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Joachim Becker

Financialisation, Industry and Dependency in Turkey[1]

Abstract *From a regulationist perspective, the article discusses Turkish industrial development and industrial policies in the context of the wider models of development. Since 1989, dependent financialisation has been a defining feature of Turkey's development model. Financialisation has been shown to impose limits on the available industrial policy options. Exchange rate policies have impaired the effectiveness of industrial promotion policies. In spite of a gradual upgrading of Turkey's manufacturing industry, key features of dependent industrialisation – like a weak capital goods sector or a significant reliance on imported inputs – have remained in place.*

Until recently, the AKP government was internationally praised for its supposed economic success story. "The years since 2002 have been economically the most successful of the Republic. Turkey was turned into a success story." This evaluation of Rainer Hermann (2008: 195), who was for many years the Istanbul correspondent of *Frankfurter Allgemeine*, is fairly typical of the tenor that prevailed internationally up to the increasingly deep involvement of the AKP in the Syrian war and its increasingly authoritarian tendencies. Despite a generally more critical view in both mainstream mass media and academic publications on the performance of the AKP government, the Turkish economy is still predominantly viewed as dynamic. Industry has been put into the centre stage of the success story, which is en vogue internationally. Nevertheless, comments in the Turkish financial press have been more sceptical. For example, Güven Sak (2014: 5), a commentator for the financial daily *Dünya*, mentioned de-industrialisation, which had gone on for a decade, as one of the major causes for the high deficit in the trade balance and the current account. He viewed the current account deficit in a highly critical way, as such a deficit implies vulnerability to crisis.

Thus, there are widely diverging evaluations of manufacturing, a key sector of the Turkish economy, even among liberal-conservative commentators. This article puts industrial development and industrial policies into the wider context of changing regimes of accumulation during the three and a half decades of neo-liberal policy making. For most of that era, financialisation was the dominant trait of successive Turkish regimes of accumulation. This article analyses how far changes of the industrial structure have gone and how weaknesses and limitations have evolved and how they have or have not been addressed by Turkish governments, in particular the AKP governments. It examines the policies relevant for industrial development, such as exchange rate, wage and industrial policies, in the context of the wider regime of accumulation and the broader constellation of potentially diverging business interests. One of the cleavages has been between business interests linked to financialisation and manufacturing capital. Therefore, the article addresses the question of to what extent Turkish governments have been willing and able to pursue industrial policies under conditions of strong financialisation. The article proceeds from a perspective that is informed by the regulationist and, to a more limited extent, by the dependency approach.

1. Dependency and regulationist perspectives on development

Both the dependency and regulationist approaches emerged as theories of medium-range abstraction out of Marxism (and to some extent other heterodox theories) and developed concepts sensitive to issues of space and time. Concepts for analysing accumulation play a key role in both theories, with dependency theory focusing particularly on the consequences of changing asymmetries of international insertion on capital accumulation.

From a regulationist perspective, regimes of accumulation have several dimensions; it is not one trait alone that defines them. A first basic dimension pertains to the question of whether investment is channelled primarily to productive or to financial investment. A second basic dimension concerns the spatial dimension, i.e. whether a regime of accumulation is inward looking, export-oriented or import-dependent (cf. Becker 2002: 74ff.).

In the early regulationist works of the 1970s and early 1980s, financialised accumulation did not yet play a role. Attention was mainly focused on the productive sphere, in particular on industry. One of the key issues is which industrial sub-sectors do in fact exist and how far they are interlinked with each other. Aglietta (1982: 60f.) regarded in particular the linkages between the capital goods sector and the consumer goods sectors as a crucial issue. It is a typical feature of the periphery (including partially industrialised semi-peripheral countries) that the production of machinery is – with very few exceptions – hardly developed. In peripheral and semi-peripheral economies, machinery and technology are by and large imported and sufficient foreign exchange needs to be generated in order to sustain productive accumulation (cf. Ominami 1986: 119ff.; Becker 2002: 69). The Turkish economy has repeatedly faced this type of external constraint.

In the peripheral and semi-peripheral contexts, sectors linked to ground rent often play a key role. This has been more extensively discussed in relation to extractive activities, such as agriculture and mining (Ominami 1986: 121), than in regard to tourism (Seers 1979: 9ff.), construction and real estate (López/Rodríguez 2010; Sönmez 2015: 104ff.). These sectors have in common the fact that they enjoy protection through the existence of a differential rent, which is partially dependent on ecological conditions, but can only be extracted if the state enables their valorisation. For example, mining requires specific permits, while housing construction and real estate development depend on urban planning and public infrastructure provision. In Turkey, it is particularly sectors like housing, real estate and tourism that play a key role, since agro-ecological conditions are not particularly favourable for agricultural activities and mineral resources are not abundant. The existence of differential ground rent allows, to some extent, to compensate for lower productivity (cf. Becker/Weissenbacher 2015: 4f.). The trend towards sectors relying on ground rent tends to be strengthened when the national and/or international political constellation is biased against protective measures (such as tariffs) that would favour local production.

As Arrighi (1994) pointed out, capital turns towards financial investment when productive accumulation shows signs of exhaustion. In such an arrangement, which is usually characterised by a higher degree of uncertainty, financial investments have the (seeming) advantage of a high degree of capital flexibility and liquidity (Arrighi 1994: 221ff.). Capital originating in the core countries also looks for new geographical areas for financial investment. The more developed parts of the periphery become more attractive and usually offer higher interest rates. In globally expansionary phases of financialisation, substantial money capital flows into the (semi-) periphery. In the peripheral areas, financialisation usually only comes into full swing through these capital flows. Its sustenance is dependent on the continuation of such flows. Therefore, financialisation in the periphery can usually be characterised as dependent financialisation (Becker 2014).

It is possible to distinguish two forms of financialisation: one that is based on 'fictitious capital', i.e. shares, bonds etc., and one that is based on interest-bearing capital, i.e. credits (Becker et al. 2010: 228ff.). In the case of fictitious capital, the investors are primarily interested in price rises of financial assets. Ephemeral stock exchange booms – and the following busts – are typical of this type of financialisation.

The second form of financialisation, which is based on interest-bearing capital, tends to be more important in the semi-periphery, which includes Turkey (cf. Becker et al. 2010: 229f.; Güngen 2010). This form of financialisation is characterised by relatively high interest rates and/or the very rapid expansion of credits. Due to higher perceived risks, interest rates tend to be higher in the periphery. This turns them into a potentially attractive place for financial investments. If, however, interest rates are extremely high, there is usually only one borrower that seems to be able to afford them, namely, the state. Financialisation that relies essentially on high interest payments from the state can be termed state-centred. While extremely high interest rates are a highly attractive option for financial investors, they have detrimental impacts on both state capacities and productive investment. In the case of high interest rate payments, fewer financial resources are available for other recurrent state expenditures or public investment. In addition, high interest rates make credit-financed investments of local small- and medium-scale companies that are dependent on the domestic banking sector almost impossible.

