Turkey’s Economic Development: Luck or Wise Administration?

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Turkey is one of the most dynamic economies in the world that is growing very fast. It is one of the “Next 11” (N-11) countries which are known as “Growth Markets”. Turkey has potential to grow and become an effective contributor to the world economic growth. Being a growth market means that the country has a large population with characteristics of a strong manufacturing and service industries. In addition, it also means that the country is open to the foreign investment and trade with other countries. Turkey’s population which is above 75 billion people provides the country with a powerful workforce and a populous internal consumer market. According to Jim O’Neill, Anna Stupnytska and James Wrisdale from Goldman Sachs Asset Management, for a country to be considered a Growth Market, “It needs to be an economy with adequate market size and depth that allows investors and business sufficient scale and liquidity to not only invest and develop, but also to perhaps exit as and when the decision is appropriate” (O’Neill, Stupnytska, and Wrisdale). Turkey has enhanced these features as its economy is expanding and growing. While Turkey’s geographic location is the major reason for its economic success, fiscal and financial measures that have been taken by the government after the 2001 crisis are other important factors that resulted in today’s remarkable achievements.

During the recent years, Turkey’s economic development has drawn huge attention on the global and local scene. Due to its spectacular success, Turkey’s economic system is praised to be unique in the region and some countries want to set up their economic system on the Turkish model. Besides all of these miraculous achievements, Turkish economy has not been immune to the crisis caused by internal and external factors. The economic crisis of 2001 is considered to be one of the sad events in the country’s history. But Turkey used it as a medicine to prevent or cure future economic crisis, such as the 2008 global financial meltdown. The 2001 crisis was the result of accumulated weak banking system and other financial problems. Yüksel
Görmez and Serkan Yigit, point out that “the 1990s, which may best be described as the “lost decade” in terms of banking and financial stability, ended with a huge financial crisis in 2001” (Görmez, and Serkan). Furthermore, corruption, and an unstable political system were other factors behind the crisis. What is interesting here is that Turkey understood the reason behind the crisis, initiated necessary reforms and stuck to these reforms. The government has monitored certain industries which are vulnerable to the crisis such as banks and other financial institutions. This shows Turkey’s commitment to keep economic growth sustainable. On the other hand, we should not forget the fact that Turkey has done a great job in sticking to these reforms and creating a friendly and secure environment for businesses. For a country to follow Turkey’s policies, there has to be transparent institutions to support the reforms. You cannot achieve anything valuable with corrupt judicial system or incompetent officials or a government paralyzed by indecision.

Some people may argue that the economic development of Turkey during the last decade was due to its strategic geographic location. To some extent, that is true. Turkey functions a bridge that connects Europe, Middle East and Asia. This is an important feature which allows Turkey to have access to the world markets and be a major distributor for different products in different regions. In a report about the geographic importance of Turkey, The Economist Magazine puts that Turkey’s, “role as a trading post between east and west has been a lure for business folk. Today Germany is Turkey's main trading partner but Iraq, Iran, Egypt, Saudi Arabia and the United Arab Emirates are also important as a trading block” ("The Economist" Print Edition). I would say that it is more than location because without wise financial, monetary and economic policies, Turkey would have never gotten this level of economic advancement. Only one thing cannot bring this level of prosperity to a country but it is the result of multiple
interdependent factors such as political stability, economic system, rule of law, political and security situation of the neighboring countries and the global economy. I believe every country has a unique strategic location because no country exists in a vacuum. Every country has neighbors and these countries depend on each other one way or another. Let’s take Iran as an example. Iran’s geographic location is as important as Turkey. Iran has a significant coastline that is stretched along much of the Arabian Sea and has control over the Persian Gulf alone. While Iran has such incredible geographic location its economy is far behind Turkey’s due to international sanctions and its economic system and several other reasons. This demonstrates that geographic location alone does make a country to be economically successful. There have to be other important factors I mentioned above.

