed equally and there is no sign of improvement in that respect. Economic inequality cuts across not only regions, income, knowledge and gender but also across households, age and urban-rural residence. According to the recent UNDP report on Turkey the share of overall inequality explained by differences in regional means has grown by 10 % between 1965-1995 period (UNDP; 2001: 25). Inequality results in economic inefficiency and waste, as well as social problems such as crime, uncontrolled urbanisation and social unrest which has been mainly manifested as the Islam and secular conflict.

Trends in Human Development ;

Turkey may be considered as one of the fastest progressing countries. Turkey's HDI has increased from a low-human development category of 0.42 in 1965 to medium level category of 0.73 in 2002 which is a considerable improvement. Since 1972 Turkey has improved its position steadily with in the medium level (0,5-0,799). The absolute change of the index value shows how a country progress against deprivation but it says little about its relative position internationally. According to the long-term trend data of UNDP Turkey's ranking has changed very little. In the Human Development Report 2001 Turkey ranks 85 within 174 countries. The largest improvement has been observed from 1990-98 when Turkey's HDI increased from 0,67 to 0,73. The main source of this improvement stems from the increase in per capita real income, which increased from US$ 1.000 in 1970 to US$ 6.000 in 1998. Also the improvement in the adult literacy rate which increased from 53% in 1965 to 84%in 2002 has contributed to the increase in HDI. The desegregated HDI profile according to at the provincial level displays that in 1997 almost 40% of the population is below the national average HDI.

The HDI is designed to measure national average in achievements whereas the HPI is intended to measure deprivation in the country. HPI among Turkey's provinces ranges from 6 % to 39 %. In Turkey's case it can be seen that there is no automatic link between HDI and HPI. There are various cities having same HDI levels whereas the HPI values diverge tremendously. Which implies that human development is less equity distributed in high HPI provinces.

Regional Disparities in Human Development İndices[4];

Although Turkey has achieved considerable progress in its national HDI values, it is not distributes equally acroos the regions. In order to demonstrate inter regional disparities the tables and maps given in the annex are constarcted showing the disaggregated HDI and HPI among seven regions of Turkey.

Map 1 shows "Inter Regional Disparities in HDI" and the relevant data can be seen in Table 1. The range of regional level HDI's from least to greatest is a simple measure of inequality. The most developed regions of Turkey Marmara and Aegean region have HDI values (average 0,760) above the national average. Whereas the least developed regions South-eastern and Eastern Anatolia HDI levels (average 0,6) lags behind the national average by 0,128. Furthermore 5 of the regions the HDI values are all below the national average, given the population values the share of population living below the national average is about 43%. The source of inequality between the least and the most developed regions may be observed in Table 2 from disaggregated HDI values. The main gap across education index and income index.

[4] See Ögut and Barbaros (2003) for a detail analyses of inter regional human development indices in Turkey.

While HDI measures achivements in basic human capabilities HPI is designed to measure deprivations in the basic dimensions of human life. As can be seen from table 3 and map 2 HPI among Turkey's regions ranges from 9% in Marmara to 27% in South-eastern. In South Eastern Anatolia this implies that at least nearly a third of their people suffer from human poverty. The poverty gap between the least developed region is three times that of the most developed. From disaggregated values of HPI it seems that the main source of this big gap emanates from income gap.

In Turkey the disaggregated HPI shows strong disparities in basic human capabilities between regions the Eastern part of Turkey approxmitely15 % people born today are not expected to survive to age forty –more than two times that of the 8 % in Marmara and Aegean region. The disparity regarding illetarcy between two regions; about 33% of the adults population are illiterate-more than times three times the 11 % in Marmara region. And 18 % of children under 5 malnutrition-more than three times the 6 % in Marmara.

Human development paradigm focusus on the fight against poverty on two important componenets: the fight against deprivation and fight against inequality. Turkey's overall HDI has increased substantially from 0,43 in 1965 to 0,73 in 1998 which is considerable improvement; it is expected to pass into the high human development category and to fulfill this abjective it must increase its HDI by at least 0.027. Human development measuremets plays critical emphasis on income and increases in income are often accompanied by increasing HDI values. However as we all know now, economic growth however fast has not been sufficient condition for eradicating poverty and also that rapid increasesin income have often been paralled with rising inequality.Turkey is a good example of this scheme. By means of growth oriented development policies Turkey was able to maintain not only moderately high growth rates of GDP per capita since 1960s (from 794 $ in 1960 to 6,486 $ in 1998 in ppp) but also other indicators of human development such as life expectancy, education have increased as well.