If interest rates are not prohibitively high, expansion of household credits is another key area of this type of financialisation. Differing from the past, credits have been extended to worker households at a massive scale during recent decades (cf. Dos Santos 2009). Financialisation that is based on the substantial provision of credits to households can be called mass-credit-based financialisation.

Credit booms in the periphery are usually fuelled by high capital inflows. Banks finance increasing local credit provision by external credits. They thus incur liabilities in foreign exchange, which makes it attractive to banks to lend in foreign currency to local debtors, and, therefore, provide incentives in relatively lower interest rates for foreign exchange credits. This is often an important driving force behind dollarisation or euroisation. Low trust in the stability of the national currency might be an additional factor for preferring transactions in a foreign currency. This is particularly the case if inflation had been very high and/or severe financial crises had occurred (cf. Salama 1989: 14ff.). Debtors of foreign exchange credits additionally face exchange rate risks. Foreign exchange debtors push for policies that at least sustain the exchange rate because they would face substantially higher debt service payments in the case of currency devaluation. However, such an exchange rate policy often has a negative effect on the current account since increasingly valorised exchange rates stimulate imports to a very strong extent. It becomes more and more difficult to defend the exchange rate even by offering higher and higher interest rates. The (partial) dollarisation or euroisation of credits is thus extremely prone to crisis (cf. Becker 2007).

It makes a crucial difference to the model of accumulation and its vulnerabilities whether accumulation is oriented towards the domestic market, or is export-oriented or import-dependent (Becker 2002: 70ff.). As Beaud (1987: 100ff.) pointed out, strategic import-dependence is usually a characteristic of "dominated" economies – or, using the Latin American structuralist or dependency terminology, peripheral economies. Import dependence usually has two inter-related dimensions. A weak capital goods sector implies the need to import machinery. Any growth that relies on increasing investment leads to a rapid increase in imports. If exports do not grow concomitantly, the trade balance worsens. In order to finance ballooning trade deficits, increasing capital imports – through foreign direct investment and/or external credits – are required for sustaining growth. Therefore, these two forms of import dependence are usually linked.

Accumulation strategies need suitable regulation – social and legal norms, and policies – in order to succeed. A stabilised regime of accumulation requires a coherent and fitting *dispositive* of regulation (cf. Becker 2002: 122). Four structural forms of regulation dealing with key contractions of capitalism can be identified:

The labour relation: this refers to the relationship between capital and labour, and thus the vertical axis of class conflicts. It encompasses issues like wage formation, working conditions and social security arrangements.

The competitive relation: this refers both to the competition between individual capital and to competition between other segments of classes, e.g. the competition of workers for relatively well paid jobs along lines like gender, nationality etc. Thus, it deals with the question of conflicts cutting through classes. This can be called a horizontal or, at times, diagonal conflict axis. In relation to the competition between individual capital, issues like rule on competition, sector or tariff policies are of prime importance.

The ecological constraint: the use of nature in the form of extraction and as a sink is at the beginning and the end of the (material) accumulation process. Conditions, forms and limits of access to natural resources are highly contested areas falling within the realm of the ecological constraint.

The monetary constraint: accumulation is mediated through money. Money is at the beginning and end of accumulation. Access to credit, interest rates, exchange rates, and the use of currencies form part of the monetary constraint (Becker 2002: 150ff.; cf. for a slightly different, but for a more canonical form Boyer 2015: 22ff., 160f.). Both the ecological and monetary constraints encompass both the vertical and horizontal conflict axes.

Industrial accumulation strategies require a backing by all these structural forms of accumulation. They depend to a significant extent on the state – including the civil society that is interwoven with the core of the state. In the realm of civil society, social organisations aim at gaining acceptance for their economic, social and political projects and at making decision-making centre of the state adopt legislation and policies in line with their proposals. Key organisations of civil society such as business associations and trade unions are based on classes or class fractions. Capital interests are not necessarily homogeneous. Depending on the size of the firm, the branch of its activities, its orientation towards the domestic or external market, differentiated interests in key policy fields might emerge.

Along lines like the size of the firm, the branch of activity, and the orientation towards the domestic or external markets, capital factions might crystallise into distinct interest associations (cf. Ercan 2009: 32ff.). Such associations are confronted with other class-based organisations as well as, possibly, civil society organisations whose membership cuts across classes. Out of civil society conflicts, power blocs might emerge that are able to get a wide acceptance for their societal project and to gain hegemony. This requires material concessions to other forces. Since material resources for social compromises are less readily available than in the core countries and socio-economic heterogeneity tends to be relatively high, it is difficult for power blocs in peripheral and semi-peripheral societies to build a strong hegemony (O'Donnell 1996: 35; Becker 2008: 19ff.).

Political parties are another relevant access channel to state decision-making centres. They are able, to some extent, to set political agendas and to directly get hold of 'commanding heights' of the state. This channel is, however, not always open. Through *coup d'états* and the establishment of military regimes, this avenue might be blocked in moments of crisis. Usually, a military coup goes hand in hand with repression against specific civil society organisations.

Social groups have differing opportunities and abilities to get access to decision-making centres. Political struggles evolve not only around policies, but also about the hierarchies of state institutions – parliaments, ministries, central banks, autonomous regulatory authorities, and the judiciary – since these power relations between state institutions have an impact on policy outcomes. The "strategic selectivity" of the state (Jessop 2002: 40) is a contested issue. It is obvious that legislation and policies resulting from the political struggles in civil society and the state might be inconsistent and even contradictory, in particular in the absence of a homogenising, relatively strong hegemonic power bloc (cf. Evers 1977: 128f.; Jessop 1990: 152ff.; Faria/Winckler 1994: 439).

The capitalist state is materially dependent on fiscal resources (taxes, credits). This renders the state dependent, to a significant extent, on a well-functioning capital accumulation which provides the material base for taxation. In the periphery and semi-periphery, the availability of foreign exchange tends to be a structural bottleneck of accumulation (Ercan 2006: 401). Therefore, capital bringing foreign exchange in through the export or credit nexus has particularly strong leverage over the peripheral state (Becker 2008: 12 ff.; cf. also Evers 1977: 80ff.). External interests are often "internalised" in the structures of the peripheral states (Cardoso/Faletto 1976: 218), for instance, as in the case of foreign companies as becoming part of the local business associations. In addition, external interests tend to enjoy the support of their 'home' states and international financial institutions.

