

# RESEARCH ON MONEY AND FINANCE

Discussion Paper no 8

## Global Integration of the Turkish Economy in the Era of Financialisation

Nuray Ergüneş

Department of Economics, Maltepe University

15 February 2009

### **Research on Money and Finance Discussion Papers**

RMF invites discussion papers that may be in political economy, heterodox economics, and economic sociology. We welcome theoretical and empirical analysis without preference for particular topics. Our aim is to accumulate a body of work that provides insight into the development of contemporary capitalism. We also welcome literature reviews and critical analyses of mainstream economics provided they have a bearing on economic and social development.

Submissions are refereed by a panel of three. Publication in the RMF series does not preclude submission to journals. However, authors are encouraged independently to check journal policy.

**Nuray Ergünes** lectures in Economics at Maltepe University, Istanbul. The author would like to acknowledge the support and comments from Costas Lapavitsas, as well as the helpful comments on an earlier draft of this paper from members of Research Money and Finance (RMF) at SOAS.

**Research on Money and Finance** is a network of political economists that have a track record in researching money and finance. It aims to generate analytical work on the development of the monetary and the financial system in recent years. A further aim is to produce synthetic work on the transformation of the capitalist economy, the rise of financialisation and the resulting intensification of crises. RMF carries research on both developed and developing countries and welcomes contributions that draw on all currents of political economy.

Research on Money and Finance  
Department of Economics, SOAS  
Thornhaugh Street, Russell Square  
London, WC1H 0XG  
Britain

[www.soas.ac.uk/rmf](http://www.soas.ac.uk/rmf)

## **1. Introduction: Financialisation has several aspects**

During the last three decades the world economy has been marked by financialisation, typified by the dominant position of finance and the extraordinary growth of financial activities. Financial systems have grown in terms of employment, profits, size of institutions and markets all of which have been promoted by technological revolution. However, financialisation has been associated with a number of further developments. One of these has been the transformation of the relationship between state and economy. An indication of the changing relationship between state and economy is given by the role of the central bank. Throughout the financialisation process, central banks have become ostensibly independent from political decision-making mechanisms. Moreover, the importance of central banks has increased and their main goal has been reduced to price stability. Inflation targeting policy has become the main monetary policy agenda across the world.

Financialisation has also changed the relationship between developed and developing countries. Huge international capital flows to developing countries forced them to accumulate international reserves which in turn served to finance the US current account deficit. The main beneficiary of this process has been the US as issuer of the main form of the international means of payment. The result has been net lending by the poor to the rich in the world economy thus positing the issue of imperialism afresh (Lapavistas, 2008). Following Harvey's definition, this can be referred to as "domination without hegemony" (Harvey, 2007: 69).

Further phenomena of financialisation include deregulation of the financial sector, proliferation of new financial instruments, liberalisation of international capital flows and increasing instability on exchange rate markets. There has also been a shift toward market-based financial systems, emergence of institutional investors as major players in financial markets, and domination of corporate governance (of financial and non-financial business) by shareholder value (Stockhammer, 2007: 2).

The literature on financialisation has also expanded, and the phenomenon has been differently described by scholars. Various According to Epstein (2005: 3), financialisation refers to "increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and

international economies". Aglietta and Bretton (2001) focused on equity markets as the dominant force of "new financial system" which shape the growth regime. For the regulationists, financial liberalisation has been the most important institutional driver of changes in the growth regime.

Stockhammer (2004), Crotty (2005), Skott and Ryoo (2008) mostly focused on macroeconomic results of financialisation and used the term to describe the transformation between non-financial and financial market relations. Other authors, such as Froud, J., Haslam, C., Johal, S. and Williams, K. (2001), have analysed financialisation at the micro level. They have sought financial market influences on corporations and individual behaviour, organising their analysis around the concept of coupon pool capitalism.

However, Arrighi (2003), Harvey (2007) and Lapavitsas (2008) seek roots of financialisation at the capital accumulation process, and they highlight the overaccumulation crisis of capitalism in their critical works. From a still different perspective, Lapavitsas emphasises the newly exploitative aspects of finance and stresses the transformation of financial system. Particular attention is paid to banks as a key mediating institution with a decisive presence in contemporary capitalism (Lapavitsas, 2008).

