

The New Industrial Districts and the Rise to Power of AKP in Turkey

Thank you very much, Kevin, for this kind introduction.

Good evening. I would like to thank all of you for coming.

I am very pleased that we were able to begin earlier this month the activities of the new **LSE Chair on Contemporary Turkish Studies**. I sincerely hope these activities will **further enrich** the exciting events and programmes both at the **European Institute** and more generally at LSE.

As an economist and an economic historian, I thought I would adopt a **long-term perspective** this evening and discuss with you what I think of as one of the **most important economic and social developments** in Turkey in recent decades.

The Justice and Development Party, or AKP as it is known by its Turkish initials, has been in power in Turkey since the elections of 2002. This party with **Islamist origins** has been following **moderate policies**, and remarkably, has done **more for European integration** of Turkey than any other Turkish government. In the national elections last summer, they won a second term by receiving 47 percent of the vote. By this time, they are placed firmly at the **center of the political spectrum** in Turkey.

It seems to me very 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.

I intend to link this evening the electoral success 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 very influential in the **transformation and moderation of AKP and its success at the ballot box**.

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 Istanbul region, and more generally, in 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 Turgut Özal** who would later become Prime Minister and then President.

The most successful aspect of Özal's economic policies was the **drive for exports.**

GRAPH 1 : TOT X increased from less than 3 billion dollars in 1980 to to 20 billion dollars in 1990 and to more than 100 billion dollars in the last year.

GRAPH 2 : X / GDP 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.

GRAPH 3 : MANUF / EXPORTS

Equally importantly, almost all of this increase was due to the rise of exports of **manufactures. Share of manufactured goods** in total exports rose from about 35 percent of all exports in 1979 to more than percent 95 percent in 2007. Incidentally, not unique to Turkey

GRAPH 4 : EU / X

In 1995 Turkey signed the **Customs Union agreement with the European Union**. Share of European Union in Turkey's total exports has been above 50 percent during the same period.

New Industrial Centers in Anatolia

The increases in exports of manufactures since 1980 **did not all take place in the Istanbul area, in what is still the most industrialized northwest region** of the country. The expansion of exports in recent decades was accompanied by the rise of new industrial centers across Anatolia, in **Gaziantep, Denizli, Eskişehir, Kayseri, Malatya, Kahramanmaraş, Konya, Edirne and other cities.** **MAPS**

The shares of these provinces in Turkey's total manufacturing employment and manufacturing output as well as manufacturing exports has been rising rapidly.

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 been 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. Studies show that labor productivity in manufacturing in these new districts have been below the averages of not only for the more established industrial areas such as the Istanbul region but also below the averages for the country as a whole.

The small and medium sized enterprises in the new districts have relied mostly on their own capital and informal networks. They do 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.

It is also worth noting that **female labor force participation** in these urban areas and more generally in all urban areas of Turkey is still low.

Participation rates of males in urban labor markets in Turkey are very similar to the European levels but participation rates of females are less than half the levels in EU countries. If the experience of southern and western European countries is any indication, however, female employment should be expected to increase at later stages of urbanization and economic development.

With time, 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 labor productivity. The alternative, of course, is that the increases in labor productivity will be slow and these enterprises 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 **stories and 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 in the local universities 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. But we are not there yet.**

New Industrial Elites and AKP

When **Ziya Gökalp**, an influential thinker during the foundation of modern Turkey, 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 shop keepers 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 Istanbul 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. When you **visit some of these emerging industrial districts**, it is difficult not to notice that local sub-cultures are marked by a life ethic based on self help and cooperation and a sense of local belonging. Perhaps unlike the earlier generation, the emerging elites are not looking at Ankara but at their own resources to provide for the needs of their own communities. Islam and modernity coexist comfortably for these conservative and pragmatic middle classes.

The 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 Istanbul based industrial elites of the earlier wave of industrialization had established, in 1971, their own organization, called TUSIAD (the acronym stands for Turkish businessmen and industrialists). The new generation of industrialists across Anatolia founded in 1990 MUSIAD, short for independent businessmen association, but sounding very much like Muslim businessmen.

In its early years, MUSIAD 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 Erdogan and Abdullah Gul broke off from Erbakan and moved to establish a new political party in 2001, the new industrialists and MUSIAD **offered critical support to AKP for its more moderate, outward looking, pro-Europe, pro-globalization positions.** I do not want to suggest that MUSIAD 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 and 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 Istanbul region** during the last five years. I would argue, however, that AKP received much needed support across Anatolia from the industrial elites of these emerging regional centers. Whereas TUSIAD membership is small and concentrated in the Istanbul region, MUSIAD represents a much larger group of small and medium sized enterprises across the country. Certainly the support by MUSIAD 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.**

Looking Ahead

I have pointed to the rise of new industrial centers 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 they are the winners from globalization**, has played an important role in the transformation and **moderation of the AKP and its EU orientation.**

Can we expect these broad trends **to continue** in the years ahead ?