Conflicts tend to become more open, and policies become more contested in moments of crisis. In a moment of multiple – economic, political and social crisis – the Turkish political right pushed through new neo-liberal forms of policies, which paved the way for new regimes of accumulation.

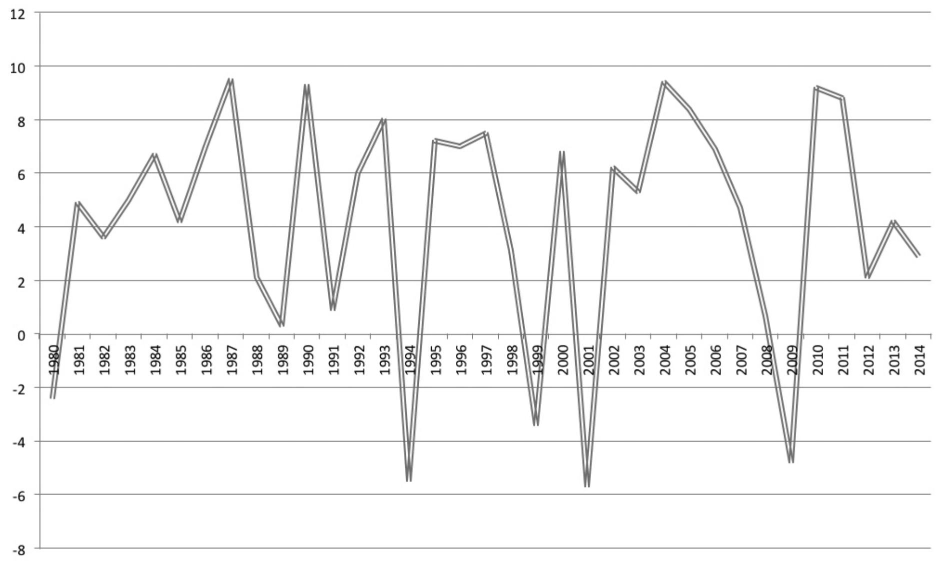
2. From export-orientation to financialisation

In the 1970s, the rather inward-looking development models of the Mediterranean countries (e.g. Spain and Egypt) entered into crisis. Economically, the crisis was particularly acute in Turkey. The country faced serious balance of payments problems. Due to the dearth of foreign exchange, bottlenecks emerged for some key commodities, particularly energy. At the same time, trade union militancy and political conflicts increased. With the so-called 24 January measures, the Turkish government adopted a very tough liberalisation and austerity programme, which was backed by the International Monetary Fund (IMF) and the World Bank in 1980 (Boratav 2003: 140ff.). This programme signalled the abandonment of the import substitution model of 1980 and the switch towards neo-liberal policies. In the years after 1980, three predominant traits of accumulation can be identified:

Export-orientation (1980-1988);
State-centred financialisation (1989-2001)
Mass-credit-based financialisation (since 2002)

2.1 Development Model I: Export-oriented accumulation (1980-1988)

The 24 January programme signalled the switch towards an export-oriented strategy, which was to last until 1988 (Boratav 2003: Chap. VIII; Ataç 2003: 132ff.; Ataç 2013: Chap. 3). The export promotion strategy was essentially based on low wages. The military regime that was installed through a *coup d'état* in September 1980 created the appropriate political conditions for pushing through drastic wage cuts and liberalisation measures (cf. Boratav 2003: 147ff.; Yalman 2009: 300ff.). While the trade unions were ruthlessly repressed and labour legislation amended in favour of capital, real wages declined by 40% between 1980 and 1988 (Ataç 2013: 45). The small peasantry was equally heavily penalised since agricultural prices declined relatively to industrial prices by 39 percentage points (Boratav 2015: 138). Exports were additionally promoted by the devaluation of the Turkish lira and specific export support measures. Indeed, exports increased from 2.3 bn to 11.7 bn US$ between 1980 and 1988. The export profile displayed a clear trend of de-primarisation. The share of industrial goods in exports increased from 36.8% to 80% (Ataç 2003: 133). However, it was traditional manufacturing sub-sectors like food, textiles and metal products that were dominant. The deficit of the trade balance decreased, but it did not disappear, in spite of the massive export promotion measures (Pamuk 2014: 268ff.). The average current account deficit amounted to a relatively moderate 1.4% of GDP between 1980 and 1988 (Koç 2015: 125; Graph 1). In addition, export growth was not based on a sustained investment effort, as Şevket Pamuk (2014: 270) points out; instead, it relied on low wages. This was a key weakness of the outward-looking, export-promotion strategy.



Graph 1: Turkey – GDP Growth Rate to Previous Year (%), 1980-2014
Source: OECD.Stat

Koç (2015: 124ff.) perceives this period as the first sub-period of financialisation in Turkey due to the creation of the necessary institutional infrastructure, as instanced in the creation of the Capital Market Council (Sermaye Piyasa Korulu). However, the creation of infrastructure is not sufficient on its own to bring about financialisation. The severe debt crisis of the periphery put a massive brake on capital flows to the periphery in the 1980s. This was a structural impediment to financialisation in Turkey in those years. It was only with the restructuring and securitisation of Third World debts, which was set into motion by the Brady Plan, that capital again started to flow massively into the periphery from 1989 onwards (Sgard 2002: 230ff.).

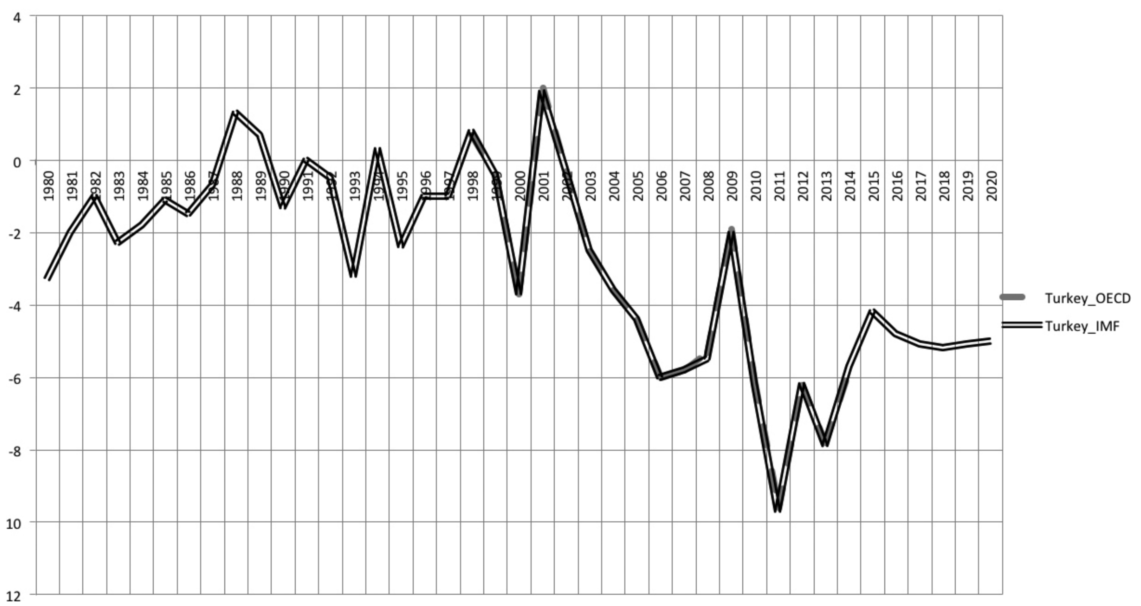
2.2 Development Model II: State-centred financialisation (1989-2001)

