METU Studies in Development, 41 (December), 2014, 389-413

Turkey *vis-à-vis* the periphery of the EU: An economic assessment

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Abstract

The aim of this paper is to review the Turkish economic experience in comparison to those countries at the periphery of the EU in the last three decades. Starting with the assessment of economic performance in major country groups over the last three medium-term cycles of the world economy, the paper then proceeds to the examination of debt-led boom and the subsequent recession in that periphery over the 2000s. In the following section, Turkish economic development over the long run is reviewed and it is noted that, from the early 1980s to the present, Turkey had a better record of output growth *vis-à-vis* the Eastern & South Eastern periphery of the EU. However, Turkey has recently started to show signs of deindustrialisation and has also been faced with some adverse social consequences of privatisation and deunionisation similar to what has been observed in the periphery of the EU.

Keywords: Economic development, medium-term cycles, debt-led growth, the periphery of the EU, Turkey.

1. Introduction

In this paper, we aim to review the Turkish economic experience in comparison to those countries at the periphery of the EU during the last three decades, with specific emphasis on the developments over the last (and still unfinished) global medium-term cycle of 2002-13. What is meant with the term "periphery" in this context needs some clarification: Since the paper is conceived from the deliberations of the workshop on "Financialisation, Crisis, Social Protests

* The writer thanks Prof. Fikret Şenses (METU), Prof. Seyhan Erdoğdu (Ankara U.) and Mr. Ali Rıza Aydın (retd., Constitutional Court) for their support and helpful comments. Ms. Sevil Dündar (METU) and Mr. Mert Yakut (METU) assisted in preparing the final manuscript; their efforts are also gratefully acknowledged. The remaining errors in the text are the writer's responsibility.

and Development Alternatives in South East Europe" held in METU (14-15 February 2014), the term may be expected to have just a geographical connotation as that of the meeting.

However, such a choice of a sample of countries may be insufficient to have a better understanding of the major transformation that Eastern, Central and South Eastern European countries have been passing through. The deconstruction of socialism in these countries from the late 1980s onwards does not simply mean the transition to capitalism and establishment of a new political superstructure in some individual countries, but a colossal socio-political reorientation of the entire region which was manifest in these countries' ardent desire to join not only the EU, but also NATO as well (see Table 1).

Table 1
"Going West…"

Countries	Joining EU		Joining NATO
	Candidacy	Realisation	(Realisation)
Visegrad Group			
Poland	Dec. 1991	May 2004	Mar. 1999
Czech Republic	Oct. 1993	May 2004	Mar. 1999
Slovakia	Oct. 1993	May 2004	Mar. 2004
Hungary	Dec. 1991	May 2004	Mar. 1999
Successor States of Yugoslavia			
Slovenia	Jun. 1996	May 2004	Mar. 2004
Croatia	Jun. 2004	Jul. 2013	Apr. 2009
Serbia	Mar. 2012	-	-
Bosnia & Herzegovina	-	-	-
Montenegro	Dec. 2010	-	-
Macedonia	Dec. 2005	-	-
Romania	Apr. 2005[a/]	Jan. 2007	Mar. 2004
Bulgaria	Apr. 2005[a/]	Jan. 2007	Mar. 2004
Albania	Jun. 2014	-	Apr. 2009

[a/] Reference is to the Treaty of Accession.

Sources: EC. europa.eu/enlargement

NATO. int/cps/en/natolive/topics

So we opt for a sample of 14 countries, made up of 13 countries at the periphery of the EU plus Turkey[1]. The 13 countries concerned comprise the following: The Visegrad Group (i.e. Poland, Czech Republic, Slovakia and Hungary), six successor states of Yugoslavia (excluding Kosovo, which has not formally attained statehood yet) and three Balkan States (i.e. Romania, Bulgaria and Albania). Greece is excluded from the sample, mainly because its case is somewhat atypical and deserves a separate study together with the other Southern European countries which joined the EU in the 1980s.

Following this brief and introductory first section, the second section of the paper is devoted to the assessment of economic performance of the major country groups over the last three medium-term cycles of the world economy. This assessment will take two major macroeconomic parameters into consideration, i.e. the average growth rates over the cycles and current account balances in some benchmark years of each successive cycle. Such a global outlook will give the reader some indications about how did the countries at the periphery of the EU fare in the long-run *vis-à-vis* other country groups under the sway of neoliberal world economic order.

The third section will focus on the debt-led boom and the subsequent recession in the periphery of the EU over the 2002-13 cycle. From the data on individual countries, it is rather difficult to reach hard-and-fast conclusions for the periphery as a whole, and there are apparent differences between the subset of eight EU-member countries and the successor states of Yugoslavia as far as the impact of the crisis of 2007-8 on growth and capital inflows is concerned. Moreover, the data also gives the impression that the Visegrad Group among the eight member countries has been more resilient in the face of the crisis. Tentative explanations are put forward in the third section to explain these phenomena.

In the fourth section, we briefly review the Turkish experience over the long run, comparing its economic performance with those of the peripheral countries. The first medium-term cycle of the Turkish economy (1981-94) within the long time span of our inquiry agrees well with the features of an export-led growth model, while the second cycle (1995-2001) can be interpreted as a period of transition from export-led to debt-led growth. Debt-led economic growth of the 2000s in Turkey coincided with cycles of shorter duration, leading to greater instability. Further, the tendency for real appreciation of domestic currency and increased dependence on large capital inflows has contributed to the fragility of the economy and has had negative repercussions on industrial structure. Nevertheless, Turkey compares favourably with respect to the periphery of the EU

[1] Our sample has a close affinity to the group of 13 countries which were classified as "Central & Eastern Europe" in the IMF/WEO Database (accessed on April 2014). It differs from our sample by its inclusion of Lithuania and Kosovo, and exclusion of Czech Republic, Slovakia and Slovenia.

over the long time span of 1983-2013; and the negative impact of the 2007-8 crisis on real economy was moderated by the maintenance of sizable capital inflows.

Studies undertaken for some successor states of Yugoslavia have shown that neoliberal policy prescriptions adopted by these countries since the 1990s led to deindustrialisation, in conjunction with massive privatisation and deunionisation. It is argued in the fifth section that similar processes have also been operating in Turkey since the early 1980s, albeit in muted and slower forms: The tendencies towards deindustrialisation are demonstrated by the course of industrial value added / GDP and industrial employment/total employment ratios in recent years. The governments in office since 1980 have never waived their commitment to privatisation, but turned it into a gradual, drawn-out process. And the weakening of the bargaining power of the labour unions is evident in the decline of the proportion of employees with the right to enter collective wage bargaining.

The sixth (and final) section is reserved for concluding remarks.

2. The global outlook, 1983-2013

2.1. Growth Performance by Country Groups

Since the early 1980s, the world economy has experienced three medium-term cycles, the first two of which cover the periods 1983-93 and 1994-2001. There are no clear indications that the latest one starting in 2002 has come to an end. The average growth rates attained by the major country groups during these cycles are presented in Table 2.

Over the first and the second cycles, the growth rates in advanced and developing countries as two major blocks of the world economy were fairly close to each other, the period averages for the latter exceeding that of the former by 0.3 and 1.1 percentage points, respectively. This was basically the outcome of the rapid output growth realised in Developing Asia (notably, in China), which offset the relatively poor performance in Central & East Europe and Latin America[2]. In fact, the average rates of growth in Central & East European and Latin American countries were even lower than those of the advanced countries until the onset of the third cycle.