However achivements are not distributed equally. Economic inequallty cuts across not only inter regions but also within the intra regions as well. Inequality is often the outcome of interdependent forces such as markets, institutions, demographic changes, ethnic and cultural factors etc.. whereas there are various economic policy instruments to fight against inequality of which investement insentives are the most prominent.

Investment Incentives As a Means of Fighting Against Regional Disparities in Turkey:

Turkey has been pursuing policies that are aimed at alleviating the regional imbalances and disparities that has been widening for 40 years. The five year development plans placed critical emphasis on fostering national development and economic growth and yet the distribution of the overall wealth between regions and people have also been addressed in these plans. Sourtheastern Anatolia. and East Anatolia are the two least developed regions in Turkey in terms of human development as the HDI indicate clearly. Various economic and social policies aimed at a the development of these regions have long been implemented and such policies place critical emphasis on preventing the outflow of physical and human capital from these region.

An important policy tool for promoting regional development in Turkey is the implemetation of "Priority regions in Development" since 1968. In determining the priority regions different criterias were utilised in which the content was enlarged and shrinked depending on the peculiar govenrment policies. Today there is a plethora of the definition of "priority regions" such as "industrial districs", "free zones", "normal localities", "developed regions" and etc. The main problem with this policy is that, due to the unclear definition of "priority regions" the incentive system proves to be ineffective regarding the mobilization of resources to the most vulnerable regions.

Another outstanding regional policy to fight against regional disparities is the implementation of "specail development projects" such as Southeastern Anatolia Regional Development Project (GAP) and Eastern Anatolia Development Project (DAP). GAP is a very unique development project which focuses solely on regional development. These projects take vulnerable groups as its focus and proposes a strign of public and private investment approaches that will serve to lift HDI values – living conditions of the people- in this region to national levels. However further policy guidance and improvements are necessary both for establishing the optimal institutitonal structures for regional development and for the mobilization of necessary publi, private, national and local resources to lift human development levels of the people in this region.

Public authorities also established agricultural complexes owned by the state during 1970s in the less developed regions targeted at fostering wealth creation. However due to the lack of supplementary development policies these agricultural complexes did not constitute an impetus for generating continous economic growh.

Investment Incentives System inTurkey:

Investment incentives are defined as pecuinary or non pecuinary support or assistance given by the public authorities with the aim securing faster progress in some of the economic activities chosen. In other words investment incentives are one of the most essential political means through which the resources are mobilised towards those regions or sectors that are supposed to be more beneficial in terms of the development of the region or country (Barbaros:2003). Hence the crytical issue here is the specific development goals defined by the state and the concessions that will be given in securing these goals.

The various funtions of investment incentives which constitute and important means of interfering the economy can be summerised as follows:

- to support the fuctioning or restrucuting of domestic firms
- to support new technologies
- to mobilize resources and means of production to the less advanced regions
- to maintain or improve employment and
- to support new investments

An incentives sytem has also an impact on the various stages of a specific industry such as its foundation, protection and outward orientation. A flexible incentive sytem which renders it possible both for the domestic industry to adapt easily to the international markets and to secure a sound management of national development stareties in conformity with the dynamics of globalizaiton is one of the political means which developing countries need. The essential criteria which distiguishes investment incentives from other supporting means is "selectivity". Selectivity is realised according to the subject of investment (sectorel), the place of investment (regional) and industry (the scale of industry) The scale of the investment, its contribution to employment and the specific features of the region chosen are some of the factors which set a constraint to the investment incentives.