1989 was the year that marks the beginning of financialisation as the defining trait of the Turkish accumulation model. The financialisation period can be sub-divided into two sub-periods. The first one stretches from 1989 to 2001 and was based particularly strongly on the state debt. The second sub-period started in 2002 and has lasted until today. A rapidly increasing private household debt is a key feature of the second period. Both periods have a common massive reliance on capital inflows (cf. Ataç 2013; Boratav 2015: 100ff.; Ergüneş 2008: 173ff.; Koç 2015: 130ff.; Yeldan 2004: 54ff., 127ff.). Thus, Turkish financialisation can be characterised as a 'dependent financialisation'.

Turkish financialisation started at a difficult juncture for the right-wing government in Turkey. In the late 1980s, workers pressed vehemently for higher wages and forced concessions on government and capital. It was no longer possible to deal with the balance of payments problem by export promotion based on wage repression. The way out was to be the promotion of capital imports. This had turned into a viable option due to the renewed willingness of capital to make financial investments in the periphery.

In 1989, Turkey radically liberalised external capital flows (cf. Boratav 2003: 179; Ergüneş 2008: 173, 376; Yeldan 2004: 129). Turkey offered high interest rates in order to attract foreign capital. Turkish banks, which used to be part of diversified economic groups, lent the money at even higher interest rates to the state. The state was the principal borrower. The borrowing needs of the state increased from 4.8% to 15.1% of GDP between 1988 and 1999 (Yeldan 2004: 115, tab. IV.1). The high interest rates were a key driver for the exploding credit needs of the state. In 1999, interest payments on the domestic debt alone swallowed 35.1% of total state expenditure, leaving hardly any space for any sectoral promotion activities or social policies (ibid: 119). The high interest rates served to transfer financial resources from the public sector to financial capital (Koç 2015: 127). Therefore, this phase of financialisation can be characterised not only as dependent, but also as 'state-centred'.

Financial placements were so attractive that industrial companies – often part of larger economic groups – went into that field as well. Yeldan (2004: 155) points out that the increasing share of income derived from the non-industrial activities of large industrial corporations indicates a "rentier type of accumulation of the real sector". In addition, investment increasingly shifted from manufacturing to internationally non-exposed sectors like real estate, as early as the 1990s (Ataç 2013: 79). Imports grew more rapidly than exports, and the average current account deficit reached 0.5% of the GDP between 1989 and 2001 – albeit with significant fluctuations (Koç 2015: 129; Graph 2). The average figure of the current account deficit does not appear to be problematic. In pre-crisis years, however, current account deficits reached critical levels. The austerity and recession of the crisis years brought about an improvement of the current account.



Graph 2: Turkey – Current Account Balance as a Percentage of GDP, 1980-2020
Source: OECD.Stat and IMF Databases, OECD: 1995-2014, IMF: 1980-2020 (estimates after 2013)

The financialised accumulation model was highly dependent on capital inflows and highly volatile. Increasing dollarisation was a key factor for increasing the vulnerability to crisis. This trend could be ascribed to two factors. On the one hand, the high rate of inflation diminished the trust in the national currency. Contracts such as rent contracts were increasingly concluded in foreign currency (Ataç 2013: 96). On the other hand, international interest rates were significantly lower than interest rates for domestic credits in Turkish lira. This was an incentive for arbitrage business – for example banks providing high interest TL credits to the state which were refinanced by cheaper international loans, and, in the case of large private companies – to incur external rather than domestic debts (ibid: 78). The high degree of dollarisation was one of the main factors behind the policies of a 'strong' Turkish lira. Similar to policies in Latin America in the late 1970s and in the 1990s, the 2000 IMF-backed stabilisation programme even made an overvalued exchange rate the key for pushing down inflation through increased competition by cheap imports (cf. Yeldan 2004: 165ff.; Ataç 2013: 107f.). This policy penalised exporting companies and stimulated imports with the consequence of a deteriorating current account. Maintaining growth and the exchange rate was highly dependent on attracting capital inflows (and avoiding capital flight). The capital inflows consisted to a significant extent of short-term placements or "hot money" (Yeldan 2004: 135ff.). Such an arrangement is not viable in the longer run. In the Turkey of the 1990s, this arrangement proved to be particularly prone to recurrent crises. The Turkish economy suffered from successive financial crises in 1994, 1998/99 and 2001 – with the last one being the most devastating one (cf. Boratav 2015: 109ff.; Yentürk/Onaran 2005). Permanent instability was inscribed into the very foundations of the accumulation model of the 1990s (Yeldan 2004: 142). Permanent instability led to successive IMF 'stabilisation' programmes that deepened neoliberal policies and institutional set-ups (cf. Ataç 2013; Bağımsız Sosyal Bilimciler 2007: 17ff.).

2.3 Development Model III: Mass-credit-based financialisation (since 2002)

The 2001 stabilisation programme, initiated by a shaky coalition government and with Kemal Derviş, a former high-ranking World Bank official, as the key architect, paved the way for a changed model of accumulation and a different form of financialisation. Key elements of this programme, whose basic lines the AKP governments continued to follow after assuming office in 2002, included the reorganisation of the banking sector and the creation of independent regulation authorities as key components. After the strong devaluation in 2001, further shock-like devaluations were to be avoided (cf. Ataç 2013: 113ff.). In fact, the AKP governments returned to the policy of a 'strong' Turkish lira (TL), which, however, has been attenuated over the last six years (cf. Boratav 2015: 100ff.; Benlialper/Cömert 2015; Şener 2015: chap. 8).