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2 It must be noted that the group named Central & Eastern Europe in Table 2 includes Turkey. If this large economy with a fairly satisfactory growth record is excluded from the group, it becomes clear that Central & Eastern European economies fared even worse in the 1980s and the 1990s.

This latest (and ongoing?) cycle portrays a different picture. Both in its phases of upswing and downswing, there has been a definite slowdown in growth in advanced countries. In contradistinction to what happened in the two earlier cycles, the crisis of 2007-8 which ended the upswing had its origins at the developed core. Notwithstanding the adverse effects of the crisis, developing countries as a whole fared relatively better throughout the cycle. Again, Developing Asia has played the major role in such an outcome; the spurt which the Central & Eastern European economies enjoyed during the upswing phase has not continued thereafter.

The neoliberal economic order prevailing since the 1980s offered two basic models for the developing nations, i.e. an *export-led* and a *debt-led* one, the combinations of which might also be envisaged (Stockhammer, 2012)[3]. The policy practices in most developing countries during the 1980s and the 1990s were essentially shaped by the former model. However, the growing financialisation of the world economy in the 1990s and the 2000s made debt-led growth a feasible (and politically relevant) option for many developing countries other than those in the group named Developing Asia[4]. To better understand these developments, an examination of current account balances by major country groups since the early 1980s would be helpful.

2.2. Deficits and surpluses in current account

From the current account balances of the major country groups presented in Table 3, the following observations can be made for successive medium-term cycles:

(1) The first cycle (1983-93) is characterized by substantial current account surpluses in Japan (and, to a lesser extent, in Germany), primarily to finance the growing deficits of the U.S. Because of their recurrent debt crises and poor economic management, both the Central & Eastern European and Latin American countries had to avoid unsustainable current account deficits, indicating that these countries were not preferred destinations for capital export. In contrast, the current account deficits of the Developing Asian countries were tolerated and financed in view of their good economic prospects. The fuel exporters as a whole produced modest deficits or surpluses.

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3 For a concise statement of the debt-led growth model, the reader is referred to, *inter alia*, Grabel (1995; 1996). The Turkish experience with this model is reviewed in ISSA (2006), Yeldan (2009) and Boratav (2009).

4 The surpluses or deficits across all country groups are expected to sum up to zero in the context of the "closed" world economy. Due to statistical errors and omissions, this condition is violated by a wide margin in Table 3. However, the figures presented in this table are sufficient to identify country groups as producers of surplus or deficit.

(2) During the second cycle (1994-2001), Japan and advanced countries other than the US and Germany turned out to be the major producers of current account surpluses. Developing Asian countries gradually became another group with a sizable surplus. The current account of the US continued to deteriorate; Germany also went into deficit mainly because of the exigencies of unification of two German states. Central &Eastern European countries had manageable deficits, while Latin American deficits rose to fairly high levels.

(3) In the third cycle (2002-13), deficits/surpluses rose to unprecedented magnitudes. Although the major deficit/surplus groups remained more or less unchanged, trends in the upswing and the downswing were somewhat different. In the upswing, the US deficits reached record heights. Emerging and developing countries other than those in Developing Asia group, together with the core of the EU excluding Germany, also produced deficits of phenomenal proportions. These deficits were met by the rapidly rising surpluses of fuel exporters, China, Germany and Japan. Eventually, these imbalances became unmanageable; and following the financial crisis of 2007-8, definite directions of change became manifest during the downswing: The US deficits declined, the core EU and other advanced countries produced substantial surpluses, while surpluses in Developing Asia, fuel exporters and Japan started to fall. For the purposes of our inquiry, the most dramatic events were firstly the spectacular rise in capital flows to Eastern, Central and South Eastern Europe to finance their soaring current account deficits (hence, to stimulate debt-led growth) and their abrupt fall later, leading to a deep recession.

3. Boom and bust in the EU's periphery

3.1. The main features

The main features of the debt-led boom and subsequent recession in the countries of our sample during the period 2002-13 are summarised in Table 4. The figures presented there are not amenable to easy generalisations, since mechanisms of transmitting external financial shocks into the real sector and ensuing patterns of resource allocation and spending may significantly vary across countries. The problem is complicated further by the fact that the medium-term cycles of individual countries do not match timewise with the global cycle. For example, the year 2004 may be taken as a better starting point for the upswing phase in four Visegrad countries and Slovenia, which formally joined the EU in that year and further increased their exposure to capital imports. Nevertheless, the following remarks can be made:

Table 4
Growth and External Borrowing in the Periphery of the EU, 2002-13

Countries	Growth Rate of Real GDP (% p.a.) (Period Average)		Net Borrowing as a Proportion to GDP, % (Period Average)	
	Upswing (2002-7)	Downswing (2008-13)	Upswing (2002-7)	Downswing (2008-13)
Visegrad Group				
Poland	4.5	3.1	+3.2	+2.3
Czech Republic	5.0	0.1	+3.6	+1.7
Slovakia	6.6	1.8	+7.4	+0.6
Hungary	3.5	-0.7	+7.6	-1.7
Successor States of Yugoslavia				
Slovenia	4.6	-1.2	+2.3	-0.8
Croatia	4.8	-1.7	+5.8	+2.4
Serbia	5.1	0.6	+10.4[a/]	+10.0[a/]
Bosnia & Herzegovina	5.1	0.7	+14.5[a/]	+8.7[a/]
Montenegro	5.3	1.2	+20.3[a/]	+25.3[a/]
Macedonia	4.0	2.0	+5.3[a/]	+4.8[a/]
Romania	6.2	0.9	+6.9	+4.3
Bulgaria	6.0	0.7	+11.4	+4.2
Albania	5.5	3.3	+6.4[a/]	+11.2[a/]
Memo Items				
Greece	4.2	-4.3	+9.6	+8.9
Turkey	6.8	3.2	+5.3[b/]	+6.8[b/]

[a/] Current Account Deficit / GDP ratio, %
[b/] Financial Account / GDP ratio, %
Sources used for calculations:
For Serbia, Bosnia & Herzegovina, Montenegro, Macedonia and Albania: IMF / WEO Database (Access: April 2014).
For Turkey: *Annual Programmes*, various issues; CBRT records.
For other countries: AMECO Database (Access: April 2014).

(1) In the context of debt-led growth, a major shortfall in capital flows leads to a major output shock. If such a shortfall can be avoided, the adverse effects of the international crisis will be partly offset. This last proposition is supported by the Turkish experience in the 2000-13 period.

(2) In assessing economic performance, it makes sense to distinguish eight countries which joined the EU in the 2000s from the four successor states of Yugoslavia (i.e. Serbia, Bosnia & Herzegovina, Montenegro and Macedonia) and Albania.

(3) As regards the former subset of our sample above, the figures in Table 4 give the impression that the Visegrad Group (perhaps with the exception of Hungary) fared better *vis-à-vis* the rest (i.e. Slovenia, Croatia, Romania and Bulgaria) during the downswing. There seems to be five possible explanations for such an outcome:

- Trade linkages with the EU core may be important, which may indicate a new division of labour in the making between that core and Eastern European countries (more to be said later on this issue below).

- Monetary policy autonomy enjoyed by the Visegrad Group may be advantageous in overcoming financial crises and in supporting trade policy instruments.

- Completing the phase of “transitional recession” earlier than South Eastern European countries might have contributed to the resilience of these countries against the vagaries of market mechanism.

- Earlier liberalisation of trade and capital transactions *vis-à-vis* the EU core might have made policy-makers of these countries familiar to dealing with fluctuations in international environment.

