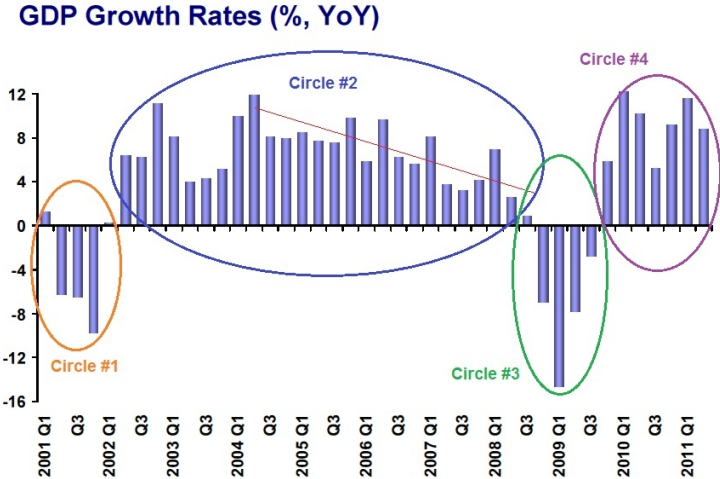


# Illusion and reality in the Turkish economy

By Kemal Ülker

According to data released by the Turkish Statistics Institute (TurkStat) on September 12, Turkey’s gross domestic product (GDP) grew 8.8 percent in the second quarter compared to the same period last year (year-on-year), marking the seventh consecutive quarter of economic growth. (See, GDP Growth Rate - Circle #4). Turkey’s economic growth was second only to that of China (which notched up a 9.5 percent hike for the same period). Turkey’s GDP has grown by 10.2 percent in the first half of 2011.

These statistics were met with elation in the mainstream media as well as by all the major employers' organizations, both so-called “secular” and Islamist. According to the media hype, Turkey’s economic future is very bright, with a future of rapid and uninterrupted growth for



years to come, seemingly immune from economic crisis. The basic story being peddled here is that Turkey has managed to transform itself into a roaring Eurasian tiger and under the leadership of the Islamist Justice and Development Party (AKP) it is confidently emerging as a major world power.

Only those with a very short memory will swallow this hype.

While the economy is doing well right now, the situation was starkly different only a couple of years back. During the economic crisis of 2009, Turkey had a whopping 14.7 negative growth rate, making it the fastest contracting economy in the world during the first quarter of that year. So all the hoopla in the mainstream media is based on looking at three months of GDP figures in isolation from trends in the Turkish, and more importantly, the world economy. As soon as you add some context, the stats on the Turkish economy suggest a rather different picture – wild pendulum swings of a deeply unstable economy that is hypersensitive, due to its inner contradictions and heavy dependence on foreign capital, to every shift in the global marketplace.

It isn’t surprising, but nonetheless bears noting, that along with the self-congratulatory boasting over the economy, there has also been some crowing in the Turkish media over the sovereign debt crisis in Greece, sometimes occasioning bigoted and racist remarks. Nationalism is not only offensive but also stupid. The crisis in Greece is not about Greece as a nation but rather about the impending crash of the European banking system and with it, very possibly, the rest of the world economy. Portugal, Ireland, Italy, Spain – all are facing the

same catastrophe as Greece. And the contradictions which are now wreaking havoc in those countries will, soon or later, produce the same kind of a crisis in Turkey. When we see millions of people in Greece being reduced to poverty through mass unemployment and the wholesale destruction of the welfare state, we need to understand that what we are looking at is *the future of Turkish workers* within global capitalism.

An objective analysis of the economic data exposes the shallowness of the chauvinist illusions spread by the bourgeois mass media. Turkey was among the “emerging economies” most severely affected by the first phase of the ongoing world capitalist crisis (2008-9); it recovered quickly (2010-first half of 2011), but (as we’ll soon see) this rapid growth period will be short-lived and has already reached its final stages.