Financialisation emerged mostly as an internal process in developed countries but it has also become a global process involving developing countries. Developing countries, following capital account liberalisation, have had intense experience of the impact of financialisation. This has taken the form primarily of extraordinary capital inflows in the form of foreign direct investment (FDI) and portfolio equity investment. Huge international capital flows stemmed from developed countries in search of profitable markets and were directed toward developing countries. Private capital flows to developing countries stood at 74.8bn in 2000 but rose to \$605bn in 2007 (IMF, 2008). These flows have caused unpredictability and instability, inevitably resulting in financial crisis. The last two decades have brought massive crises to developing countries, the most remarkable being Mexico 1994-5, East Asia 1997-8, Russia 1999, Brazil 1999, Turkey 2000-1 and Argentina 2001-2.

To promote capital accumulation domestically, developing countries have continued to facilitate capital inflows despite the increased fragility that these flows have brought

to their economies. At the same time, to avoid the uncertainty and vulnerability caused by capital flows developing countries have altered their macroeconomic policies. The main policy adopted was to accumulate huge amounts of international reserves, mostly US dollars. Accumulated foreign exchange reserves are aimed at stabilising the currency and protect countries against sudden capital outflows. World reserves have risen from \$1.2tr in January 1995 to more than \$4tr in September 2005 (European Central Bank International Relations Committee, 2006: 7).

By the same token, increasing capital inflows into developing countries has inevitably changed the approach to monetary policy. The main policy option of developing countries has been contractionary monetary policy, with near-exclusive focus on price stability, especially at the end of 1990s. Several countries started to adopt inflation targeting (IT), which was first introduced by developed countries, for instance, New Zealand, Canada, and the United Kingdom.<sup>1</sup> IT consists of five components: absence of other nominal anchors, such as wages, exchange rate or nominal GDP; an institutional commitment to price stability; absence of fiscal dominance; policy instrument independence; and policy transparency and accountability (Rose, 2007; Mishkin, 1999; Petturson, 2000).

The adoption of IT has severe implications for the governments of developing countries that seek to attract inflows of foreign capital. In short, it forces them to adopt a series of restrictive monetary and fiscal policies. These include a balanced budget, retrenched fiscal expenditures, and an ex ante commitment to high real interest rates. Thus, indirect market based instruments, such as short term interest rate become favourite tools of monetary policy (Epstein and Yeldan, 2006). The critical element is ex ante commitment to high real interest rates, which are tool to attract foreign capital flows into the country. In this context, it can be asserted that a key reason for the adoption of IT – while accumulating huge reserves - is to regulate capital movements, in other terms to attract capital inflows.

Besides its role in the regulating capital flows, IT has also served as a mechanism to lower labour wages, allowing developing countries to compete globally and to increase accumulation. This is one of the specific components of the so-called non-inflationary

---

<sup>1</sup> Developing countries that have adopted IT include Israel, Czech Rep., Poland, Brazil, Chile, Colombia, South Africa, Thailand, Korea, Mexico, Hungary, Peru, The Philippines, Slovak Republic, Indonesia, Romania, and Turkey.

growth policy that relies on deregulated labour markets, including flexibility in employment protection legislation, active labour market policies, indexing wages increases to price level, and product market competition through multilateral trade agreements (Montgomerie, 2008: 10). In this context, IT has had a significant impact on the productive structure of developing countries. Thus, IT has played a critical role in the process of capital accumulation in developing countries in the era of financialisation.

Using Turkey as a case in point, this paper examines the results of inflation targeting on the economy as a whole. Contrary to what is often claimed, IT was implemented not only on behalf of finance, but also in accordance with the requirements of capital accumulation in the course of the global integration of the Turkish economy. The paper shows that the process of integration of Turkey into the global economy has parallels with other middle income developing countries in the era of financialisation. This process started in the 1980s and reached a peak in the 2000s. In the wake of the 2000-1 crisis, Turkey implemented IT and a set of other reforms, entering a period of growth. However, this growth path has been unstable and increased the fragility of the economy. Not surprisingly, Turkey is among the most vulnerable countries in the world crisis that started in 2007.

The paper proceeds as follows. Section 2 considers the implementation of inflation targeting and its results on the economy. Sections 3, 4, 5, and on macroeconomic aspects of the economy, aiming to reveal the dynamics of capital accumulation as Turkey entered a process of global integration. Sections 7, 8, and 9 consider changes in the financing of the real sector, in the structure of the banking sector, and in the activities and indebtedness of individuals throughout this period. These three sections offer evidence of how the actors of the economy – productive sector, financial sector and individuals - have been affected by the financialisation process. They open a window to discussing the new patterns of integration between the productive sector and the financial system in developing countries in the current period.