- The size of the economy may also matter. In contradistinction to small countries which may be flooded with capital inflows during the booms, and face just the opposite situation during the slumps, large economies like those of Poland and the Czech Republic may be relatively more stable and even continue to attract substantial amounts of capital in crisis years.

(4) Three successor states of Yugoslavia (i.e. Serbia, Bosnia & Herzegovina and Montenegro) and Albania had excessively high current account deficit / GDP ratios throughout the 2000s, putting the economic viability of these countries into question for the foreseeable future. Among the four successor states, only Macedonia has a semblance of a manageable economy. This gloomy situation strengthens the perception of the EU as an indispensable anchor for stability among the dominant political cadres of the countries concerned. In view of the Slovenian and Croatian experiences in the recent past, such a perception seems to be rather unjustified[5].

[5] A “technical” note: Some figures in the last two columns of Table 4 refer to Current Account Deficit/GDP ratios, which are not strictly comparable with, but fairly close to, net borrowing as a proportion to GDP.

3.2. Trade linkages of the periphery with the EU Core

A declining share of the EU in world trade has been observed during the downswing phase of the current cycle (see Akoğlu-Şişman, 2014). Consequently, it could be expected that countries at the periphery of the EU would tend to explore new trade outlets outside their customary EU markets and/or to increase “intra-group” trade and cooperation. With reference to a sample of ten countries which she names as “East European Group”, Akoğlu-Şişman (2014) shows that efforts along these lines produced modest results[6].

An alternative strategy would be to search for a new division of labour within the EU in order to benefit from increased specialisation (presumably, in industries with higher labour-intensity and/or unsophisticated technologies) and economies of scale. Clearly, such a strategy would be (and, in fact, was) supported by FDI from the EU core. Aygül’s (2014) study suggests that the Visegrad Group took this option rather favourably during the upswing of 2002-8 (see Table 5 on the volumes and proportions of trade between the Visegrad Group and Germany). It is debatable whether this option would contribute to the convergence within the EU, or lead the Eastern periphery of the EU into a pattern of resource reallocation which will perpetuate relative backwardness.

4. The Turkish Economy, 1981-2013: A brief overview

The Turkish economy passed through three medium-term cycles from 1981 to 2009; and the fourth one is still in progress (upswing: 2010-2; downswing: 2013-….). It grew at an average rate of 4.3 % p.a. over the long time span of 29 years; and the fourth cycle is likely to end up with an average growth rate of around 4.5 - 5.0 % p.a. (Table 6). In comparison with the performance of Developing Asia, this is not a brilliant success story; but it is not a meagre achievement, either. From figures in Table 7, it may be deduced that Turkey compares favourably with three major Latin American countries (i.e. Argentina, Brazil and Mexico), which had average growth rates within the range of 2.3 - 3.1 % p.a. during the period of 1983 - 2013. The same is also the case with respect to former socialist countries of Eastern, Central and South Eastern Europe.

[6] Akoğlu-Şişman’s (2014) ten-country sample includes five successor states of Yugoslavia (i.e. Slovenia, Serbia, Bosnia & Herzegovina, Montenegro and Macedonia), three Balkan countries (Romania, Bulgaria and Albania), Hungary and Turkey. In this sample, the Visegrad Group is underrepresented; and because of the large size of the Turkish economy, results of her survey are informative but biased.

Table 5
The Visegrad Group's Trade with Germany, 2002-12

Visegrad Group's…	2002	2008	2012
Exports to Germany (є bln.)	44.6	131.1	136.6
Share in German Imports from the EU, %	13.4	17.7	18.9
Imports from Germany (є bln.)	43.9	139.4	127.5
Share in German Exports to the EU, %	11.5	14.9	15.9

Source: Calculated from Aygül (2014: Tables 3-4).

Table 6
GDP Growth in Turkey Over Medium-Term Cycles, 1981-2012 (% p.a.)[1]

Cycle		Upswing		Downswing	
1981-1994	(4.8%)	1981-87	(5.8%)	1988-1994	(2.9%)
1995-2001	(3.1%)	1995-98	(6.2%)	1999-2001	(-0.9%)
2002-2009	(4.5%)	2002-07	(6.8%)	2008-2009	(-2.1%)
2010-…	(…)	2010-12	(6.7%)	2013-…	(…)

1: Figures in the parentheses refer to GDP growth rate (period average)
Source: Annual Programmes for Turkey, various issues.

Table 7
GDP Growth Rates in Selected Countries, 1983-2013 (% p. a.)

Countries	1983-93 Cycle			1994-2001 Cycle			2002-2013 Cycle	
	Upswing (1983-88)	Downswing (1989-93)	Average	Upswing (1994-97)	Downswing (1998-01)	Average	Upswing (2002-07)	Downswing (2008-13)
China	11.9	9.0	10.5	10.8	8.0	9.4	11.2	9.0
India	5.8	4.6	5.2	6.5	5.7	6.1	8.1	6.0
Indonesia	5.0	7.2	6.0	7.0	-1.4	2.7	5.3	5.8
Argentina	0.9	3.5	2.1	4.1	-1.2	1.4	5.3	5.1
Brazil	3.5	0.8	2.2	3.8	1.5	2.6	3.8	3.1
Mexico	0.3	3.9	1.9	2.8	3.0	2.9	2.8	1.7
Russia	n.a.	n.a.	n.a.	-4.9	3.9	0.6	7.0	1.7
Turkey	5.8	4.8	5.4	3.9	0.1	2.0	6.8	3.2

Source: Calculated from *IMF/WEO Database* (access: Apr. 2014)

At the risk of oversimplification, the first medium-term cycle of the Turkish economy (1981-94) can be said to conform to the characteristics of an export-led growth model. Factor price configurations appropriate for such a model were successfully administered from 1980 to 1989 *via* a crawling peg for the exchange rate which kept Turkish lira (TL) on a path of gradual depreciation, higher interest rates and wage repression. A series of neoliberal reforms, ranging from financial sector deregulation to trade liberalisation, were introduced. However, suppressing rampant inflation was not accorded with a high policy priority.

The export-led growth model started to meet with some snags after capital account liberalisation in 1989 and workers' increasing resistance to real wage erosion; but it functioned quite well till the banking and currency crises of 1994. From 1980 to 1988, current account balance (CAB) was improved; and over the entire cycle, CAB/GDP ratio remained within reasonable bounds (Chart 1). The real exchange rates were, by and large, conducive to competitiveness in international trade (Chart 2). The second cycle (1995-2001) coincided with the transition from an export-led to a debt-led growth model, and initiated cycles of shorter duration in Turkey, indicating greater instability. Current account deficits were still at manageable proportions, but domestic currency tended to appreciate in real terms over the cycle, creating lucrative arbitrage opportunities (see Charts 1-2). While inflation accelerated, public finance went into disorder. Real appreciation of domestic currency had also negative repercussions in the structure of industry by increasing its dependence on imported inputs, discouraging inter-industry linkages and vertical integration and encouraging productive activities with low domestic value added content. These adverse effects were to get stronger in the third cycle to follow. It must be noted here that a sizable devaluation after the banking and currency crises of 2000-1 did not suffice to restore real exchange rate to its 1994 level[7].