The political and security situation in the Turkey’s neighboring countries is another important factor that allowed Turkey to function a safe haven for foreign investors to conduct their businesses from there and reach the potential consumers in the Middle East. For more than a decade, Turkey is enjoying political and economic stability. While Turkish investment has been negatively affected in Arab countries that faced popular uprisings, the unrest made Turkey an attractive place for FDI and for Turkish investors. In a collaborative work, Helen Rhim and Fabiola Salman point out that, “Europe’s economic slowdown and Middle Eastern political unrest have made Turkey attractive to new entrants [investors] and incumbents seeking to expand”(Rhim and Slman). Another argument can be made by saying that Turkish investors found their way to persevere their projects despite the terrible situation. Tim Reid, regional head of commercial banking for HSBC Middle East and North Africa, argues that, “the tumultuous Arab spring, which over the past 18 months has led to social unrest and governments being overthrown in many Arab countries, has not disrupted Turkey’s engagement in the region. If
anything the opposite has occurred, because it has allowed Turkish companies to demonstrate long-term commitment to their partners in the region” (Reid). I agree that this is a short-term problem for some of these countries as they will not be in chaos forever. In the long run, these Arab countries that experienced changes in their regimes need to rebuild infrastructure, provide job opportunities, and improve standards of living. So, this reveals the fact that Turkey’s neighboring countries need Turkey more than any other times to help them rebuild their counties after going through transformational changes.

According to a report by World Trade Organization and Turkish government, European Union is Turkey’s one of the most important trading partners. During 2005-2010 about 70% of foreign direct investment (FDI) inflows entered Turkey came from EU. Furthermore, over 50% of Turkish exports went into the EU and only 40% of the goods imported were from the EU (WTO). However, thanks to the economic advancement of the emerging and growth market economies, they created new trading opportunities for Turkey. At the same time, the WOT report puts, “the dominance of the EU in Turkey's foreign trade has declined markedly over the last five years, reflecting a notable shift in Turkish exports towards growth markets in its neighbourhood, in North Africa, certain CIS countries, and in Asia” (WTO). This is an interesting shift in the global trade because throughout history only rich countries which are known as developed markets were the main producers and consumers. But now, the emergence of middle class in the emerging markets and advancement of industrial sectors rebalanced the dominance of trading position as the emerging markets are becoming active producers and consumers. So, the increasing trade between emerging markets is a kind of guarantee of further expansion of their economies. They are becoming increasingly independent of the developed markets.
Turkish economic engagement in Iraq has been increasing since the fall of Saddam Hussein. According to Turkish ministry of economy, Iraq was Turkey’s fifth largest export partner in 2010, but in 2011 it became the country’s second largest export partner. The value of exports for 2011 was 8.3 billion dollars, above 37% increase from 2010 (Ministry of Economy). The change from the fifth to the second only in one year is a huge jump in a country’s export destination. This shows that Iraq is a lucrative market for Turkish firms and a major consumer for Turkish products. From the economic perspective this is a positive shift for Turkey, but I do not find it life-affirming for Iraq. Turkey’s investment in Iraq has increased too. Thousands of Turkish companies are working in Iraq, especially in Kurdistan region. This is better for Iraq because it creates jobs and infrastructure will be improved. Iraq can take advantage of Turkish expertise in different areas and should focus on developing human capital not just be a consumer of foreign products. Iraq needs to provide incentives to Turkish companies to establish factories in Iraq so that Iraq can export goods not just import.

In conclusion, Turkey is a major player in the Middle East. It is a Muslim country with a strong secular political system. It is successful economic system and stable political system made Turkey popular among Arab countries. Since the popular unrest in some of the Arab countries which is known as the Arab Spring, Turkey is seen as a successful example for newly established governments in those countries. Wise administration of financial sector, its geographic location, stable political system, transparent government institutions, security and political system of its neighbors are major reasons behind Turkey’s economic success during the last decade. Nevertheless, Turkey is not unique. What is special about Turkey is its commitment to the financial reforms and establishing a friendly environment for doing business and opening the door for FDI. So Turkey is a good example for the countries in the region to look at but this does
not mean copying everything Turkey has done and is doing because every country is different and each country has its own characteristics that require different policies. I think Turkey’s economy will continue to grow in the coming years because of its current strong economic foundation and its role as major political player in the Middle East. Moreover, I consider Iran to be the most qualified country in the region to have a better economy than Turkey because of its massive oil and gas reserves and other factors such as agricultural products. However, given Iran’s current domestic and foreign policies it is not likely to happen in a near future.