One obvious indication of this comes from the International Monetary Fund, which cut its growth forecasts for Turkey, warning in a recent report warning that the global economy is in a “dangerous new phase.” Turkey’s GDP is predicted to grow 6.6 percent in 2011, down from the 8.7 percent forecast in the IMF’s previous *World Economic Outlook* report in June.

This means that the IMF is predicting a much weakened, i.e. 3.2 percent, GDP growth rate in the second half of 2011 for Turkey. As a rule of thumb, any growth rate in the Turkish economy that is less than 5 percent means an increase in unemployment. More ominously still, the IMF is predicting a 2.2 percent growth for Turkey in 2012. And of course even these discouraging predictions may turn out to be wildly optimistic in the event of a major crash in the world economy.

To get a better understanding of what is going on, we need some historical context. Within the last two decades, Turkish capitalism experienced five severe crises – in 1994, 1998, November 2000, February 2001 and finally 2008-9. It would seem that crisis is less the exception than the rule. Crises have always been a feature of economic life in modern Turkey, but their frequency has increased significantly since the late Seventies. This is mainly due to the progressive liberalization of the economy – particularly the removal of capital controls in 1989 – which has made the country extremely vulnerable to the movements (or caprices, if you like) of international finance capital. The national financial market has come more and more under the control of short-term speculative foreign capital movements, which is to say “hot money.”

To keep its economic growth rate more or less at the same level, Turkey (and other so-called “emerging economies” with high levels of foreign deficit/foreign debt) require a steadily increasing foreign capital inflow. Even a slowdown of that inflow – let alone an outflow – causes a fall in the economic growth rate. This ‘addiction’ to foreign capital started back in 2004 under the watch of the AKP. (See, GDP Growth Rate – The trend line marked in red in Circle #2). Nevertheless, during this period foreign capital inflows were strong enough to maintain GDP growth at relatively high levels.

In the wake of the economic crisis that erupted in February 2001, under conditions where the country found itself in a state of utter exhaustion and desperation, the AKP won the general

elections of June 2002 and became the governing party of Turkey. (See, GDP Growth Rate - Circle #1).

One should also keep in mind that this was a time of political crisis, with the infamous formula of establishing an “interim regime” back on the agenda. For the reader unfamiliar with the twists and turns of Turkish politics, this term is political jargon for the aborting of parliamentary democracy via a military-dominated government, where state repression is much blunter than in normal times.

The years from 2003 to 2007 were a period of rapid economic growth (see, GDP Growth Rate - Circle #2), mainly financed by foreign capital inflows, particularly stemming from the imperialist countries. During this five-year period total amount of capital inflows reached a staggering level of US\$184 billion. (See, Capital Inflows). This meant a strategic boost for the AKP government, which did everything required of it by the imperialist international financial institutions, above all the IMF and its partner the World Bank.

During this period foreign capital inflows triggered domestic demand and thus consumption. As a result, the average economic growth rate of this five-year period was 7.3 percent. (See, GDP Growth Rate - Circle #2). This was well above Turkey’s so-called “natural economic growth rate,” usually figured at 4.5 percent annually. This positive conjuncture contributed greatly to the second election victory of the AKP in 2007.

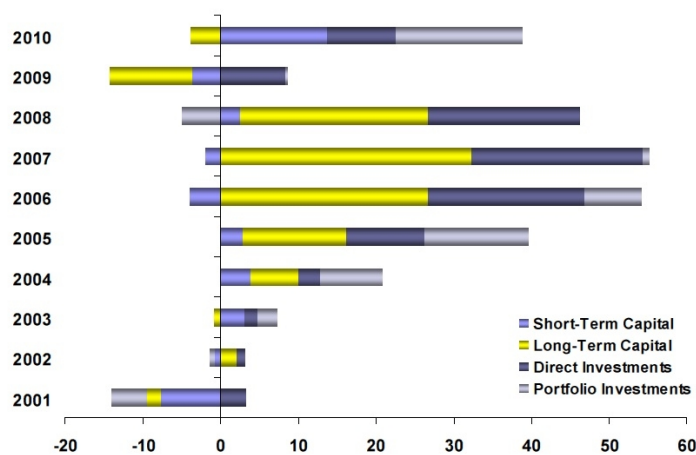
However, during this five-year period, the country’s current account deficit rose steeply. The foreign deficit/GDP percentage required for a certain positive growth rate increased staggeringly compared to the situation a decade earlier.