A buoyant upswing of the third cycle (2002-9) was coupled with very high and rising current account deficits. The liquidity glut in international markets and Turkey's improved credit rating following its impressive stabilisation and disinflation effort in 2001-3 enabled the country to finance these deficits relatively easily till the end of 2007[8]. The repercussions of global crisis of 2007-8 led to a sudden stop and later a reversal of capital flows in 2008-9. The ensuing currency crisis triggered a short recession in 2008-9 and the "correction" in real exchange rate caused by the currency crisis turned out to be limited. A strong recovery set in later, by the resumption of substantial capital inflows during 2010-2. However, the

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7 Due to the loss of confidence in TL on the one hand, and initiatives taken in the negotiations for accession to the EU on the other, there were suggestions in Turkey to peg the TL to the Euro in the first half of 2001. Although the Minister of Economy Kemal Derviş (who was entrusted with the implementation of the IMF Standby Programme (2001-4)) supported these propositions in May - June 2001 (see Türel, 2001b: 84-5), neither the EU nor the IMF was ready to consider them. The idea was shelved after a successful disinflation in the period of 2002-7.

8 The conversion of Turkish GDP figures into current dollar equivalents at undervalued $/TL exchange rates contributed to illusions over the growth potential of the Turkish economy.

fragility of the economy and its extreme dependence on capital inflows were demonstrated by the fact that even moderate rates of growth in the range of 2 - 4 % p.a. have been concomitant with CAD/GDP ratios of around 7 – 9 % in recent years.

5. On the "notorious trinity": Deindustrialisation, privatisation and deunionisation

5.1. Deindustrialisation in the periphery

Studies undertaken by Kržan (2014), Mihaljević (2014) and Musić (2014) published in this issue of *METU Studies in Development* demonstrate how neoliberal policy prescriptions adopted in three successor states of Yugoslavia since the 1990s led to deindustrialisation (perhaps in a less striking fashion in Slovenia). Privatisation as a transfer of equity ownership in these countries was intimately linked with deindustrialisation, since it was motivated by the aim to eradicate public ownership in productive enterprises as a distinctive feature of a socialist society, rapidly and at any cost; and new owners of these enterprises were either disinterested in, or incapable of, managing them. Further, the demise of the self-managed socialist enterprise model of former Yugoslavia weakened and discredited labour unions, and also led to a rapid rise in non-standard forms of employment. Central and Eastern European countries, where the deconstruction of socialist regimes had been completed earlier, had passed through the same experience.

In this section of the paper, we argue that similar processes have been at work in Turkey from the early 1980s to the present, albeit in slow motion. For many readers, to speak of a deindustrialising Turkey over these years may seem irrelevant when industrial value added was almost quintupled, industrial employment more than doubled, and industrial productivity per capita multiplied by a factor about 2.5 from 1980 to 2013 (Cf. Charts 3-5). However, industrial value added / GDP and industrial employment / total employment ratios shown in Charts 6-7 point out to some other important issues[9]:

[9] A *caveat* here is in order: The reliability of long-run time series used in drawing Charts 6-7 was impaired by the computational / methodological break in GDP estimates in 1998 and by very frequent (and not always convincing) revisions made on employment statistics produced by Turkstat.

Chart 1
Turkey / Current Account Balance as a Proportion to GDP, 1980-2013 (%)

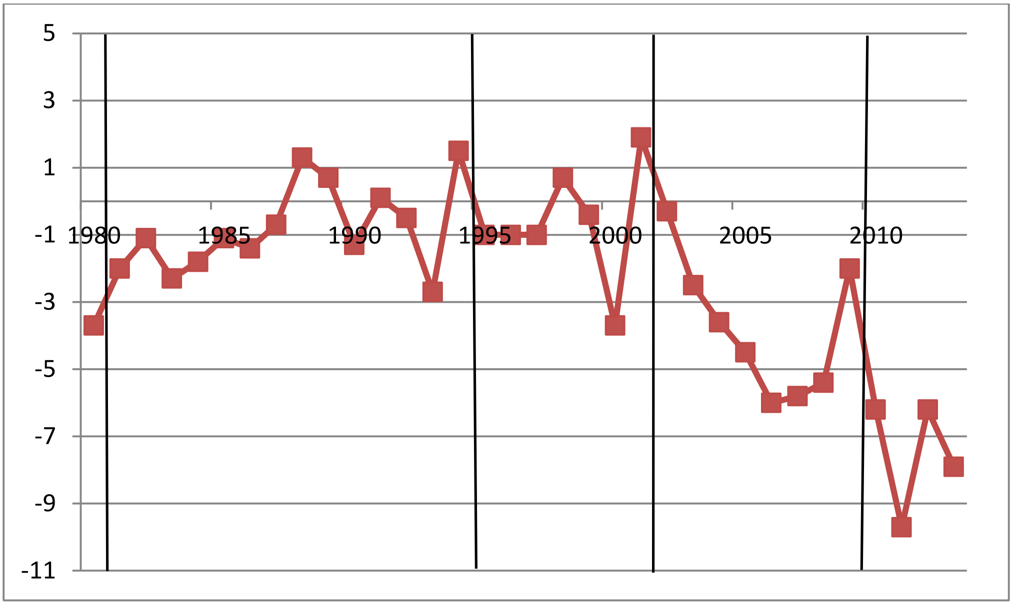


Chart 2
Turkey / Real Exchange Rate Index, 1980-2013 (1995:100)

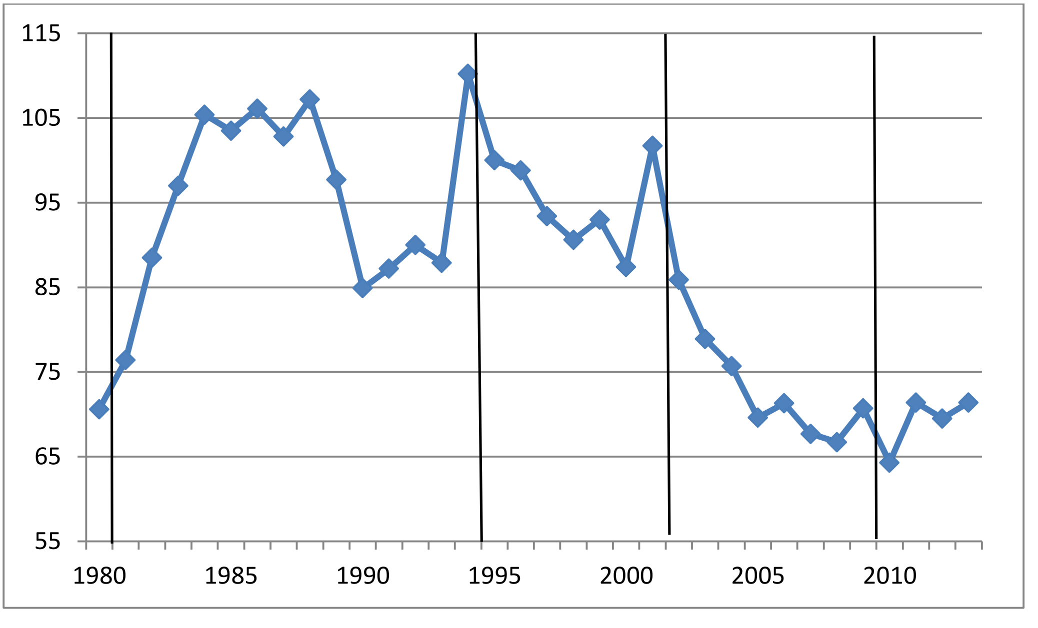


Chart 3
Turkey / Index of Industrial VA at Constant Prices, 1980-2013 (1998:100)