## **2. Changing monetary policy: The adoption of inflation targeting**

Combating inflation has been the main objective of macroeconomic policy in Turkey since end of 1990s, similarly to many other developing countries. As is explained below, the programme of disinflation and *Transition to Strong Economy* has been

established on this basis. In particular, *Transition to a Strong Economy* has a specific meaning for the Turkish economy. The reason is that this programme included structural reforms oriented towards the global integration of the economy. This process started in the 1980s and intensified in the 2000s.

Disinflation and macroeconomic restructuring were launched as a three year (2000-2002) programme by the Turkish government in 1999. The programme was essentially exchange-rate-based stabilisation supplemented by fiscal adjustment and structural reforms, including agricultural reform, pension reform, fiscal measurement transparency, and administration of tax policy (Kibritçioğlu, 2005). The main goals included maintaining a primary surplus by means of reducing public expenditure and increasing public income as well as indexing public wages to an ex ante inflation rate.

The disinflation programme initially appeared successful, but in 2000 it started to run into problems. After a few months it became clear that the programme was not viable and the currency peg had to be abandoned in February 2001, replaced by a regime of free floating on the advice of the IMF (Akyüz and Boratav). The government adopted a new programme, *Transition to Strong Economy*, in order to eliminate “the confidence crisis” and financial instability. The *Transition to Strong Economy* programme was essentially the name of structural reforms associated with the Post-Washington consensus, which are known as Kemal Derviş laws in Turkey.

There were three pillars to these structural reforms, namely banking, public and private sector. The first pillar was restructuring of the banking sector. This involved deep financial restructuring of the public banks as well as of failed banks in public administration (SDIF banks); it also involved strengthening the private banking system and improving banking regulation and supervision. The second pillar was improvements in public governance, including public administration reform and continuing with public expenditure management reform. The third pillar, private sector reforms, concerned privatisation, corporate governance, encouraging entry of foreign capital, and public administration reform in order to catalyse investments.

Nonetheless, monetary policy oriented towards fighting inflation remained central. The most important objectives of this programme as far as monetary policy is concerned were to restructure the banking sector, change the Central Bank Law and adopt inflation

targeting.<sup>2</sup> Turkey adopted IT implicitly in 2002, following the 2000-2001 crisis, and shifted to explicit IT in 2006. Following adoption of the implicit IT programme, the Turkish economy witnessed rapid growth. Average annual growth rate of GDP reached 7 % in the period after 2001. But despite this rapid growth, jobs were not created and the unemployment ratio has increased. This has been called jobless growth in literature.

During the same period there have been massive foreign capital flows. The high rate of interest has pulled foreign capital into the country and, as a consequence, there was relative abundance of foreign exchange, leading to overvaluation of the Turkish Lira. Lower foreign exchange rates in turn caused import increases. But, paradoxically, exports also increased. The export/GDP ratio was 10.5% in 2000, 15.6% in 2002, and 16.3% in 2007. But the rate of increase of imports was faster than exports. The ratio of imports to GDP was 20.5% in 2000, 22.4% in 2002, and reached 25.9% in 2007. Overvaluation of the Lira and import increases, not surprisingly, manifested themselves in large current account deficit.

At the same time, Turkey's international reserves have also increased, as for other developing countries. The central bank has invested its reserves mostly in US treasury bonds, as have other developing countries. Reserve accumulation in Turkey has been very high judging by the ratio of reserves to short term is concerned, typically captured through the so-called Greenspan-Guidotti rule of reserve adequacy. The current ratio of reserves to short term debt in Turkey is 1.81. According to Aydoğuş and Türkler (2006), reserves of this size have imposed costs on the Turkish economy (income losses) that are close to 1% of GDP.

Thus, recent trends in the Turkish economy have included rapid growth without rising employment, increases in exports and imports, high current account deficits, finance account surpluses, huge reserve accumulation and rising external debt. How was the Turkish economy able to sustain this growth rate after the 2000-1 crisis, which was the worst economic crisis that the Turkish Republic has experienced since its foundation in 1923?<sup>3</sup> How has the Turkish economy managed surging capital inflows? And how has financialisation affected the country?