Through policies that were attractive for foreign capital, the AKP governments attracted high capital inflows. Firstly, relatively high interest rates which induced the inflow of money capital though Turkish monetary policies have been more openly contentious and ambiguous since the 2008/2009 international crisis. This crisis, which briefly interrupted the capital inflows, provoked a severe recession in 2009 (cf. Bağımsız Sosyal Bilimciler 2009; Sönmez 2010a: 35ff.). However, the capital flows into Turkey were resumed relatively soon after the peak of the crisis since international capital regarded the country as one of the 'emerging markets'. The policies of almost zero interest rates and quantitative easing of the core countries' central banks made 'emerging markets' like Turkey attractive destinations for financial placements. However, uncertainty increased as well. Accordingly, the share of short-term debt, so-called 'hot money', in Turkey's external debt has significantly increased since the crisis (Erdem 2015: 160 ff.; Boratav 2015: 149ff.). This is a symptom of increasing financial fragility. Secondly, massively accelerated privatisation attracted foreign direct investment. Banking has been one of the key sectors of FDI accounting, like manufacturing, for about a fourth of total FDI stock in 2010 (Hunya 2012: 127, tab. II, 17.1; Erdem 2015: 165).

The strong role of the banking sector in FDI is a reflection of the continuing key role of financialisation in the accumulation model of the AKP years. However, the form of financialisation has changed in comparison with the 1990s. The rapid increase in household debt has been a defining feature of the last decade. Starting from a very low level of only 3.0% of GDP in 2003, household debts increased to 23.8% of GDP in 2013 (Bağımsız Sosyal Bilimciler 2015: 169). Real wage growth was very low (Sönmez 2010a: 109) and consumption credits contributed to sustaining or even increasing consumption. Low income earners account for a very significant share of consumption credits: in recent years, debtors with monthly incomes below 2000 TL incurred between 40% and 50% of all consumption credits (Bağımsız Sosyal Bilimciler 2015: 176, tab. V.4). However, housing credits grew even more rapidly than consumption credits.

Real estate and construction – often closely linked to the ruling party – played a key role in the accumulation model of AKP (Bağımsız Sosyal Bilimciler 2015: chap. VIII). Pro-construction policies are not confined to housing-related policies. Large infrastructural projects boost construction as well. This focus on ground rent-related economic activities is typical for peripheral economies. Debt-financed growth of consumption stimulated to some extent local industrial production. The policy of the 'strong' Turkish lira, however, particularly favoured imports whose price competitiveness was enhanced by the Turkish exchange rate policies. Until 2011 and 2012, the current account deficits increased rapidly until they reached almost 10% of GDP. On average, the current account deficit was 5.7% of GDP between 2002 and 2012 (Koç 2015: 132, tab. 3). This is clearly beyond the critical level.

While the average growth rate of 5.1% between 2002 and 2012 was relatively high (higher than in the two earlier phases of neoliberalism in Turkey), economic growth has slackened since 2013. The external capital inflow stimulus has considerably weakened, which affects the growth motor – namely, debt-financed real estate and consumption. Moreover, the structure of external debt has consistently worsened over the last years. In 2015, there was a massive net outflow of portfolio investment (15 bn US$, Aktaş 2016: 4). The flight of 'hot money' might indicate a pre-crisis situation, Boratav (2016: 5) points out. While cheap energy imports have recently improved Turkey's trade balance, exports plummeted even more rapidly than imports in early 2016. Compared with a year earlier, exports were 22.0% lower in January 2016 (BİA Haber Merkezi, 1 March 2016). Contraction of exports was particularly strong in the case of several countries in the Middle East (BİA Haber Merkezi, 1 March 2016). This downward trend has been closely linked with the deterioration of political relations, which have been caused by AKP's regional policies aiming at gaining a key regional position through supporting like-minded forces of religious right, such as the Muslim Brotherhood, in the post-Arab rebellion conflicts after 2011. It was precisely the Turkish involvement in the war in neighbouring Syria that has affected external economic relations. The negative effects have not been confined to the region. Economic relations with Russia have also rapidly deteriorated because of fundamentally conflicting positions on the war in Syria (cf. Özdal/Has 2016: 38ff.). Moreover, tourism has been affected by the terrorist attacks in Istanbul and Ankara and by external policy frictions. It can thus be concluded that the AKP government faces the exacerbation of the contradictions of its accumulation model, a model based on high capital inflows and a still overvalued currency through its own external policies.

Though Turkish per capita GDP has increased, the basic features of a peripheral economy have been reproduced over the last 35 years. Thus, the economy remains highly dependent on key imports. The current account deficit has tended to grow, particularly so during the AKP years. With the beginning of financialisation, growth has become highly dependent on foreign capital inflows and economic policies have been focused on attracting foreign capital, first loans and, with the coming of the AKP, foreign credits and FDI. The forms of external dependence have been modified and transformed. External economic dependence as such has even increased. The highly financialised accumulation models have been characterised by a high vulnerability to crisis.

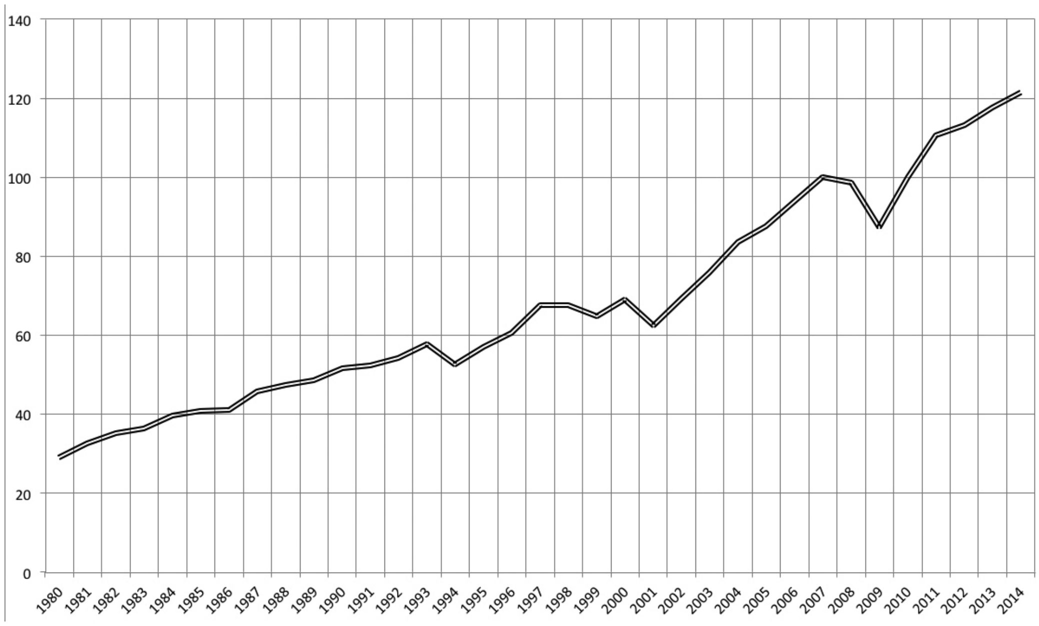
3. Industrial development patterns since 1980