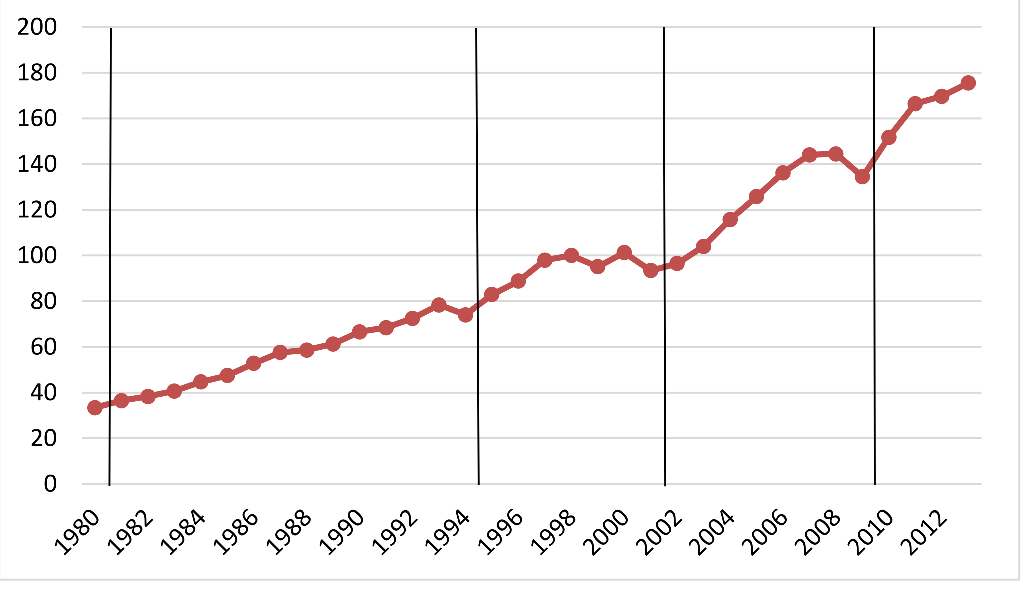


Chart 4
Turkey / Index of Industrial Employment, 1980-2013 (1998:100)

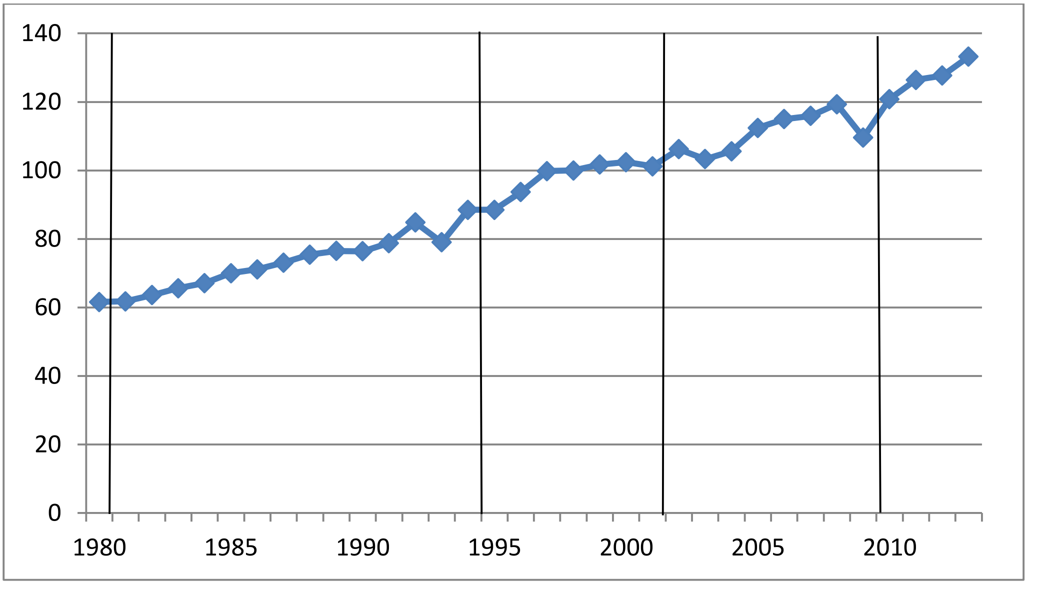
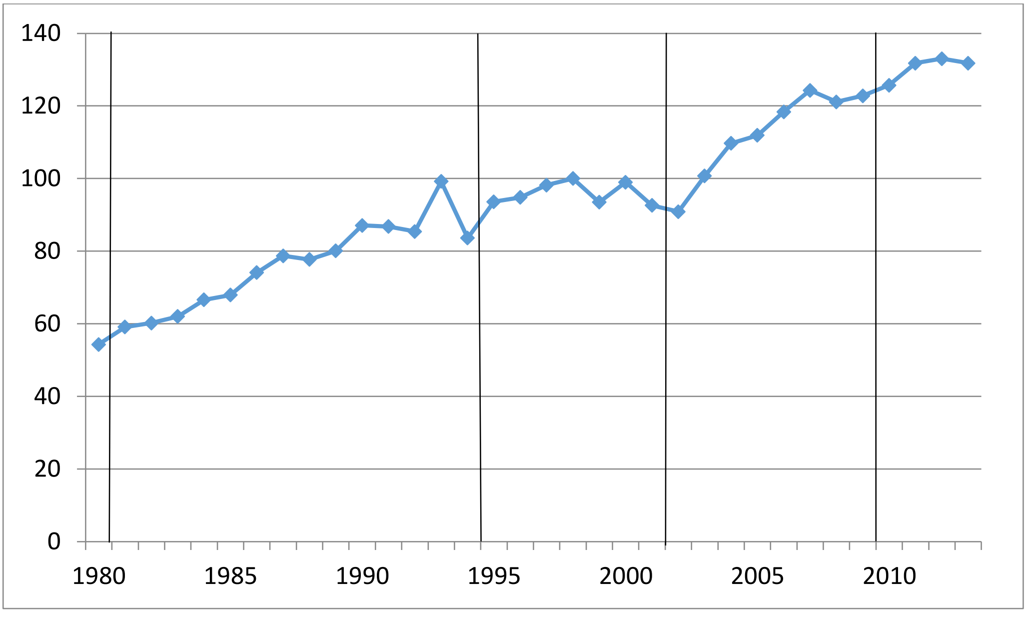


Chart 5
Turkey / Industrial Productivity Index, 1980-2013 (1998:100)