Structural adjustment policies pursued have had different implications and results for various countries. The Southeastern Asian countries managed to change the terms of trade in favor of outward oriented sectors by pursuing policies that are aimed at decreasing the costs of investment goods an also concentring incentives in the foreing trade sector. Hence such a policy rendered it possible to divert the surplus obtained from increasing exports to new investments in production and productivity (Yentürk:2001). However in Turkey the incentive sytem for promoting exports had very different results. The incentives used in Turkey after 1980 emphasised more on adjusting the prices of exportable goods (through exports inventives, tax rebates and decreasing labor costs) to world prices than decreasing the cost of investment goods. On the otherhand a great amount of the incentives were given to a small number of foreing tradign firms instead of the direct producers. As a result the surplus created in the exports sector was not transmitted to new investments in the economy,

One of the common points regarding the state intervention into the economy within the southeastern Asian Countries is that interventions are implemented under the framework of a "targeting" policy. Under this framework incentives and protection or both are used with the aim of increasing the competetiveness of some strategical sectors chosen Forinstance in Malesia electronics, semi conductors and petro chemicals have been chosed as strategical sectors and those companies that fulfilled the necessaray conditions were given the status of "pioneering firms". On the other hand other political means such as promoting R& D were implemented in order to increase the competetiveness in these sectors. were used.

In Turkey after the 1980 economic reforms which aimed at turning the economy into an outward direction manufacturing exports shot up in the early 1980s and the avarage GDP growth rates were nearly 6 % per anum during 1983 –1987. The export increase was mainly realized through utilization of idle capacity in the manufacturing sector while the private sector investments stayed at low levels during the same period. The policies pursued with the aim of increasing exports mainly involved securing favorable exchange rates through devaluations, shrinking down the domestic demand and labor costs and tax rebates provided to exports hence did not address the issue of supporting new investments. With the macroeconomic imbalances reappearing after 1987 the investment levels at this same sactor stagnated for nearly 20 years.

The structure and problems of the investment incentives system pursued in Turkey since 1980 can be summerized as follows:

- The priority region that will be promoted by investment incentives is defined not only in a wide context but the criterias utilized are complex and in an ever changing nature. The fact that central authority situated in the capital Ankara is responsible for this definiton renders it impossible for the local outhorities to take initiative in the process. To promote regional participation local development agencies can be established and the main role of the state should be to construct the necessary instituttional and technical infrastructre.

- The investment incentives sytem are being implemented by thirteen different public institutions and yet the coordination between them are very weak. The large number of public institutions give rise to difficulties in monitoring and managing the realization of investment incentives. To overcome the coordination problem the following may be suggested: On the first hand there should be standardization of the criteria which the investment incentives are given; Bueuroctai processes should be eased ; and last but not the least structural regulations should be introduced that would foster the participation of local authorites.

- The missing element in the current investment incentives system is the identificaiton of the key sectors and strategical sectors wihtin the priority regions defined. The lack of the identificaiton of the key sectors create an important problem regarding the **finetuning of the** regional development policies with the overall national macroeceonomic policy. To address this problem key sectors should be identified within each region by establishing the regional technical infrastructure which inturn necessiates the preperation of a regional data base. The identification of key sectors involve; on the first hand the data about the structure of the local firms should be collected and updated; a second step would be to establish a network between the existing firms which have identical structures; finally local institutons which would foster the organization of the networks should be established.

- The investment incentives system prior to 1980 period was mainly in the form of tax rebates provided to the the private sector in the less developed regions. After 1985 the introduction of monetary incentives together with the tax rebates, public authorities aimed at mobilizing the resources of the private sector to new investments in this region. However the “excessive attraction” of monetary incentives has created an emerging “investments for incentives" structure instead of an "incentives for investments". Such a process gave rise to uncompleted, abondened, unrealized or inefficient investments.

- In Turkey an avarage of 5000 certificate for investment incentives are given to various firms (See table). A major paradox of the turkish investment incentives system is that 85% of these certificates are given to developed and normal regions whereas only 15%percent of them go to less developed regions. To overcome this paradox a seperate investment system should be identifeid and implemented.

Trends in the Investment Incentives Given

The investment incentives given in Turkey during the period 1980-2001 under the above incentive system framework can be assessed under three subtitles on a regional basis; 1) number of certificates given 2) total amount of investments 3) employment created under the incentives system .

1) Number of Certificates Given

The number of ceritificates is a good indicator of the overall national investment policy pursued in a country. As can be seen from figure1. the trend in the number of certificates demonstrates that Turkey has pursued an unstable investment policy during the period in concern.

