

COMMENTARY

Globalization, industrialization and changing politics in Turkey

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An escalating political struggle between the state-centered secularists and the ruling Justice and Development Party (AKP) has dominated the agenda in Turkey during the last year. In times like these, it is not easy to discuss anything other than the latest political developments. Nonetheless, I will try to adopt a longer term perspective and explore what I consider to be one of the most important economic and social developments in Turkey in recent decades which has also played an important role in the rise of AKP.

During its first term in office (2002-2007), AKP followed moderate policies, and remarkably, did more for European integration of Turkey than any other Turkish government. It is important to understand AKP and why they have been successful. Undoubtedly, there are many causes for their electoral success. Amongst the economic causes, the strong recovery since the crisis of 2001 has been emphasized but another development that has not been sufficiently recognized is the rise in recent decades of new industrial centers across the Anatolian heartland, a development ultimately related to globalization and the export oriented industrialization in Turkey since the 1980s.

In this brief comment, I intend to link the rise of AKP to export-oriented industrialization and the growing outward orientation of Turkey. I will also point to the rise of a new middle class during that process. I will argue this new class has been influential in the transformation and moderation of AKP as well as its electoral success.

Globalization and export growth

Industrialization in Turkey made considerable progress during the 1960s and 1970s. It had a number of important shortcomings, however. It depended strongly on government support and it remained inward oriented. Exports of manufactures remained very low through the 1970s.

Geographically, this industry remained concentrated in the İstanbul region, and more generally, in the northwest corner of the country. The industrial elites of that era remained strongly dependent on the government, seeking subsidies and tariff protection. They were also opposed to economic integration with Europe for fear that they would not be able to compete with the products of European industry.

The severe economic crisis at the end of the 1970s made clear that these policies could not be sustained. In 1980, Turkey began to bring its economic policies more in line with the realities and demands of the emerging era of globalization with the adoption of liberal economic policies under Prime Minister Turgut Özal.

The balance sheet of Turkey's policies during the era of globalization is rather mixed. It would be safe to say, however, that the most successful aspect of these economic policies was the drive for exports. Total exports increased from less than 3 billion dollars in 1980 to 20 billion dollars in 1990 and more than 100 billion dollars in 2007. One of the best indicators of an economy's openness or external orientation is exports as a percentage of GDP. This ratio rose from less than 3 percent in 1980 to more than 25 percent in 2007. Equally importantly, almost all of this increase was due to the rise of exports of manufactures. The share of manufactured goods in total exports rose from about 35 percent of all exports in 1979 to more than 95 percent in 2007. Incidentally, this trend was not unique to Turkey. Most developing countries experienced a similar trend in recent decades. Equally importantly, a large share of Turkey's exports was directed to the European Union (EU) during this period. The share of EU in Turkey's total exports has been above 50 percent since 1980.

New industrial centers in Anatolia

The increases in exports of manufactures since 1980 did not all take place in the İstanbul area or the eastern Marmara region. The expansion of exports in recent decades was accompanied by the rise of new industrial centers across Anatolia. In an interesting article published in this journal almost a decade ago, Alpay Filiztekin and İnsan Tunalı studied these new industrial centers or the so-called Anatolian Tigers. They concluded that "based on ... a detailed analysis of the performance of the private sector over 1981-1993, we find little that distinguishes their record from those of other provinces."¹ I agree that the term "Anatolian Tigers" exaggerates the importance and experience of these new centers. Most importantly, the

1 Alpay Filiztekin and İnsan Tunalı, "Anatolian Tigers: Are They for Real?," *New Perspectives on Turkey*, no. 20 (1999).

pace of industrialization in Turkey during recent decades has been too slow to qualify for any “tiger” designation. Nonetheless, what has happened since the 1990s should force us to take another look at these new industrial centers, in political, social and cultural as well as economic terms. It may also be helpful to look at the earlier period in light of new evidence as some of the official data Filiztekin and Tunalı have worked with have been revised since.

In terms of private sector based manufacturing industry, I have defined three groups of Turkish provinces:

Group I: İstanbul, Bursa, Kocaeli, İzmir, Ankara and Adana. This group refers to the established industrial centers from the import substituting industrialization era.