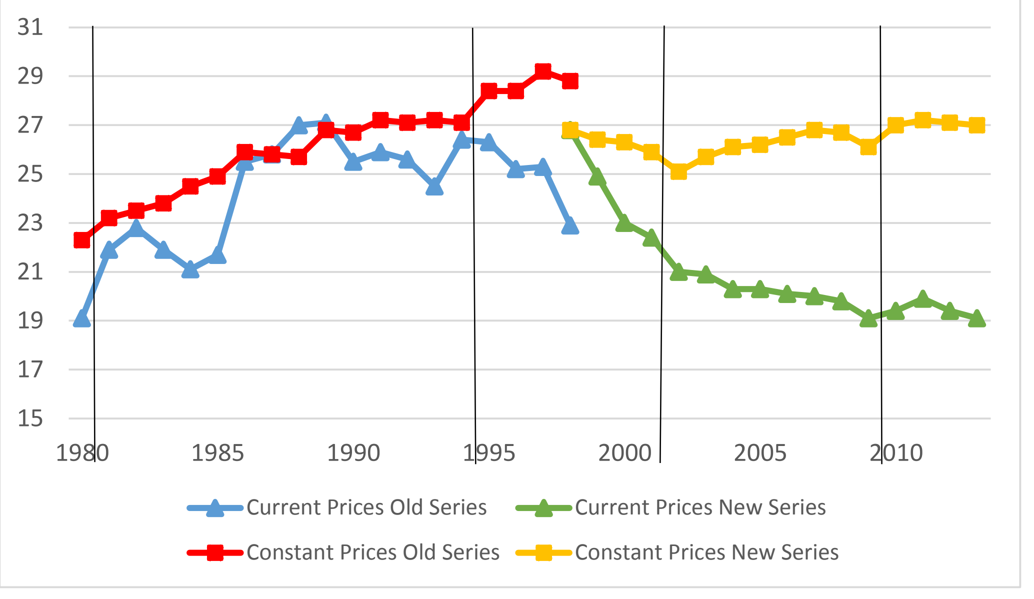


(1) The share of industrial value added (IVA) in GDP rose substantially, both in terms of current and constant (1987) price calculations, over the first medium-term cycle in Turkey (by about 7 and 5 percentage points from 1980 to 1994, respectively)[10]. Constant (1998) price IVA/GDP ratios continued to rise till 1997 and have been fairly stable from 1998 onwards at around 26 - 27%. Current price ratios, on the other hand, fell by about 3 percentage points from 1994 to 1997, and about 8 percentage points from 1998 to 2013 (see Chart 6).

These observations are cause for concern for two reasons: (i) For a country which has not yet reached the advanced stages of industrial development, a stagnant IVA/GDP ratio is undesirable, (ii) the growing disparity between constant and current price IVA/GDP ratios implies a systematic change in relative prices against the industrial sector in the 2000s, which is a factor to discourage industrial production and investment.

10 It must be noted here again that this cycle is characterised by its export-led growth model.

Chart 6
Turkey / Industrial VA as a Proportion to GDP, 1980-2013 (%)



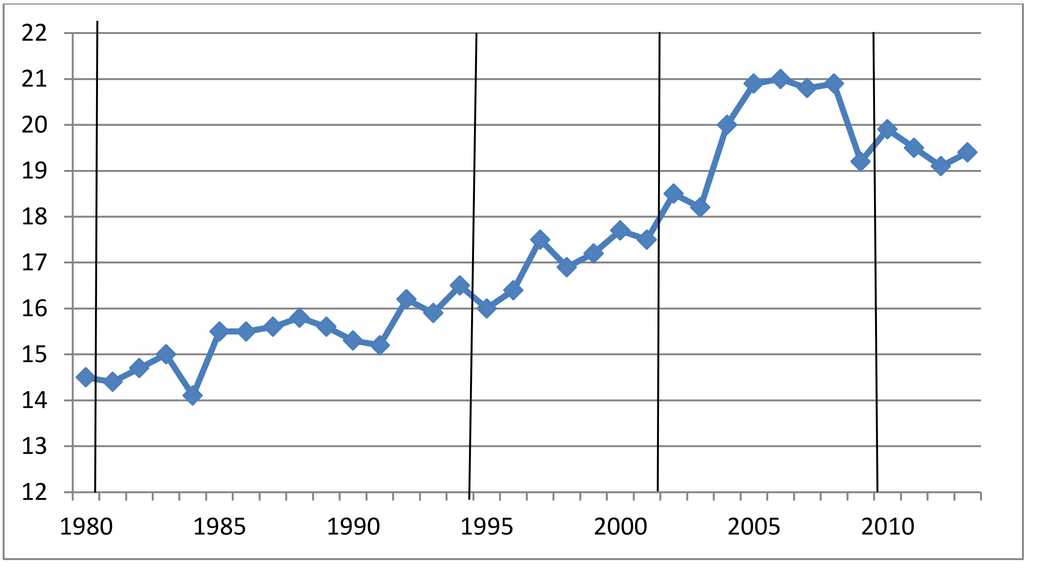
(2) The share of industrial employment in total employment rose not only over the first cycle (as it was the case for IVA/GDP ratios), but also over the second cycle, in conjunction with low rates of productivity growth in the latter. It reached its peak of about 21% in the mid-2000s and later started to decline (Chart 7). Such a tendency may be proper for an advanced economy at its higher stages of industrial development and labour productivity, but not for a middle-income developing economy.

5.2. Privatisation

The claim that the Turkish economy in the early 1980s inherited a very large state economic enterprise (SEE) system from the past is unfounded. In 1985, when the number of SEE employees was near its historical peak, SEEs accounted for only 12.8% of total GDP and 4.0% of total employment (Boratav *et al.*, 1998: 15-7). However, their contributions to output diverged widely across major sectors: It was negligible in agriculture, while SEEs produced about 1/3 and 1/12 of the values added in industry and services, respectively. Within the industrial sector, their share in mining and energy were high, but they accounted for only about 1/4 of manufacturing VA. Although there had been various administrative interferences from the government, SEEs had been taking their production and investment decisions in conformity with market signals and the profit motive.

Chart 7

Turkey / Industrial Employment as a Proportion to Total Employment, 1980-2013 (%)



Since there were no compelling reasons for a rapid privatisation of the SEEs either on grounds of public finance or efficiency in the early 1980s, policy-makers in these years were essentially concerned with preparing legal provisions for their eventual privatisation and imposing an effective barrier to SEE investment other than in those plants nearing completion[11]. Employment in SEEs actually rose from 527 thousand in 1980 to 653 thousand in 1986, basically because of taking some public enterprises under the legal statutes of the SEE system; and there were only minor privatisations in the 1980s[12] (see Chart 8).

In the early 1990s, the deterioration in public sector finances in general and the decline in total SEE operational surpluses in particular made privatisation a preferred option for the government *vis-à-vis* the unpopular alternative of raising tax revenue. Hence, a virulent media campaign was initiated by the government and business organisations in favour of privatisation. This was fairly effective in shaping the public opinion; and all constitutional and/or legal barriers to

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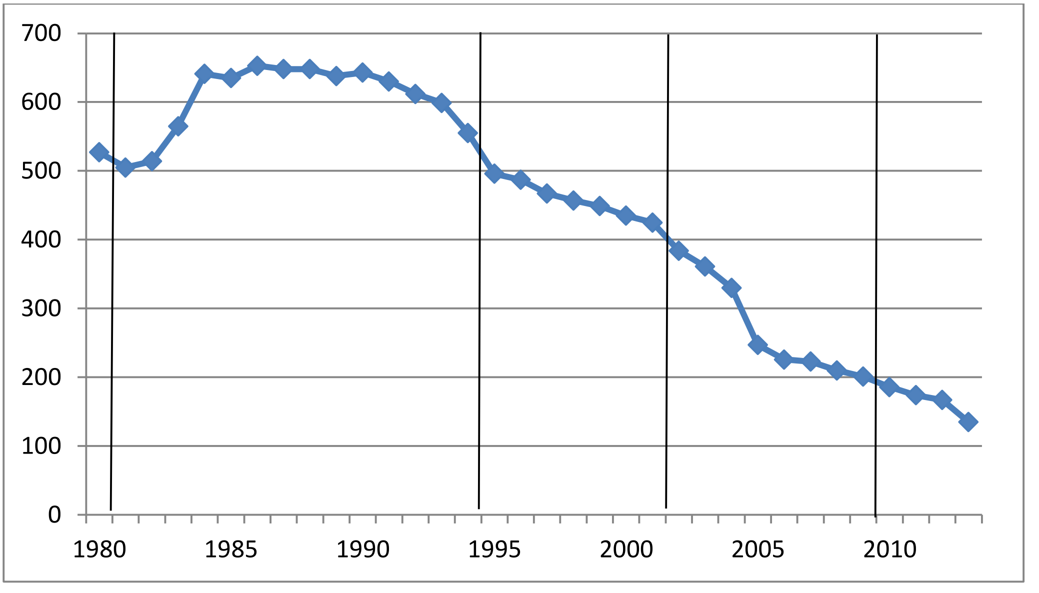
11 The empirical studies undertaken on some manufacturing sectors in which both public and private plants exist showed that the variables like scale, location and the "age" of the technology employed serve better than sheer ownership to explain differences in efficiency (Boratav *et al.*, 1998: 43-66).