Marmara region which is the most advanced in terms of HDI is also the region who has benefited most from the incentives; except 1989-1992 period the share of marmara in total is approximately %40. And within the region Istanbul has the biggest share regarding the number of certificates In fact İstanbul receives the one third of all the incentives given during 1980-2001. On the other hand the two least developed regions of Turkey, Soutestern Anatolia and Eastern Anatolia have the smallest share in this regard.

2) Total Amount of Investments

According to a study made by State Planning Institute the realization ratio of the total investments is found to be 60% which means the leakeges from the system amounts to 40% . In other words 40% of investment incentives given have not been realised which is a very high ratio in terms of international standards. The main reasons of such a failure in the realization of investments are on the one hand the overall economic condititons in the country (such as political unstability and economic crisis) and on the other hand the peculiar conditions of the investiors in concern.

Figure 2. shows that during the 1994-1998 there has been a spectacular increase in investment incentives. However they decreased sharply with the commencement of the 1998 crises. The figure also manifest clearly unfair distribution of incentives amongst regions inwhich the least developed regions in terms of HDI receive the loweat amount of incentives and the highest developed region receives the biggest share from the pie of investment incentives.

3) Employment

Employment creation is one of the most important aspects of the policy of investment incentives. Because the critical factor causing undevelopment in a specific region appears to be the lack of employment opportunities. Thus one of the criterias for investment incentives should be the employment creation capacity of any prospective investment. However as figure 3. shows the rate of employment created by the given incentives is quite low and Marmara region has again the biggest share.

-Types of investment to which incentives are given

There are mainly two types of investment to which incentives are provided: new investments and expansion. New investments mainly involve the increasing the existing capacities whereas expansion involves investment in the areas of renewal, expansion, modernization, completion and etc. Figure 4. shows that the majority incentives are given to new investments. As data regarding regional distribution is not available the national distribution of incentives according to the types of investments can be visiualised in Figure 4.

Policy Implications

Under the dynamics of globalization the main factor that determines the ability of a country to increase its wealth is its capacity to create and manage knowledge and innovation. In this respect the necessary condition is the establishment of "institutional thicknes" which involves the presence of a large number and diversity of institutions and a high level of interactions (networks) amongst them. Thus the main focus of the regional development policy of the states should be to foster the establishment of such an institutional thickness in the regions. This in turn necessiates that the public authorities should take the initiative of establishing the knowledge infrastructurein the regions as in undeveloped countries there is a lack of private sector which could undertake such an initiative (Barbaros:2003).

Turkey is amoung the fastest progressing countries in terms of HDI but has yet to reach the high human development catagory. According to a study made by UNDP if Turkey can improve the quality and the effectiveness of its public services and socail support to the vulnerable groups together with a sustained level of economic growth, high human development catagory will take about 10 years. On the other hand to have an even distribution of this growth between regions and decrease the regional disparities investment incentives can be effectivelly used. Forinstance the strucutre of the investment incentives system can be changed infavor of priority sectors and priority regions. Priority sectors should be based on key sector analysis peculiar to each regional characteristics. The essential criteria in selecting key sectors should be employment creation andeducation. It is known that the main factor driving teh worsening of the distribution of money incomes and hence regional disparities appears to be the labor market and the specifically the emergence of growing wage differentials by educational attainment.

Regional disparities in Turkey will make decentralizaiton, deregulation, privatization and liberalization important topics apart from investmetn incentives. These will gain additional importance with integration to EU regional policies.

ANNEX:

Map 1. Inter Regional Disparities in Human Development Index, 1997

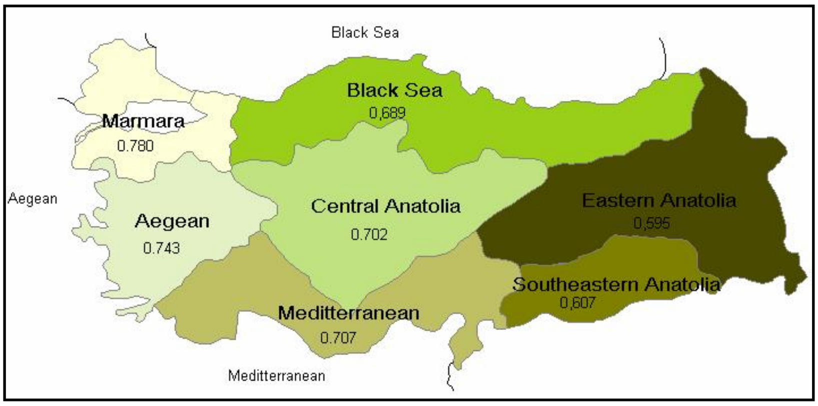


Table 2. Inter Regional Disparities in Human Development Index, 1997

Regions	Life expectancy at birth (years)	Adult literacy rate (%)	Combined first, second and third level gross enrollment ratio %	Real GDP per capita (PPP$)	Life expectancy index	Education index	GDP index	Human development index (HDI) value
MARMARA	71,59	89,29	67,80	8.917,11	0,78	0,82	0,74	0,780
EGE	71,53	85,16	58,50	6.484,31	0,78	0,76	0,69	0,743
BLACK SEA	67,22	81,45	56,63	4.611,85	0,69	0,73	0,64	0,689
CENTRAL ANATOLIA	65,52	84,60	62,68	5.432,56	0,67	0,77	0,66	0,702
MEDITERRANEAN	66,63	84,28	59,30	5.760,79	0,69	0,76	0,67	0,707
SOUTHEASTERN	65,89	62,34	41,03	3.447,56	0,68	0,55	0,58	0,607
EASTERN ANATOLIA	62,05	70,99	44,00	2.831,16	0,62	0,62	0,55	0,595
TURKEY	68,9	83,2	61,0	6.463,0	0,732	0,758	0,696	0,728

Map 2. Inter Regional Disparities in Human Poverty Index,1997

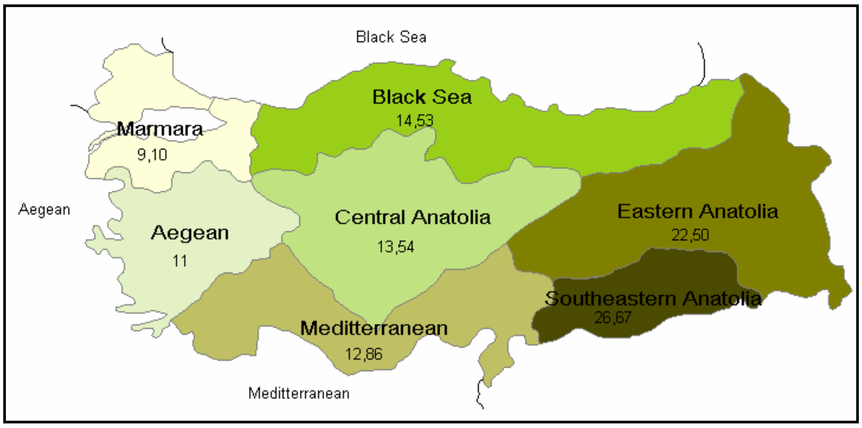


Table 3. Inter Regional Disparities in Human Poverty Index

Regions	People not expected to survive to age 40 (as %) of total population (1990-1995)	Moderately and severly underweight children under five (%)	Population without access to safe water (%)	Adult illiteracy rate (%) 1997	Human poverty index (HPI) value (%)
MARMARA	8,23	6,20	0,03	11,10	9,10
AEGEAN	7,88	7,25	0,98	14,75	11,00
BLACK SEA	12,94	9,29	1,14	18,65	14,53
CENTRAL ANATOLIA	14,38	10,54	0,55	15,31	13,54
MEDITERRANEAN	12,80	11,29	2,77	15,43	12,86
SOUTHEASTERN	13,91	17,00	3,36	37,67	26,67
EASTERN ANATOLIA	18,35	19,00	2,01	29,00	22,50
TURKEY	9,6	10,0	5,1	16,8	16,7

Figure 1. Distribution of Regional Investment with Incentives, Number of Certificates, 1980-2001