Though industrial production in Turkey has tended to grow until now, the relative importance of industry in the Turkish economy has declined since the late 1990s. As the economic historian Şevket Pamuk (2014: 349f.) observes, the share of the manufacturing industry in the GDP has "receded rapidly" since that time and more or less equals the level of the late 1970s. In 2010, the share of manufacturing in GDP was 16%. This was one percentage point less than in 1980 (ibid.: 305, tab. 23.3). This relative loss of importance of manufacturing industry reflects the shift towards non-tradable sectors (Tanyılmaz 2013: 78), which has been accentuated *inter alia* by the exchange rate policies.

The changes of the industrial production structures and the geographical orientation of exports cannot be neatly fitted into the periodisation of the three development models since 1980. These models are, however, reflected in the growth performance, investment and in the orientation of production towards exports or rather towards the domestic market. The development model and industrial production were both rather export-oriented from 1980 to 1988. Exchange rate and industrial promotion policies systematically promoted only exports from 1981 to 1987. Though industrial production grew during those years, this growth relied on the utilisation of spare capacities rather than new investment. Wage repression was clearly a brake on production and investment dynamics (Yentürk/

Onaran 2005: 200ff.). Export growth, thus, was not based on a substantial renewal of machinery and the technological base. The limits of that export strategy became visible when labour was able to push through substantial wage increases during a brief period in the late 1980s and early 1990s. The external constraint was to be felt again.

The 1990s were characterised by a very high degree of economic instability, which had a detrimental influence on industry as well. The financial crises led to recurrent recessions that affected manufacturing production (cf. Graph 3). The endemic instability dampened investment. Manufacturing investment stagnated in the 1990s (Ataç 2013: 79). Its time horizons tended to be short.



Graph 3: Turkey – Production in Total Manufacturing 1980-2014
Source: OECD.Stat

Growth of industrial production picked up after 2002. Since that date, industrial dynamics have been part of a more inward-looking and increasingly import-dependent regime of accumulation (Tanyılmaz 2013: 77). This was reflected in an export share that remained – after a growing tendency in previous years – stagnant at around 15% to 17% of GDP, while the import share grew substantially from 21.0% to 25.2% between 2001 and

2010 (Buğra/Savaşkan 2014: 69, tab. 2.4). The growth in domestic demand did not rely on strong wage growth. Real wages recovered only slowly from the slump after the 2001 crisis (cf. Öngel/Tanyılmaz 2013: 39; Bağımsız Sosyal Bilimciler 2011: 77, tab. 3-2). The dynamics of the domestic demand for industrial consumer goods has – until very recently – been stimulated by the rapidly increasing household indebtedness (consumer credits, car credits etc., Tanyılmaz 2013: 78). However, credit growth is a shaky and, in the medium-term, an unsustainable base for manufacturing growth.

The structure of manufacturing has been gradually transformed since the 1980s. While industrial production had been dominated by resource-intensive sectors like agricultural products and food in the 1980s, there has been a change towards "low technology industries (textile and clothing being the leading example) in the 1980s, and towards medium technology sectors (machinery and automotive) since the mid-1990s" (Taymaz/Voyvoda 2012: 111). Although the share of machinery production in manufacturing value-added has grown (Atiyas/Bakış 2013: 22), it is still low. In 2006, it reached 7.9% (ibid: 22, tab. 10). This weakness of the capital goods sector is a typical feature of a semi-peripheral, dependent economy. The limitations of the sector changes go beyond the issue of the continuing weakness of machinery production. The low share of high technology sectors has shrunk in both production – from 5.1% to 4.1% – and exports – from 6.2% to 3.1% – during the period 2002-2007. The share of upper middle and lower middle technology sectors increased during those years, though much more strongly in exports than in production. The share of low technology sectors in production fell from 50% to 39% and, more strongly, from 46.8% to 28.3% in exports. Low and medium low sectors continue to dominate both production and exports (Ergüneş 2012: 104, tab. 3). In view of this production profile, it is not surprising that low wages and badly protected labour have continued to be a key component of industrial strategies (cf. Ergüneş 2012: 103).

The changes in the industrial production and export structures of the AKP years have been partly linked to the closer integration into cross border production and trade networks, particularly in sectors like cars and electrical machinery and equipment (Taymaz/Voyvoda 2012: 98). The Turkish production sites and firms tend to be in dependent positions within these networks (cf. the case studies for Gebze in Öngel 2012: 164ff.).

The integration into the international production chains and sectoral change has caused an increasing import dependence in manufacturing in Turkey (Tanyılmaz 2013: 75). The dependence of manufacturing exports on imported intermediate goods is substantially higher in Turkey than in the Central East European countries (or Mexico; Saygili et al. 2009: 2). The policies of an overvalued currency have favoured a high reliance on imported inputs (cf. Yılmaz 2011: 102). Those sectors which have displayed an overall positive contribution to exports between 1998 and 2009 have been classified – with the exception of motor vehicles – as belonging to the "low" or "medium-low" technology sectors (Taymaz/Voyvoda 2012: 99). Large industrial companies have played an increasingly important role in exports (Yılmaz/Tezcan 2011: 119).