Group II: Tekirdağ, Kırklareli, Sakarya, Balıkesir, Eskişehir, Manisa, İçel. This group consists of provinces which experienced an acceleration of industrialization in recent decades, in large part because of their proximity to the provinces in Group I.

Group III : Denizli, Konya, Kayseri, Gaziantep, Kahramanmaraş, Malatya. These are the most important of the recently emerging industrial centers.

It is reasonable to focus only on these three groups of provinces (19 provinces out of 81) because they account for about 90 percent of the value added and employment in Turkey’s manufacturing sector today. Their share in Turkey’s manufacturing exports is even higher. Somewhat arbitrarily, I have used a threshold of 0.5 percent of country-wide manufacturing employment in 2001 for including a province in these groups. If this threshold is lowered, additional provinces can be included in the list.

My recent analysis of the official (SIS-TURKSTAT) data for the period 1992-2001 shows very clearly that the provinces in Groups II and III did much better than the provinces in Group I in terms of value added growth, employment growth and labor productivity growth. As a result, their shares in manufacturing value added and employment has been rising. I would expect that these trends continued after 2001 even though official data are currently not available. The share of Groups II and III in Turkey’s manufacturing exports has also been rising although, for various reasons, it is not easy to determine the export orientation of these new industrial centers from the official statistics.

The industrial enterprises in these emerging centers are mostly small to medium sized family firms with limited capital. They are mostly family enterprises employing few professional managers. They began production in the low technology and labor intensive industries, in textiles and

clothing, food processing, metal industries, wood products, furniture and chemicals. From the early stages, they have taken advantage of the low wages to produce for the export markets. They have also been employing workers with little or no social security or health benefits. Low technology, the emphasis on labor intensive industries and low wages are all reflected in the productivity levels. Labor productivity in manufacturing in these new districts has been below the averages of not only for the more established industrial areas such as the İstanbul region but also below the averages for the country as a whole. This is not surprising. It suggests that the rise of these centers was closely connected to their advantage in low wages.

The small and medium sized enterprises in the new districts have relied mostly on their own capital and informal networks. They did not borrow from banks but tended to grow primarily through the reinvestment of profits which perhaps explains their resilience in the face of the recurring boom and bust cycles in Turkey during the 1990s.

These companies have become increasingly more conscious about the importance of new technology. The more successful enterprises, especially the larger companies have been attempting to produce higher technology goods by adopting more up to date technologies. The key question is the extent to which or how rapidly these firms will be able to move on to the production of goods with higher value added, making use of a better educated labor force with new skills and to achieve increases in labor productivity. The alternative, of course, is that the increases in labor productivity will be slow and they will continue to produce the same goods they are producing today and will be increasingly forced to compete in the international markets, and even in the domestic market, with the manufactures from China and from countries with even lower wages.

One can offer many anecdotes regarding how and to what extent this transition is taking place. My example is about industry–university cooperation. When pressures to adopt new technologies and increase value added will lead greater cooperation between the industrialists and the local universities, when the industrialists are ready to contribute to the development of research labs that will help their industries and when the local universities are ready to rise to the challenge, these emerging districts will have reached a new stage. Certainly, these new industrial centers are far from that stage at the moment.

New industrial elites and AKP

When sociologist and Turkish nationalist Ziya Gökalp surveyed the Ottoman-Turkish landscape almost a century ago, he could not help but

notice that the indigenous middle class that led the development process in most western European countries was conspicuously absent in the Turkish case. What he could observe, instead, was large numbers of small scale merchants and shopkeepers organized around guilds and perhaps accustomed more to solidarity than competition.

Since then, Turkey has experienced three major waves of industrialization. In the 1930s, during the Great Depression, industrialization was led by state enterprises, under the development strategy called etatism. The industrial elites then were the managers of state enterprises. After World War II, etatism was abandoned in favor of the mixed economy model and industrialization was led this time by the private sector, by holding companies or conglomerates located in the İstanbul region and more generally in the northwest corner of the country. The rise of new industrial centers across Anatolia since the 1980s represents the third wave of industrialization and has led to the emergence of a new generation of industrial elites.