---

<sup>2</sup> The Central Bank Law was amended on April 2001, and instrument independence of the Central Bank was introduced. The primary goal of the Bank was determined to be maintaining price stability.

<sup>3</sup> As a result of the 2000-1 crisis, GDP dropped by 9.5% and government debt increased by more than 40% of GDP. The Lira depreciated by 30% within six months, and inflation picked up very rapidly to reach 70% by the end of 2001 (Taymaz and Yılmaz, 2008: 6).



The performance of the economy is captured in a series of macroeconomic indicators presented below. In a sense these capture the dynamics of the capital accumulation regime, and the requirements imposed on it in the process of global integration. To examine these and answer the questions asked above, analysis in the following section turns first to the transformation of the production structure and the behaviour of exports and imports.

<b>Selected Main Economic Indicators</b>								
	2000	2001	2002	2003	2004	2005	2006	2007
GDP Growth Rate %	6.8	-5.7	6.2	5.3	9.4	8.4	6.9	4.6
Export (fob)/GDP %	10.5	15.9	15.6	15.5	16.2	15.2	16.2	16.3
Import (cif)/GDP %	20.5	21.0	22.4	22.8	25.0	24.2	26.5	25.9
Current account/GDP %	-3.7	1.9	-0.3	-2.5	-3.7	-4.6	-6.1	-5.7
Unemployment Rate (%)	6.5	8.4	10.3	10.5	10.3	10.3	9.9	9.9
Inflation Rate - CPI (2003=100) %	39.0	68.5	29.7	18.4	9.4	7.7	9.7	8.4
Real Exchange Rate Index (1987=100)	140.35	152.04	123.05	137.75	151.74	162.08	179.57	198.96
External Debt/GDP %	44.7	57.8	56.2	47.3	41.2	35.1	39.5	36.1
<i>Long Term/GDP%</i>	34.0	49.4	49.1	39.8	33.0	27.4	31.4	30.0
<i>Short Term/GDP %</i>	10.7	8.4	7.1	7.5	8.2	7.8	8.0	6.1
CB Reserves (million \$)	22.172	18.787	26.807	33.616	36.009	50.518	60.912	73.317
CB Reserves/Short Term Debt	0.78	1.14	1.63	1.46	1.12	1.36	1.44	1.81
CB Reserves/GDP %	8.4	9.5	11.6	11.0	9.2	10.5	11.5	11.1

*Source:* estimated from Republic of Turkey Prime Ministry Undersecretariat of Treasury “Economic Indicators”, [www.hazine.gov.tr](http://www.hazine.gov.tr); Turkey Republic Prime Ministry State Planning Organisation “Main Economic Indicators”, [www.dpt.gov.tr](http://www.dpt.gov.tr); Turkish Industrialist’ and Businessmen’s Association (2007) 2008 Yılına Girerken Türkiye Ekonomisi, p: 11-12.

### **3. Transformation of the structure of production**

#### **3.1. Changes in export performance**

The appreciation of the Turkish currency has had a negative effect on the export performance of the manufacturing sector, which is the mainstay of Turkish exports. Nonetheless, in recent years, Turkey’s export performance remained strong despite the overvalued currency. The rate of total exports to GDP was 10.5% in 2000, but rose to 16.3% in 2007. This strong performance took place especially in the investment goods

sectors which includes electrical machinery apparatus, motor vehicles, communication apparatus and television and radio production. The annual average increase of exports by investment goods sectors reached 31.8% in 2003-7. These have been the most dynamic sectors as far as exports are concerned. While their share in total exports was 15.5% in 1996, it rose to 25.8% in 2001, reached 36.7% in 2007.

At the same time, exports by agriculture and mining have stagnated. The most interesting figures refer to consumption goods which include traditional export products, such as textiles, ready-to-wear, food, and so on. Consumer goods exports lagged behind overall exports, and started to lose their importance. While their share of the total was 49.7% in the period 1996-1999, it declined to 33.5% during 2003-2007 (Yükseler and Türkan, 2008: 24-26). This was contrary to the expectations at the start of the 1980s, when it was thought that the consumer goods sector would be the engine of growth as the economy adopted an outward accumulation strategy.