12 Interestingly, privatisation in non-socialist developing countries also had a relatively slow start in the period 1980-87, but increased spectacularly during 1988-93 both in terms of number of transactions and nominal magnitudes of equity transfer (Shirley, 1999: 116-7).

Chart 8

Turkey / Employment in State Economic Enterprises, 1980-2013 (thousands)



privatisation were fully removed by the end of the 1990s (Türel, 2001a: 189-93). Eventually, privatisation gathered momentum, bringing down the number of SEE employees from 643 thousand in 1990 to 425 thousand in 2001. The major thrust to privatisation occurred under the Justice and Development Party (AKP in Turkish acronym) rule (since 2002) when the public resistance against privatisation became weaker. The number of SEE employees fell further from 425 thousand in 2001 to 135 thousand in 2013[13]. AKP governments have also made extensive recourse to other modes of privatisation, i.e. franchising and deregulation, thus capitalising and spending prospective public revenue and further commodifying services like education, health, water supply and sewage disposal, mass transport and security, which hitherto had remained mostly in the domain of public provision.

In short, the Turkish governments in office since 1980 have been politically and ideologically committed to privatisation as their post-socialist counterparts in the European periphery; however, they have had the opportunity (and, perhaps, the wisdom) to realise it over a longer time span, by gradually neutralising the resistance to it and avoiding a major disruption in production.

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13 At the end of 2013, the remaining enterprises under the SEE fold mainly comprise those operating in railways, coal extraction, petroleum & gas exploration and transport, electricity generation, postal and airport services and tea (produced in regions which have been AKP strongholds).

5.3. Deunionisation

If, in line with international conventions, the unionisation rate is calculated as the ratio of the number of union members actually covered by collective labour agreements to the number of all wage and salary earners including civil servants, it turns out to be very low in Turkey and also shows a secular decline (around 22% in 1988, 10% in 2000 and 6% in 2010)[14]. In the private sector, the unionisation rate has been even lower (about 3.5% in 2011) (Çelik, 2012: 44); Çelik and Lordoğlu, 2006: 27).

Clearly, deunionisation has been a tendency observed worldwide since the 1980s, mainly due to major changes in the working environment, including deindustrialisation, privatisation, outsourcing, growth of small-size firms, flexibilisation of labour markets and expansion of non-standard forms of employment. However, there were also country-specific factors in Turkey: Laws Nr. 2821 and 2822 (both put into effect by the military interregnum of 1980-3) had brought highly restrictive provisions to union activities; competence claims for collective bargaining had become more difficult and more open to political interference and inter-union contestation. Moreover, there had been no effective safeguards for workers to be laid off because of their union affiliation and/or activities.

For many years, these provisions were strongly criticised by national labour organisations and international circles, since they were argued to violate ILO conventions and also the European Social Charter. Although Law Nr. 6356 (2012) which superseded Laws Nr. 2881 and 2882 was promulgated seemingly with the intention to adhere to internationally recognised norms, it did not fully remove the major shortcomings of the previous legislation, especially those concerning competence claims and their settlement.

Here, some additional notes on the unionisation of civil servants are in order. After the promulgation of the Law Nr. 4688 (2001), referring to a constitutional right and legalising the state of affairs with respect to the unions already in existence, a process of "collective negotiation" was institutionalised. This law was repeatedly amended so as to facilitate entry to, and exit from, the unions and to strengthen their bureaucratic structures; and it was finally replaced by Law Nr. 6289 (2012), following the constitutional amendments in 2010. These amendments confirmed the right of civil servants to enter into collective labour agreements with the government without explicit reference to the right to strike. Law Nr. 6289 envisages that disagreements after the collective bargaining process

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14 These estimates do not take into account the collective negotiations between the confederations of unions of civil servants and the central government in recent years. See the text below.

will eventually be settled by a Board of Arbitration in which members appointed by the government have the majority.

Notwithstanding their relatively weak bargaining strength, the membership to the unions of civil servants rose spectacularly from 633 thousand in 2002 to 1308 thousand in 2012; and the share of the pro-government confederation Memur-Sen in total membership increased from about 7% to 50% over the same period. The AKP governments were keen to establish some kind of "symbiotic" relationship with the unions of civil servants, thus building a pattern of reciprocal support between them (Çelik, 2012: 47). AKP was also insistent in promoting (and controlling) the pro-government labour union confederation HAK-İŞ, which substantially increased its share in the total labour union membership since 2002. Such a strategy towards labour unions is consistent with AKP's aim to strengthen its hegemony in various segments of societal and political life in Turkey.

Çelik (2012: 46) enumerates and explains a long list of tactics employed effectively by the Turkish private sector for "union-busting", about which the AKP governments do not care much. Another disturbing development is the steady increase in subcontracting/outsourcing networks in Turkey, in which unionisation is difficult to take hold. According to official estimates, the number of workers under such arrangements exceeded 1 million in 2012, while the respective figure in the entire EU-27 was approximately 4.5 million. Fatal accidents in 2014 in mining and construction sectors, resulting in a large number of deaths, exposed blatant violations of security rules under these modes of employment; and the ensuing public sensitivities forced the government to reconsider ILO norms once again.

6. Concluding remarks

In the second section of this paper, we have tried to depict the economic performance of the major country groups in the world economy in order to provide the background for a comparative assessment of the trajectories followed by the countries at the Eastern/South Eastern periphery of the EU and Turkey since the early 1980s. In the third section, our interest has shifted from the long time span towards the course of the 2002-13 global cycle in the periphery of the EU so as to provide a closer examination of the boom before the crisis of 2007-8 and the subsequent recession.

In the fourth section, we have pointed out that the basic task of the Turkish economic administration in the period 1981-94 was to switch from the growth path conditioned by import-substituting industrialisation of the earlier decades to an export-led one, and downsize the considerable involvement of public sector in economic affairs by transfers of public equity to private hands, deregulation and franchising. Such a task required only a "generic" industrial policy, i.e. you set the proper capitalist playground and international markets do the rest. The second half of the 1990s were characterised by the transition to the debt-led growth of the 2000s. Although, incidentally, there were nonsensical statements in the air like "dismantling the last socialist state" by some neoliberal politicians, the Turkish governments were well aware that they already had a market economy in their hands to administer; and their commitment to economic transition (either towards an export-led or a debt-led model) would make better sense if they behave in a gradualist manner so as to avoid a major disruption in the productive apparatus. Although this awareness did not suffice to save the country from three currency crises in 1994, 2000-1 and 2008-9, Turkey had a better record of output growth in comparison to countries at the periphery of the EU.