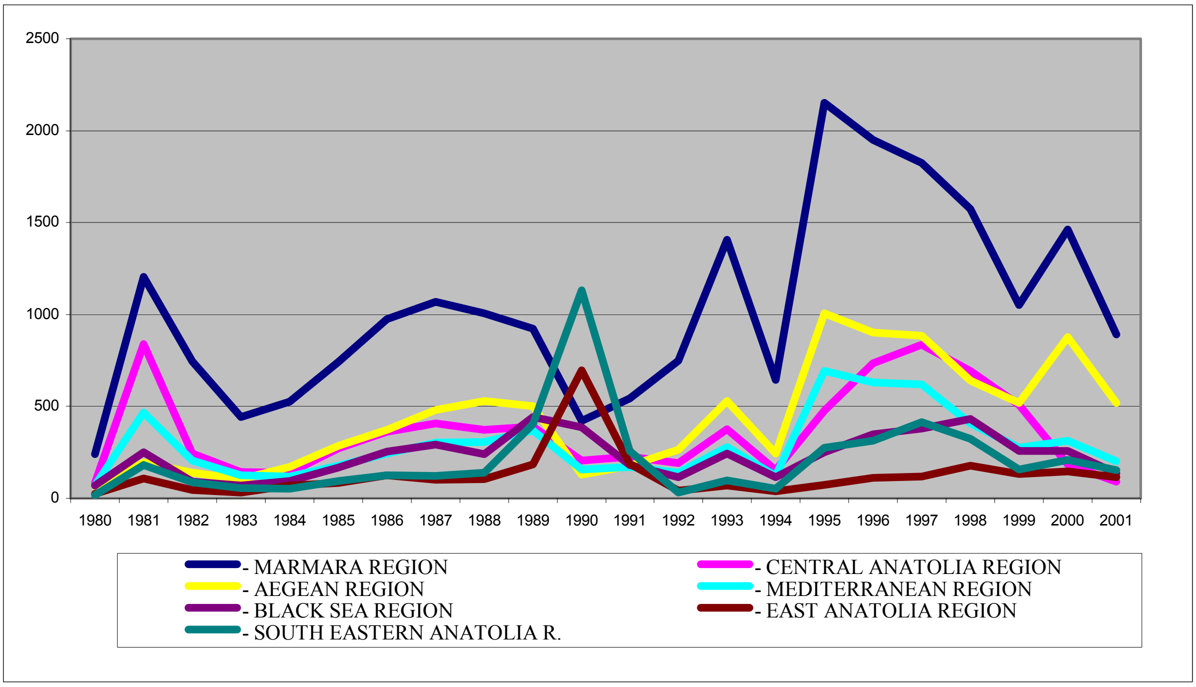


Figure 2. Distribution of Regional Investment with Incentives, Total Investments million TL, 1980-2001