It seems to me we are at an **important junction** and **it will not be easy** to maintain **not only the economic but also the political momentum** of the recent years.

Looking ahead to the second term of AKP and beyond, I would like to conclude with **three basic observations or three pre-conditions** that may be necessary for the continuation of these trends.

My first point concerns the political and social developments.

During the first five years in office, AKP has been following moderate social as well as economic policies. It is remarkable that AKP with its Islamist background has done more any other government in bringing secular Turkey closer to the center of the EU project. Initially AKP may have looked to European integration as a means of protection against secularists pressures from state elites, but EU integration has been creating its own pressures on AKP towards embracing the secular political order. During the process, AKP has traveled a long way from its Islamist roots.

Will AKP **continue its journey towards a more moderate position**, to become, say, **a Muslim democrat party** ? This transformation would require a strong commitment not only to **a secular political order** which is a pre-condition for liberal democracy, but also to further democratization and improving civil and human rights including the right to assert one's ethnic identity.

It seems to me there is nothing inevitable about achieving the goal of liberal democracy in the Turkish environment. A good deal of hard work is still necessary. At the same time, events in 2007 have shown that many people in Turkey are justifiably concerned about losing the secular basis of democracy. They are concerned that AKP will adopt an increasingly conservative and religiously motivated policies. During the first five year term, moderation and reform has served AKP very well and one would hope that the recent 47 percent vote in the polls would not lead now to **over - confidence or complacency**.

My second concern is related to the economy. Economic success is obviously a key to the continuation of the broad trends I have outlined.

Economic success will help ensure the support of the the emerging middle class and help AKP to maintain its moderate stance and proceed with the political and social reforms.

By most criteria, the economy has done quite well since 2001. Inflation has been brought under control and interest rates have been declining. Most importantly, average or per capita incomes have risen by more than 30 percent since the lows experienced in 2001. Turkey managed to attract a lot

of **foreign investment** during the process although very little of that went to the creation of **new enterprises or new jobs**.

It appears, however, that economic success will not come as easily during the second term as it did during the first. The world economic environment was extraordinarily favorable during the last five years but it may not be equally favorable in the second term.

Even before the world economic events of recent months, the Turkish economy had begun to **slow down**. The economy has not been able generate jobs for all those who are leaving agriculture and their farms for a new life in the urban areas. The urban unemployment rate has remained persistently high since 2001 despite the strong economic recovery.

In many ways, managing the economy was **more simple and a lot easier in the first term** as **fiscal discipline** more or less took care of the recovery. **However, continued economic growth and new job creation** in the years ahead **will require more than fiscal discipline**.

Macroeconomic stabilization has come a long way but more detailed **micro reforms** will now be necessary to maintain the momentum. Leaving behind the labor intensive products and moving up the ladder towards the production of higher technology will not happen easily. Economic policy

needs to be more active and **more skillful and more creative in the second term** to maintain the economic momentum and success obtained during the first term.

Finally, perhaps the biggest question mark concerns **the European project**.

For Turkey, what should matter is not so much the membership per se but the far reaching political, economic and institutional reforms. In this respect, the EU integration process has been a **very powerful anchor** for Turkey.

The vision for membership has been quite crucial to the progress of the reform and democratization agenda. In many ways, the European anchor has also played an important role in the success of AKP. If the past is any guide, however, **politicians in Turkey** may well lose their enthusiasm for reform in the absence of such an anchor.

When some European politicians make it a priority to reverse the commitment made to Turkey only a few years ago send out **negative signals** regarding Turkey's future status in Europe, when the accession process slows down to a mere crawl, these tend to strengthen the position of those groups in Turkey who resist change. At the same time, they reduce the power and influence of those in favor of greater reform and European integration.

The result has also been greater reluctance on the part of the AKP government to take the political risks necessary to maintain the momentum on the EU agenda.

There can be little doubt that the weakening if not the disappearance of the European anchor will have serious consequences for Turkey, especially for political reforms and institutional change.

For this reason, even if Turkey does not become a member in the near future, **it is important for the two sides to remain engaged and the progress on agenda for membership to continue.**

I want to thank you all of you very much for your time this evening.

I will now be happy to answer any questions you may have.