Since 1980 the destinations of Turkey exports have shown some shifts, which have been partly due to trade policies and partly due to the economic and political situation in key markets. In the 1980s, the government of Turgut Özal favoured closer links to Middle East countries. In the early 1980s, exports to the Middle East showed a strong increase, particularly to Iraq and Iran, which were at war with each other during those years. However, the longer the war between those two countries went on, the more their economy and their ability to pay for imports suffered. The share of exports to the Middle East declined strongly in the second half of the 1980s. In the early 1990s, the share of exports to the EU reverted more or less to the late 1970s level of around 50% of Turkey's total exports. They remained more or less at that level until the 2008 global crisis (Pamuk 2014: 281, tab. 21.2). Thus, the EU was the prime export market during those years. In 1996, a customs union agreement between Turkey and the EU came into effect. This was viewed as a step towards EU membership. The AKP government made substantial efforts to gain – after many decades – the official status of an EU candidate. This status was finally achieved in 2005 – though with hardly any progress in the negotiations thereafter. After 2005, the "consensus in the business community also started to disintegrate. (…) The small and medium-sized firms felt that the accession process was influenced more by big businesses and they stood to lose" (Arısan Eralp/Eralp 2012: 176). Since the beginning of the present global crisis, the share of exports to the EU, where austerity policies stifle demand, has fallen drastically from 56.3% in 2007 to 38.9% in 2012 (Buğra/

Savaşkan 2014: 70, tab. 2.5). The AKP government actively promoted closer economic links with Middle East countries (Yeşilyurt 2013). During the AKP years, the share of exports towards the Middle East grew strongly and reached 27.8% in 2012 (Buğra/Savaşkan 2014: 70, tab. 2.5). Some specific factors – like a strong impetus for Turkish exports to Iraq by the consumption needs of the US occupation forces, or the construction boom in Dubai – played a role in the strong export increases (Karlı 2012: 129). The same applies to recent downturns. The regional conflicts and the political positioning of the AKP government made exports to Syria, Iraq and Egypt contract drastically in recent times (BİA Haber Merkezi, 1 March 2016). The fact that the Middle East is the only major export region where Turkey achieves a substantial trade surplus reflects the weaknesses of Turkey's industrial structure. The lowering of external tariffs, which resulted from the customs union agreement with the EU, increased the competitive pressures on Turkey's industry, at least in some areas. It seems to be one of the factors that contributed to the strong increase of industrial imports from Asia (Karlı 2012: 133).

"It seems", conclude Taymaz and Voyvoda (2012: 99), "that Turkish industry in the post-1998 period continues to specialize in the production of consumption goods and is associated with deficits in intermediate goods production as well as production of capital goods and primary goods." It continues to be an industrialisation model that is dependent on imported machinery, technology and intermediate inputs. Regarding manufacturing, Turkey might be located in the medium layer of the semi-periphery within the international division of labour.

4. Industrial interest groups and industrial policies

Contrary to most South and East European countries, Turkish governments have continued to pursue industrial policies. However, it is not only industrial policies that impact on industry. Macro-economic policies, in particular exchange rate and wage policies, play a crucial role as well. Industrial interest groups do influence economic policy-making, in particular industrial policy making. Industrial interest groups reflect a basic economic stratification and, to a lesser extent, divergent political orientations. The basic dividing line is between large, diversified holdings and smaller companies which usually have a narrower specialisation and often tend to be inclined towards conservative-religious political currents (cf. Sönmez 2010b; Öztürk 2015; Buğra/Savaşkan 2014: 112ff.). Large Turkish companies are usually diversified holdings (cf. Öztürk 2010). Therefore, their manufacturing activities tend to be only part of their portfolio. This also shapes their interests with regard to economic policy making. For example, manufacturing export interests and financial interests have to be balanced regarding exchange rate policies. The balance is not necessarily in favour of industrial exports. The interests of the big capital groups are organised by TÜSİAD (Türk Sanayici ve İşadamları Derneği). Though 'laicist' big capital groups dominate TÜSİAD, some large holdings, which are linked to the conservative-religious current and whose growth has been favoured by the links to the presently ruling party, are TÜSİAD members as well (Öztürk 2015: 6). Small- and middle-scale capital have their own interest groups. TÜRKONFED (Türk Girişim ve İş Dünyası Konfederasyon) represents a part of middle- and small-scale capital, but, through its association with TÜSİAD, has a link with large-scale capital. MÜSİAD (Müstakil İşadamları Derneği) and TUKSON (Türkiye İşadamları ve Sanayiciler Konfederasyon) were formed in the 1990s and are close to conservative religious currents. MÜSİAD represents, in particular, capital in "labour intensive" sectors, like construction, services, textile, food and furniture production, which are characterised by "informal and trade union-less" labour relations (Ayhan/Sağıroğlu 2011: 140). TUKSON, which is perceived to be close to the Gülen Community that was once organically linked to AKP, but now has fallen foul with the governing party, has defended pro-globalisation positions which reflect the export interests of its members. In regard to export promotion, TUKSON's influence has diminished in favour of TİM (Türkiye İhracatları Meclisi). TİM is a semi-official organisation to which major exporting companies have to affiliate (Sönmez 2010b: 67ff.). Though capital and industrial interest organisations have had concurring views on many economic policy issues, some open controversies have emerged among them, *inter alia*, as to whether the government should have concluded an austerity-laden accord with the IMF in 2009. TÜSIAD was in favour, while MÜSİAD was opposed to the standard IMF austerity measures (ibid.: 129).

Exchange rate policies exercise a major influence on industrial strategies. While Turkish governments opted for a relatively lowly valuated TL in the 1980s, exchange rate policies in the era of financialisation have been characterised by the preference for a strong TL, which favoured primarily financial interests, at least until the global crisis of 2008. Exchange rate policies have led to recurrent controversies. TİM, as a representative of export capital and interest organisations of small- and medium scale capital, has questioned the strong lira policies and the accompanying high interest rates (Ercan 2009: 47; Şener 2015: 299f.). Financial and commercial capital, but also industrial companies that rely heavily on imported inputs, favour a strong currency. Rifts between the capital groups have surfaced within the ruling AKP and between top AKP officials and the central bank. Since the global crisis of 2008, the strong lira policy has been attenuated in order to stimulate the economy through lower interest rates (Şener 2015: 293 ff., 300ff.). This indicates a slight shift in favour of real estate and construction capital as well as small- and medium-scale industries, and shows the limits of the central bank's autonomy (ibid.: 309ff.). The position of the central bank within the ensemble of state institutions seems to have been weakened. The space for reducing interest rates and depreciating the currency is circumscribed by the substantial foreign exchange debts of private companies. Strong currency depreciation would put foreign exchange debtors in a very delicate situation.

Industrial capital has been compensated for the detrimental effects of the overvalued TL on international price competitiveness by policies of wage repression, flexibilisation of wage relations, and generally anti-union policies (cf. Bağımsız Sosyal Bilimciler 2015: 56ff.). Widespread subcontracting, even in technologically relatively advanced sub-sectors like shipbuilding, is an important obstacle to unionisation (cf. Arslan 2015: 289ff.). Employers try to divide workers along nationalist lines, playing Turkish against (Turkish)-Kurdish workers (cf. Aslan 2015: 301ff.). The number of workers covered by collective bargaining agreements has been halved since 1990/91 (Sönmez 2010a: 107). Nevertheless, in a few cases, government and capital had to temporarily backtrack in the face of labour action (ibid: 80ff.). The AKP government stimulated increasing consumer credits in order to counteract the dampening effect of low wages on domestic demand. This policy now seems to have reached a certain limit. The AKP government is facing serious policy dilemmas in two economic policy areas – exchange rate and wage policies – which are crucial for industry.