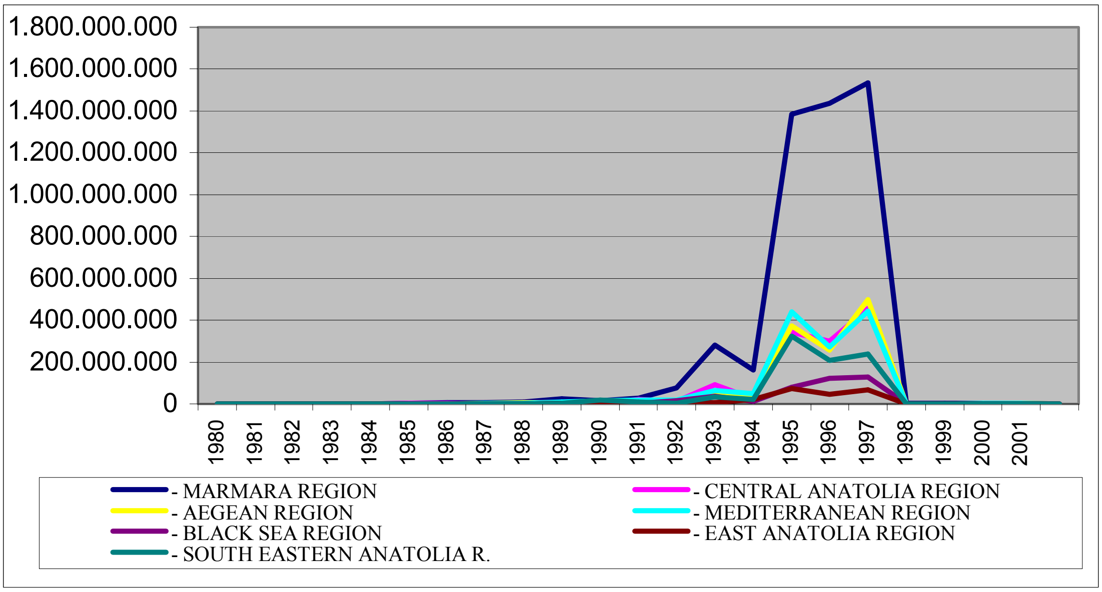


Figure 3. Distribution of Regional Investment with Incentives, Employment-person, 1980-2001

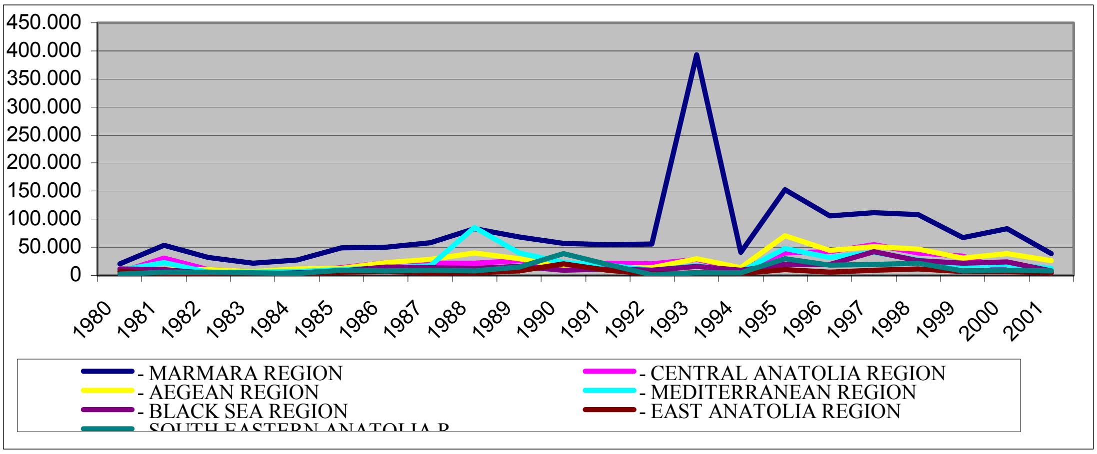
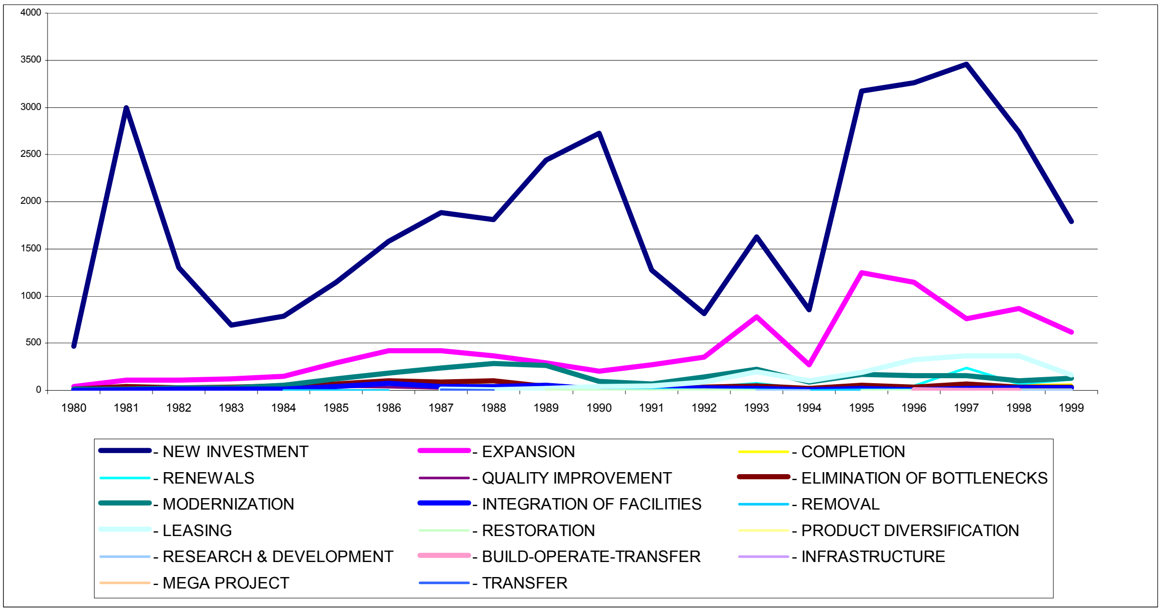