This does not mean that Turkey was immune to the adverse impacts of the "notorious trinity", i.e. deindustrialisation, privatisation and deunionisation, which led to dramatic setbacks in the economies of some successor states of Yugoslavia. For purposes of brevity, we may rather skip over the details of these processes and address to a related major issue, namely, the evolution of a new framework for labour relations under the AKP rule.

The record of legislative action by the AKP governments is somewhat confusing. On the one hand, there are some positive legal arrangements like the constitutional amendment of 2004 which gives precedence to the provisions of the international agreements on basic rights and freedoms over national legislation, or the constitutional amendment in 2010 which, in spite of its shortcomings, legitimizes collective bargaining between unions of civil servants and the government. On the other hand, its attempts to translate these positive steps and other international conventions into provisions of national legislation are usually insufficient or half-hearted. For example, consider the restrictive provisions in Law Nr. 6356 concerning union activities and/or collective bargaining procedures, or the excessive rights conferred to the government to ban or postpone strikes. Even when the rules were set in conformity with international norms, their enforcement were often pitifully lacking.

Nevertheless, two things stand out very clearly in the context of labour relations in Turkey:

(1) Institutionalisation of flexible and/or non-standard work practices: Prior to the AKP rule, these practices had been introduced into the legal texts in a peacemeal fashion by amendments to the Labour Law Nr. 1475 (1971). The AKP went further in this direction, initiating a new labour code in May 2003 (Law Nr. 4857). From June 2003 to October 2014, the Law Nr. 4857 was amended 16 times, and 71 articles of the original text were changed. This can be taken as an indication that the AKP cares less about predictability and continuity of legal

arrangements and acts under force of circumstances rather than principles. Eventually, the country may witness a definite break from the labour regimes of the XX. century. In recent years, there is a certain congruence between these developments in Turkey and changes in employment protection regulations and collective bargaining processes in various countries, both at the core and the periphery (see ILO/IILS, 2012: 35-55).

(2) Greater political control of the labour unions: The AKP rule over the last 12 years created a different kind of "working peace", based not on a broad social consensus, but on increased political control of the labour movement. Strikes and other major labour protests have been rare in the AKP years while labour unions have lost much of their credibility among the working classes and their self-confidence as well. In the deliberations of Law Nr. 6356 (2012) on Labour Unions and Collective Bargaining in the Parliament, demands of the two major labour union confederations, TÜRK-İŞ and DİSK, have mostly been disregarded. Union activities have been "tolerated" by the government as long as unions fit into a pattern of "symbiotic" relations with it. It remains to be seen how long this undesirable state of affairs will continue in the coming years.

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Özet

Türkiye ve AB'nin çevre ülkeleri: Bir ekonomik değerlendirme

Bu yazının amacı, Türkiye'nin son üç onyıldaki ekonomik deneyimini AB'nin çevre ülkeleriyle karşılaştırarak incelemektir. Yazıda dünya ekonomisinin yaşadığı son üç orta dönemli çevrimde belli başlı ülke gruplarının başarımları değerlendirildikten sonra, 2000'li yıllardaki "borç-itişli" çevrimin canlılık ve onu izleyen durgunluk evrelerinin incelenmesine geçilmektedir. Yazının bir sonraki bölümünde Türkiye ekonomisinin uzun dönemli gelişmesi gözden geçirilmekte ve 1980'lerin başından günümüze kadar geçen uzun dönemde Türkiye'nin AB'nin (reel hasıla artışı itibariyle) AB'nin doğu ve güneydoğusundaki çevre ülkelerine kıyasla daha başarılı olduğu kaydedilmektedir. Bununla birlikte, Türkiye 2000'li yıllarda (AB'nin çevresinde yer alan ülkelerdekine benzer biçimde) sanayisizleşme belirtileri göstermekte, özelleştirme ve sendikasızlaşmanın olumsuz toplumsal etkileri ile de karşı karşıya bulunmaktadır.

Anahtar kelimeler: Ekonomik gelişme, orta dönemli çevrimler, borç-itişli büyüme, AB'nin çevresindeki ülkeler, Türkiye.

Table 2
GDP Growth Rates in the World Economy, 1983-2013 (% p.a.)

Country Groups	1983-93 Cycle			1994-2001 Cycle			2002-2013 Cycle	
	Upswing (1983-88)	Downswing (1989-93)	Average	Upswing (1994-97)	Downswing (1998-2001)	Average	Upswing (2002-07)	Downswing (2008-13)
World	3.9	2.8	3.4	3.6	3.3	3.5	4.5	2.9
Advanced Economies	4.0	2.5	3.3	3.2	2.9	3.1	2.6	0.7
Major Advanced Economies[1]	4.0	2.3	3.2	2.9	2.7	2.8	2.3	0.5
European Union	2.8	1.7	2.3	2.7	3.0	2.9	2.5	-0.1
Emerging & Developing Economies	3.8	3.3	3.6	4.4	3.9	4.2	7.2	5.3
Central & Eastern Europe	3.6	-0.4	1.8	4.0	2.1	3.0	5.7	2.2
Developing Asia	7.4	7.1	7.3	8.4	5.7	7.0	9.2	7.5
Latin America	2.1	2.6	2.3	3.8	1.7	2.7	4.1	3.2

1: Known as G-7

Source: Calculated from *IMF/WEO Database* (access: Apr. 2014).

Table 3

Current Account Balances by Major Country Groups, 1983-2013 ($ billion)

Country Groups	1983	1989	1994	1998	2002	2008	2013
Advanced Economies	-24.4	-61.5	20.5	19.9	-217.5	-480.4	61.8
USA	-38.7	-99.5	-121.6	-215.1	-457.8	-681.3	-451.5
European Union (21 advanced countries)[1] (of which, Germany)	-3.7 (4.1)	-16.2 (55.4)	12.5 (-30.5)	54.0 (-16.3)	27.1 (40.3)	-73.0 (226.1)	269.0 (214.6)
Japan	20.8	63.2	130.6	119.2	112.7	159.9	61.1
Other[2]	-2.9	-9.1	-1.0	61.8	100.5	114.0	183.2
Emerging & Developing Economies	-51.3	-32.1	-80.5	-102.7	82.7	669.2	235.8
Central & Eastern Europe	-7.6	0.8	1.4	-15.7	-18.7	-159.0	-84.8
CIS[3]	n.a.	n.a.	-1.9	-4.1	2.5	-21.6	-22.0
Developing Asia[4] (of which, China)	-17.1 (4.1)	-21.2 (-4.3)	-18.0 (7.7)	53.0 (31.5)	61.1 (35.4)	420.3 (420.6)	129.2 (223.7)
Latin America[5]	-11.2	-6.8	-54.0	-82.6	-22.3	-81.4	-152.3
Middle East, N. Africa, Pakistan & Afghanistan[6]	-6.9	-6.6	-6.2	-11.4	2.3	-25.4	-38.7
Sub-Saharan Africa[7]	-3.8	-4.3	-4.0	-9.1	-3.4	-46.2	-69.9
Fuel Exporters	-4.7	5.9	2.1	-32.9	61.2	582.6	474.4

N.B. Figures may not sum up to the total because of rounding.
[1] Current 28 members minus Bulgaria, Croatia, Hungary, Latvia, Lithuania, Poland and Romania
[2] 12 countries, including 4 East Asian “tigers”.
[3] Excluding 4 fuel exporters.
[4] Excluding 2 fuel exporters.
[5] Excluding 3 fuel exporters.
[6] Excluding 11 fuel exporters.
[7] Excluding 6 fuel exporters.
Source: Calculated from *IMF/WEO Database* (access: Apr. 2014)