Turkish governments have pursued investment promotion policies for many years, and such policies have been continued in this vein until today. Between 2001 and 2012, the stimuli amounted to 2-6% of GDP, in most years reaching 3% or 4% (Akduran/Temelli 2012: 236, tab. 4). Thus, they are substantial and are mainly, though not exclusively, destined for manufacturing. While increasing industrial "competitiveness" has been defined as the overarching aim of industrial policies (Ergüneş 2012: 104 f.), the character of stimuli has been repeatedly modified according to changing international regulations and perceived economic problems. Turkey's 1995 entry into the World Trade Organisation (WTO), and agreements with the EU, led to the abandonment of the hitherto sectorspecific approach and the adoption of regionally differentiated stimuli (Akduran/Temelli 2015: 230f.; cf. on the stimuli and their regional differentiation Akduran/Temelli 2015: 230ff.; Oğuz 2013: 154ff.). Until 2012, increasing international competitiveness loomed large in official documents and policy. After 2008, official documents began to problematise the high current account deficit and the heavy reliance on imported inputs. In 2012, the government promotion strategy was finally modified, and the reduction of the current account deficit and intermediary goods import dependence was turned into new policy priorities (Akçay 2012: 159ff.; Karatepe 2015: 270). Incentives have continued to be targeted at individual firms (and not sub-sectors). In the fine-tuning of the parameters of the promotion measures, the AKP government stuck a balance between small- and large-scale capital. Recently, foreign capital could take advantage of strategic investment stimuli (e.g. the Star Refinery belonging to the Azeri-owned Socar group in 2012; Karatepe 2015: 262ff.). In regional terms, the most developed industrial regions have continuously received a very substantial share of the investment stimuli (cf. Karatepe 2015: 270, tab. 5 & 274, tab. 7). The sustained funding for investment stimuli shows that industrial capital and industrial development have remained relevant for economic policymaking, even in the periods mainly characterised by financialisation.

5. Conclusions

Although Turkey's economy has grown since the beginning of the neoliberal era, basic features of dependency have persisted or have even been aggravated during these three and a half decades. The 1980s were primarily characterised by a deepening subordinate integration into the international economy through exports. With the renewal of international capital flows into the periphery, Turkey's model of accumulation turned towards financialisation in the late 1980s. In the first, particularly crisis-ridden phase up to the financial crisis of 2001, financialisation was based particularly on high interest payments of the state to the banking sector. In the second phase, since 2001, rapidly increasing private household indebtedness has been a key feature of financialisation. Housing credits stimulated the real estate and construction sectors as key pillars of the new accumulation model, while consumption credits led to the growth of domestic demand for consumer goods and partially stimulated manufacturing in the face of stagnating wages. In both phases, financialisation was heavily reliant on capital inflows. Diminishing inflows or even capital outflows triggered off recurrent crises. Financialisation in Turkey can, thus, clearly be characterised as dependent financialisation.

Since 1989, the attraction of foreign capital has been one of the foremost features of the economic policies of Turkish governments. Relatively high interest rates (though in an attenuated form since the 2008 global crisis) have been a permanent feature of attracting monetary capital. In addition, the AKP privatisation policies proved to be attractive for FDI.

The policies of promoting a strong Turkish lira tended to stimulate imports and to aggravate the current account deficit, in particular during the AKP years. The overvalued currency had a detrimental effect on manufacturing. It was challenged at times by the interest groups of small- and medium-scale capital and export capital – though with rather limited effect. While a significant strand in the government has aimed at reducing interest rates in order to stimulate domestic demand and construction, even at the price of gradual currency depreciation, the policy space for that strategy is quite limited. Strong currency depreciation would massively destabilise the big foreign exchange debtors in the private sector.

In a way, Turkish governments compensated industrial capital for the overvalued Turkish lira by promoting low wage policies and weakening unions. Labour was only able to challenge these policies effectively during very brief periods, mainly in the late 1980s and early 1990s. Low wage policies obviously had a dampening effect on domestic demand. The policies of promoting household credits were aimed at countering this effect. However, this is not a viable option in the longer run. Presently, the credit dynamics show symptoms of exhaustion.

Industrial interests have been strong enough to successfully push for industrial investment promotion policies. In this regard, economic policies of the Turkish governments differ from the practice of South and East European and most Latin American governments during the high times of financialisation. In South European and East European countries with strong financialisation, specific industrial policies have not been developed (cf. Becker/Weissenbacher 2014: 17ff.; Becker et al. 2016). In a few Latin American countries, in particular Brazil (Barbosa 2012: 88), the progressive government took specific industrial policy measures. However, currency appreciation and high interest policies tended to limit their effectiveness. The Brazilian government of Dilma Rousseff was not able to sustain a policy of gradual interest rate reductions in the medium-term (Becker 2016). AKP investment promotion policies have struck a fine balance between large industrial groups on the one hand and small- and medium-scale capital on the other hand. Since 2012, industrial policy has tried to address the twin problems of a high current account deficit and an extremely high reliance on imported intermediary goods. As in Latin America, the effectiveness of the Turkish industrial promotion policies has been limited by exchange rate and interest rate policies which have been strongly influenced by financial business interests. While the AKP government has softened its strong TL policies since 2008, its scope for currency depreciation policies is limited by the substantial foreign exchange debts. The consequence of the policy mix which results from this contradictory business interest constellation is, that, in spite of gradual technological upgrading, manufacturing in Turkey has been increasingly dependent on imported inputs. The form of Turkey's economic dependence has changed, but dependence itself has not been diminished.

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Abstract *Aus einer regulationstheoretischen Perspektive analysiert der Beitrag industrielle Entwicklung und Industriepolitik im Kontext der sich wandelnden Entwicklungsmodelle der Türkei. Seit 1989 ist abhängige Finanzialisierung ein bestimmendes Element des türkischen Entwicklungsmodells. Sie schränkt die möglichen industriepolitischen Optionen ein. Insbesondere hat die Wechselkurspolitik die Wirksamkeit industrieller Förderungsmaßnahmen gemindert. Trotz einer begrenzten Verbesserung der Industriestruktur ist diese weiterhin durch Schlüsselmerkmale einer abhängigen Industrialisierung – wie einem schwachen Maschinenbausektor und einer hohen Abhängigkeit von importierten Vorprodukten – gekennzeichnet.*

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