

Economic change in 20th century Turkey: is the glass more than half full?



Turkey has undergone significant changes in the last century. **Şevket Pamuk** assesses the country's economic prospects.

Turkey has experienced far reaching economic changes since the disintegration of the Ottoman Empire and the emergence of the republic in the early 1920s. The primarily rural and agricultural economy has transformed into a mostly urban economy. Average or per capita incomes have increased more than five fold. Life expectancy at birth has almost doubled from under 35 years in the interwar era to 69 years. Adult literacy rates have increased from about 10 per cent to about 90 per cent.

It would be misleading, however, to judge economic performance only in absolute terms. The purchasing power parity adjusted income per capita in Turkey stands at close to 40 per cent of that of Western Europe today, a little higher than where the same ratio stood before World War One. While its long term growth record in the last century and half century has been better than the developing country averages, Turkey is yet to join the convergence club. Moreover, Turkey's economy has been plagued by recurring political and macroeconomic instability that has led to a number of crises, especially in the second half of the 20th century. The most severe of these occurred in 2001. But the fact that the economy managed to rebound strongly within a few years makes me reflect on the 'is the glass half full or half empty' question.

On the positive side, the last decade has witnessed important changes in Turkey's relations with the European Union. Although the first agreement for cooperation between Turkey and what was then

the Common Market dates back to 1963, both sides remained doubtful about Turkey's integration. Turkey's first application for membership in 1987 was turned down but it joined the European customs union in 1996. After a reasonably successful implementation of the customs union for one decade, formal negotiations for membership in the European Union began in 2006.

Turkey's transition towards an urban and industrial economy has occurred in three waves. Each of these waves was cut short, however, by the shortcomings or deficiencies of the institutional environment. After a series of legal and institutional changes undertaken by the new republic, a small number of state enterprises led the industrialisation process in a strongly protected economy during the Great Depression of the 1930s. Ultimately, however, political and economic power remained with the state elites and the economic and institutional changes remained confined to the small urban sector.

The pace of economic growth was distinctly higher around the world in the decades after World War Two. Turkey's second wave of industrialisation began in the 1960s, again under heavy protection and with government subsidies and tax breaks. Rapid urbanisation steadily expanded the industrial base. The state economic enterprises continued to play an important role as suppliers of intermediate goods. The new leaders, however, were the large scale industrialists and the holding companies in Istanbul and the northwestern corner of the country. With the rise of political and macroeconomic instability in the

1970s, industrialisation turned increasingly inward and short term interests of narrow groups prevailed over a long term vision, culminating in a severe crisis at the end of the decade.

A third wave that began in the 1980s under conditions of a more open, export oriented economy, widened the industrial base further to the regional centres of Anatolia. The rapid expansion of exports of manufactures played a key role in the rise of these new industrial centres, which began to challenge the Istanbul based industrialists. Once again, however, rising political and macroeconomic instability, growing corruption and the deterioration of the institutional environment in the 1990s brought this wave to a sharp halt in 2001.

While economic power has clearly shifted from Ankara to Istanbul, and more recently towards the provinces, the shift in political power and the move towards more pluralist politics have been far from easy or simple. Too often during the last half century, Turkey's political system has produced fragile coalitions and weak governments which have sought to satisfy the short term demands of various groups by resorting to budget deficits, borrowing and inflationary finance. Political and macroeconomic instability also led to the deterioration of the institutional environment. Rule of law and property rights suffered, and public investment, including expenditures on education, declined sharply. Weak governments have been too open to pressures from different groups or even individual firms or entrepreneurs seeking favours.

The crisis of 2001 ushered in significant institutional changes, especially in the linkages between politics and the economy, with new attempts to insulate the latter from short term interventions in the political sphere. It remains to be seen, however, whether these institutional changes will be effective and durable or whether politics and the institutional environment will regress to their earlier ways.

It is precisely at this juncture that Turkey's integration into the European Union assumes critical importance. It is not clear when, or if, Turkey will become a full member of the European Union. Nonetheless, the membership process is likely to create a stronger institutional framework for economic change. One key contribution of the goal of membership will be the strengthening of the political will to proceed with the institutional changes that would carry Turkey's economy to a new level. For that to happen, it is essential that Turkey and the European Union remain engaged in the years ahead.



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EU prospects

LSE alumna **Karina Robinson** talked to Turkish prime minister Recep Tayyip Erdoğan about progress and the challenges ahead.

On the economic front, under the auspices of the IMF, Turkey has been a star performer. At the end of his visit to the country in November, John Lipsky, first deputy managing director of the International Monetary Fund, praised the country for the big changes achieved in the past five years in fiscal adjustment, central bank independence, financial sector restructuring and privatisation. He noted that the government was committed to 'maintaining the momentum by following through vigorously on various initiatives that are underway already'. These include implementation of the new pension and health systems, tax reforms and a reinforcement of the supervisory framework for the financial sector.

However, a European Commission report that came out in the same month said that Turkey had failed to make enough progress on non-economic issues, such as freedom of expression, minimising the influence of the military, tackling corruption and increasing the independence of the judiciary. These are also among the criteria for joining the EU.

Mr Erdoğan believes that Turkey has made big strides on all fronts but acknowledges the undertaking is far from over. 'We don't have many more reform laws that have to be passed. [Now] we must focus on implementation,' he says.

The obvious difficult issues to do with full membership – extension of the common agricultural policy and labour mobility – can be negotiated, say those who support Turkey's accession. After all, the latest full recruits to the EU ranks, Bulgaria and Romania, have had restrictions imposed on the access of their labour force to the single market.

Ultimately, Turkey's accession to the EU is different from that of countries like Poland because Turkey's case must be looked at geopolitically, as an island of stability in a region that is paradoxically more unstable. It is also different because Turkey is a proud nation that is arguably large enough to stand on its own, and one in which support for EU membership fell from 70 per cent in December 2004 to 54 per cent in recent polls by the European Commission, while nationalism is

on the rise, partly in response to foreigners taking control of Turkish companies.

Last May, the Turkish prime minister played a football match as a member of the team captained by Austrian chancellor Wolfgang Schüssel, who has been vociferous in his opposition to Turkey becoming a full member of the EU. Mr Erdoğan, a former semi-professional football player, scored three out of the nine winning goals on Austrian soil. That Vienna match is also a powerful symbol. ■



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Contemporary Turkish Studies

Prime minister Recep Erdoğan (pictured) announced a new Chair in Contemporary Turkish Studies, to be based in the European Institute.

He made the announcement at an event at the School in October 2005.

The Chair is the first of its kind in Europe. Its focus on political economy and contemporary issues is unprecedented in this context. Moreover, no other European university has endowed chairs in the social sciences on both Greece and Turkey.

This Chair exists thanks to the generosity of a number of lead donors, namely the Government of the Republic of Turkey, the Central Bank of Turkey, Türkiye Odalar ve Borsalar Birliği (TOBB) – Union of Chambers and Commodities Exchanges of Turkey, Akfen Holding AS and the Aydın Dogan Foundation.

The number of Turkish students at LSE has almost doubled in the past decade to around 60, mainly postgraduates. The School has some 450 alumni in Turkey.

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