To recap, Turkey experienced a structural change as its exports have shifted from consumption goods to investment goods in recent years. In other words, exports have changed from conventional and relatively unskilled labour-intensive sectors to more technologically intensive sectors requiring highly skilled labour. The sustainability of export growth is not immediately apparent (Aysan and Hacıhasanoğlu, 2007).

<b>Export Structure (2000-2007) Million Dollar</b>								
Years	T o t a l Export	Agriculture Products	M i n i n g Products	Manufacture Industry Products				Others
				Total	Consumption Goods	I n t e r m e d i a t e Goods	Investment Goods	
2000	25.775	1.684	400	25.518	12.810	6.118	6.589	173
2001	31.334	2.006	349	28.826	13.369	7.384	8.073	153
2002	36.059	1.806	387	33.702	15.287	8.512	9.902	165
2003	47.253	2.201	469	44.378	19.335	10.609	14.434	204
2004	63.167	2.645	649	59.579	22.865	15.756	20.959	294
2005	73.476	3.468	810	68.813	25.669	18.312	24.833	384
2006	85.535	3.611	1.146	80.246	26.754	23.076	30.416	531
2007	107.154	3.882	1.661	100.966	31.604	30.041	39.320	645

*Source:* Yükseler and Türkan (2008) Türkiye'nin Üretim ve Dış Ticaret Yapısında Dönüşüm, Turkish Industrialist's and Businessmen's Association, p: 25.

### 3.2. Changes in import volumes and patterns

Dramatic increases took place in Turkey's imports, as was mentioned above. While the rate of annual average import increases was 2.8% during 1997-2002, it rose to 27% during 2003-2007. The ratio of imports to GDP was 20.5 in 2000, but climbed to 25.9 in 2007. As a result of increases in imports, Turkey's foreign trade deficit rose continuously: from \$26.7bn in 2000, it became \$65bn in 2008.

<b>Import Structure (cif-Million dollar)</b>									
Years	T o t a l Import	Agriculture Products	Mining Products		Manufacture Industry Products				Others
			Total	Petrol & Natural Gas	Total	Consumption Goods	Intermediate Goods	Investment Goods	
2000	54.503	2.125	7.097	6.196	44.198	4.237	17.280	22.681	1.083
2001	41.399	1.410	6.577	6.076	32.686	3.839	14.434	14.413	726
2002	51.554	1.704	7.192	6.193	41.383	5.359	18.405	17.619	1.275
2003	69.340	2.538	9.021	7.766	55.690	6.633	25.133	23.923	2.092
2004	97.540	2.765	10.981	9.366	80.447	8.232	35.067	37.148	3.346
2005	116.774	2.826	16.321	14.140	94.208	9.087	42.818	42.303	3.419
2006	139.576	2.935	22.034	19.220	110.379	10.617	51.713	48.049	4.228
2007	169.987	4.671	25.311	21.782	133.879	13.061	65.138	55.680	6.126

*Source:* Yükseler and Türkan (2008) Türkiye'nin Üretim ve Dış Ticaret Yapısında Dönüşüm, Turkish Industrialist's and Businessmen's Association, p: 35.

It is notable that the share of consumer goods in aggregate imports has regressed, in a similar way to their share in exports. While the share of consumer goods within total exports was 10.1% in 1996-9, it declined to 8% during the period of 2003-7. However, imports of intermediate and investment goods have increased. The share of intermediate goods within aggregate imports was 30% during 1996-9, but rose to 37.1% during 2003-7 (Yükseler and Türkan, 2008: p: 38). The utilisation of large volumes of imported intermediate goods in the high-performance export sectors has been an important aspect of this increase.

Furthermore, regional trade has contributed to increasing imports. The growing competitive power of the Asia has led to growing Turkish imports from that region. Two factors have been important in this respect. First, Asia region has been the most important production area globally due to competitive prices that have relied on its

cheap labour-force. Secondly, a strong foreign currency has provided an incentive to Turkey to import cheaply.

Turkey has exported mostly to Europe, which has become a very important market for Turkish products since the Custom Union Agreement (gradual accession process into the EU).<sup>4</sup> This trade is mostly known as “Buy from Asia, sell to Europe”. Turkey’s strategy in order to maintaining its competitive power has been cheap labour. Faced with intensifying competitive pressure and loss of competitive edge due to the strong Turkish Lira, the productive sector has tried to compensate through restricting employment and keeping wages low.