This relatively long but at the same time unsustainable growth period finally came to an end, and 2008-2009 were years of another serious economic crisis – even worse than the one in 2001. (See, GDP Growth Rate - Circle #3). This world financial crisis sparked by the Wall Street crash of 2008 hit Turkey that same year. Turkish capitalism was extremely vulnerable due to its high foreign deficit/foreign debt conditions. Foreign inflows turned into an outflow, and the economy once again started to contract. (See, GDP Growth Rate - Circle 3). In the space of 12 months (October 2008 –

September 2009) the economic contraction reached a staggering level of 7.9 percent.

When the year 2009 ended, Turkey’s national income was 4.2 percent smaller than it was in 2007. We should also keep in mind that Turkey is a country with a relatively high population growth rate. As a result of this, the AKP lost considerable amount of electoral support at the local elections held in March 2009.

**Capital Inflows (Billion USD)**



When compared with emerging economies, Turkey was among the worst affected by this crisis. In this group of countries, the countries carrying the burden of high levels of foreign deficit/foreign debt were the ones who suffered the most. (By contrast, Brazil suffered much less than Turkey.)

In short, since 1989 Turkish capitalism has become increasingly dependent on the direction, sum and tempo of foreign capital movements, a dependency that has grown from year to year.

The correlation between economic growth and the ratio of the current account deficit to GDP shows that the relationship between economic growth and the current account deficit has broken down. (For example, the rapid growth rate of the years 1990 and 1997 required only a current account balance to GDP ratio of 1.7 percent and 1.4 percent respectively.) The current account balance/GDP figures in the last decade show that this “breakdown” has assumed a pathological character.

With the year 2010, a new period of rapid economic growth started. (See, GDP Growth Rate - Circle #4). To bail out the financial monopolies, the central banks of imperialist centres (namely the US, EU and Japan) pumped astronomical amounts of money into the markets and decreased the interest rates to historically low levels. (In fact, real interest rates turned negative.)

Most of these funds haven't gone into credits that are supposed to stimulate production, but rather have flowed into financial assets, thus creating new speculative bubbles. As a result, big financial companies once again turned their eyes to “emerging markets” and speculative money movements once again started a rally. Turkish capitalism began to receive its share from this new speculative orgy. Foreign capital which left Turkey in 2008-2009 made a spectacular comeback. The amount of inflows for the year 2010 was US\$53 billion and for the first half of this year it was US\$28 billion.

This inflow set off a new period of rapid recovery. The last general elections were conducted at the height of this conjuncture, and the AKP won another landslide victory.

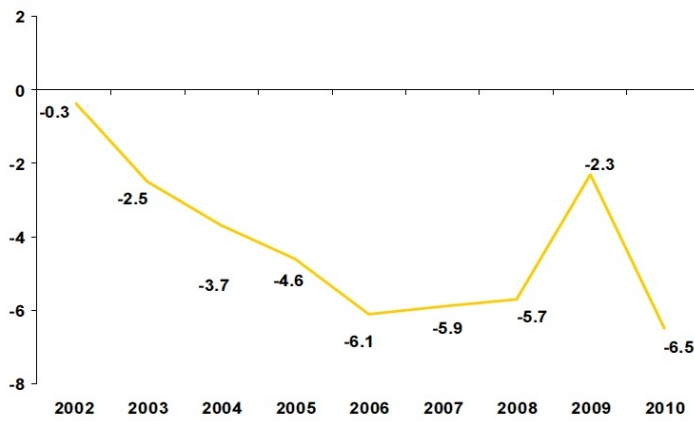
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Here, it would be useful to point out the similarities between Argentina's economy and Turkey's economy. In late 2001, just eight months after Turkey collapsed, Argentina plunged into a major economic crisis. After a year-long slide in output, like Turkey, Argentina also experienced a rapid recovery and grew by 9 percent in 2003.