Figure 4. Distribution of Investment with Incentives, Investment Type, Number of Certificate, 1980-2001



Tablo 1. ALTERNATIVE DEVELOPMENT PARADIGMS

	Structuralist Paradigm	**Dependency (Neo-Marxist) Paradigm**	**Basic Need paradigm**	**Neo-liberal Development Paradigm**	**Sustainable Human Development Paradigm**
1.HARD CORE A. Meaning of Development B. The subject of Development	A. Economic growth through industrialization; modernization of traditional structures B. Nation – State	A. Economic growth through independent industrializaiton B. Nation - State	A. Growth with equaty by providing the basic needs B. Nation state and Socai lgroups	A. Growth and capital accumulation based on the capitalist market system B. Ratioanal and utiliterian individual (methodological individualism)	A. Process of enlarging human choices by enlarging human capabilities at all fronts:economic, socail, cultural and political B. Humans as the center of devlopmentprocesses
2. PROTECTIVE BELT THEORIES	• Balanced and unbalanced growth • Vicious Circle theories • Stages of Growth • Modernaziation theories • Thesis of cumulative causaiton	• Center – Periphery theories • Theories on Imperialism • Unequal exchange • Modes of Production	• Income ditribution • Growth with equity theories • Basic needs	• Supply side economics • Dynamics affects of exports on growth theories	• Human development thories • Sustainabledevelopment and environmental economics • Evolutionary economics • Theories of innovaiton • Theories on governance
3. OUTSTANDING WRITERS	• Boeke, Chenery, Kuznets (structures) • Nurkse (vicious circle theories) • R.Rodan, Hirshman (balanced and unbalanced growth) • Rostow, Myrdal, Lewis (stages of growth, cumiliative causaiton) • Hoselitz, Lerner (modernization theories)	• Baran , Frank, Dos Satos, Palma, Cardoso • Emmanuel, S. Amin • Wallerstein, Warren	• Seers • Streeten, Hicks • Ahluwali, Chennery • Adelman ve Morris	• Bauer ve Yamey • Krueger, Balassa, Little • Bhagwati, Lal • Felstein, Grindle • IMF and IBRD and WTO	• Sen, Goulet, Edwards • Lele, Redcliff, Meadows • UNDP human development Reports • Nelson and Winters, Lundwall ..
4. INDICATORS OF DEVELOPMENT	• Per capita income • Economic growth rate • Sectoral share of Industry	• Percapita income and economic growth • Share of Industry • Income distribution	• Basic needs indicators	• Growth rate • Share of manufacturing exports • Existance of market institutitons	• Human development Index (HDI) • Human Poverty Index (HPI 1 and HPI 2) • Gender DevelopmentIndex (GDI) • Gender Empowerement Index (GEM) • Other socail indicators
5. DEVELOPMENT POLICIES	• Import substitution industrialization • Central development Planning • State intervention in the mobilizaiton of resources for industrialization • Protective foreign trade and payments regime • Modernization policies	• Autarkic Indutrialization • Socialist model • Central development planning • Coolaboration with the third world countries	• Increasing the quantity and quality of the assets held bythe poor • Investment inhuman capital • Provision of basic needs • Land reform	• Liberalization of the trades and payments regime • Promotion of manufacturing exports • Supply side policies (liberalization of domestic markets)	• Income distirubiton policies • Basic needs provision policies • Soiall integration policie • Environmental policies • Innovation and technology policies • Institutional thickness policies

Source: Meneviş Öğüt, **Kalkınma Paradigmalarında Arayışlar**, PHD Thesis 1998