What we have been observing in these Anatolian cities in recent decades is an excellent example of industrial capitalism emerging in a predominantly rural and merchant society. These industrialists have been late arrivers both in their own regions and nationally. They are eager to establish themselves and take some power away from the earlier generation of elites. The İstanbul-based industrial elites of the earlier wave of industrialization had established, in 1971, their own organization, the Turkish Industrialists' and Businessmen's Association (TÜSİAD). The new generation of industrialists across Anatolia founded the Independent Industrialists' and Businessmen's Association of Turkey (MÜSİAD) in 1990. In its early years, MÜSİAD supported the Islamist parties led by Necmettin Erbakan, but the members were increasingly alienated by the inward-oriented, anti-Europe rhetoric of these parties. Ever since a group of politicians led by Recep Tayyip Erdoğan and Abdullah Gül broke off from Erbakan and moved to establish a new political party in 2001, the new industrialists and MÜSİAD offered critical support to AKP for its more moderate, outward looking, pro-Europe, pro-globalization positions. I do not want to suggest that MÜSİAD support was the only reason for the moderation of AKP but it was an important reason, nonetheless.

AKP has been more friendly to the private sector, more pragmatic than any government to date and continues to be supported by large segments of the private sector. AKP certainly did not conflict with the more established industrial elites of the İstanbul region during its first term. AKP also received much needed support across Anatolia from the industrial elites of these emerging regional centers. Whereas TÜSİAD's membership is small

and concentrated in the İstanbul region, MÜSİAD represents a much larger group of small- and medium-sized enterprises across the country. Certainly, the support of these small- and medium-sized enterprises counted much more at election time.

The government may not have helped the emerging industrialists directly by providing them protection or large subsidies but it has certainly looked the other way as many of these firms were lax about paying taxes or social security benefits to their workers. In turn, the new industrialists played an important role in ensuring that AKP remained committed to European integration, fiscal discipline, and more generally, policies consistent with export-oriented industrialization, as Ziya Öniş and others have argued.²

Looking ahead

I have pointed to the rise of new industrial centers and the rise of a new middle class across Anatolia as one of the most important, perhaps the most important, social as well as economic development in Turkey in recent decades. I have emphasized that groups that benefited from Turkey's export drive and more generally from the outward-oriented economic policies have been supporting AKP ever since its foundation. This emerging middle class, and to date they have benefited from globalization, has played an important role in the transformation and moderation of the AKP and its EU orientation.

Continued economic success is obviously a key to the continuation of these broad trends. By most criteria, the economy has done well since 2001 although employment creation has been lagging behind and the urban unemployment rate has remained persistently high despite the economic recovery. The world economic environment was extraordinarily favorable during the last five years but it may not be equally favorable in the years ahead. Leaving behind the labor-intensive products and moving up the ladder towards the production of higher technology will not happen by market forces alone. Macroeconomic stabilization has come a long way but more detailed micro reforms will now be necessary to maintain the momentum. Economic policy needs to be more active, more skillful and more creative in the years ahead to maintain the momentum. It is clear that economic success will not come as easily during the next five years as it did during the last five.

2 For instance, see, Ziya Öniş, "The Political Economy of Turkey's Justice and Development Party," in *The Emergence of a New Turkey: Islam, Democracy and the AK Party*, ed. Hakan Yavuz (Salt Lake City: University of Utah Press, 2006).

Recently, however, the political picture has become even more uncertain than the economic picture. AKP had followed moderate social as well as economic policies during the first five years in government. It appears, however, that the 47 percent vote that AKP won in the general elections in July 2007 has led to over-confidence. It is also clear, in retrospect, that the vision for EU membership had been quite crucial to the progress of the reform and democratization agenda. In many ways, the European anchor had also played an important role in the success of AKP. There can be little doubt that the weakening if not the disappearance of the European anchor will have serious political consequences for Turkey. Whether AKP will continue its journey towards a more moderate position has become more uncertain. Such a transformation would require a stronger commitment not only to a secular political order, but also to further democratization and improving civil and human rights. At the end of March 2008, such an outcome looks more remote than it did two years ago. There can be no doubt that changes in the political environment will have an impact on the economic.

References

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