Currently, its GDP is growing at a rate close to 10 percent. However, no one uses pompous metaphors like “lions” and “tigers” in describing Argentina. Much the same pattern can be seen in the Baltic states – Latvia, Lithuania and Estonia.

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### Current Account Balance / GDP (%)



In any case, all the media hype notwithstanding, the current period of economic growth is coming to an end. Key indicators such as low savings combined with rising consumer spending, a dangerously deteriorating current account deficit and reliance on foreign capital inflows have all reached record historical levels.

For example, comparing the first half of 2010 and that of 2011, we see that Turkey's foreign deficit skyrocketed by a 122 percent. The Current Account Balance/GDP percentage has increased from 6.5 percent to 9.7 percent! For a country like Turkey this is historically unprecedented and unsustainable. (See, Current Account Balance).

Furthermore, foreign debt has surpassed the level it reached on the eve of the 2008-2009 crisis. Most alarming is the increase of short-term debt in the private sector.

Also, though foreign capital inflows, as mentioned earlier, did make a spectacular comeback, its rate of increase for the first half of 2011 (92 percent), compared to the same period last year, is much less than the rate of foreign deficit. As a result of this, for roughly the last eight months the supply of foreign exchange has been shrinking, which means that foreign exchange rates are on the rise. (See, Foreign Exchange Rates)

### Foreign Exchange Rates (TL/USD)



This is an outcome of the deterioration of foreign capital movements. And this is due to the fact that the current account deficit swallows an increasingly bigger portion of the inflows. Until recently Turkey was quite peculiar in this sense –i.e. all other “emerging countries” were witnessing an increase in the value of their local currencies.

For the last two months, the financial situation in the EU and US has become very tense and a general outflow from “emerging markets” has started. So, now other “emerging economies” are also witnessing an increase in foreign exchange rates. However, the devaluation of Turkish Lira is far worse than these other currencies.

Finally, the kind of foreign capital coming into Turkey largely consists of “hot money,” which seeks quick, high returns. (See, Capital Inflows). The problem is that financing such a big deficit with utterly unreliable speculative funds is not sustainable.

All these indicators tell us that Turkey will be one of the worst affected developing countries from the next shock wave off the ongoing world economic crisis.

For Turkish workers, the immediate prospects are for a sharp increase in unemployment accompanied by a fall in living standards. In a recent memorandum the IMF provided a glimpse of what will face Turkish workers in the coming years. The memo calls for undermining mandatory severance pay to terminated workers and the introduction of more flexible terms of employment. It states, “**Greater flexibility of the formal labor market would increase employment, support domestic production, and distribute the gains from growth more evenly.** Reducing restrictions on temporary and part-time employment, and reforming severance pay, would encourage new employment and job mobility within the formal sector. Keeping incomes policy in line with the inflation target would improve external competitiveness and reduce inflation inertia.” [Emphasis in the original.]

In plain language the IMF is asking the Turkish government to make the Turkish workers pay for the capitalist crisis even before the impact of the crisis has been felt. Greater flexibility of the labour market will not increase employment but will boost the amount of absolute and relative surplus value extracted from the working class. “Reforming severance pay” is really a call to impose severe hardships on workers while providing a boon to big business by making dismissals cheaper at a time when mass layoffs are going to become the rule of the day. And this would mean in practice a general spread of unregulated employment, workers' insecurity and poverty wages.

In the past such measures have produced social resistance and an intensification of the class struggle in many parts of the world. There is no need to be a fortune-teller to predict that it will do the same in Turkey.