It is striking that Turkey has imported and exported similar commodities. This kind of trade indicates a high-level integration of Turkey into global markets through imports of intermediate inputs to be used in exports of final products. It shows a production structure that is intertwined with international production chains. The overvalued Lira has had a critical role to play in this process. On the one hand, it has increased pressure on production performance and forced the productive sector to push for lower real wages and higher productivity. On the other, it has resulted in increased purchasing power over imports, creating a preference over domestic inputs. This has led to extensive use of imported intermediate and investment goods in the production process in Turkey (Narin, 2008b: 48).

### **3.3. Transformed production**

It is clear from the preceding discussion of imports and exports that Turkish production witnessed structural transformation after the 2000-1 crisis. Several factors have played a role in this transformation, including the Customs Union with the EU, but also removal of agricultural support, restructuring of finance, and further migration from rural areas into the cities. Export-oriented production has become even more prominent.

---

<sup>4</sup> The top ten export destinations in 2006 were Germany, UK, Italy, US, France, Spain, Russia, Netherlands, Romania, U. Arab Emirates (Aydın, Saygılı and Saygılı (2007) “Empirical Analysis of Structural Change in Turkish Exports”, Research and Monetary Policy Department Working Paper No: 07/08, The Central Bank of the Republic of Turkey, p: 26.

Industrial Production (annual weighted percentage average) and Technology Intensity										
Technology Class			Low			High - Medium	Medium	High		
Years	T o t a l Industry	Manufacture Industry Sector	F o o d beverage products	Textile products	Wearing apparel	Chemical Products	B a s i c M e t a l industry	M o t o r vehicles	M e t a l Product	Electrical Machinery Apparatus
2002	9.5	10.9	2.8	12.5	3.3	14.2	10.0	27.1	0.6	11.5
2003	8.7	9.3	7.7	2.1	1.8	8.8	11.9	47.7	3.2	2.8
2004	9.8	10.4	-0.5	-1.5	3.5	16.1	11.6	53.3	9.4	-4.6
2005	5.3	4.7	6.0	-11.8	-12.6	5.5	3.4	9.6	31.6	16.7
2006	5.8	5.5	6.0	-1.0	-4.8	6.3	10.7	9.7	18.9	20.4
2007	5.2	4.4	2.9	2.5	2.3	8.1	10.9	6.4	14.2	25.4

*Source:* tabulated from Turkish Industrialists' and Businessmen's Association (2007) 2008 Yılına Girenken Türkiye Ekonomisi, p: 34 and classified according to Saraçoğlu and Suiçmez' classification see Saraçoğlu and Suiçmez (2006) Türkiye İmalat Sanayinde Verimlilik, Teknolojik Gelişme ve Yapısal Özellikler ve 2001 Krizi Sonrası Reel Değişmeler, National Productivity Center.

Production rose significantly in sectors in which technological intensity is above average. Competitive advantage and productivity have been strong in the sectors of electrical machinery and motor vehicles, while exports rose. In all, for sectors in which technological intensity is above average, their share in output stood at 17% in 1997, but rose to 31% in 2006. However, in sectors in which technological intensity is below average, such as textiles, apparel, food and tobacco, both production and exports rose at rates below average (Turkish Industrialist's and Businessmen's Association, 2007: 35).

Manufacturing Industry Production Increase By Main Sectors				
	Total Amount	Consumption	Intermediate	Investment
	Manufacture Industry	Goods	Goods	Goods
Weighted average production increase (%) – 1998/2005	4.07	1.02	4.06	7.58

*Source:* Yükseler and Türkan (2008) Türkiye'nin Üretim ve Dış Ticaret Yapısında Dönüşüm, Turkish Industrialist's and Businessmen's Association, p: 58.

To recap, production increases in the various sectors of manufacturing industry has presented significant variations during 1998-2007. The annual average increase in manufacturing industry as a whole was 4.1%, but 1.0% in consumer goods, 4.1% in intermediate goods, and 7.6% in investment goods. Moreover, the rate growth in manufacturing industry accelerated during 2003-7. Production intensified especially in the sectors which use a high ratio of imported (direct and indirect) inputs. In contrast, the rate of growth for consumer goods stayed low, at an average of 0.7%. Thus, the

transformation in the composition of manufacturing production raised direct and indirect use of imported inputs (Yükseler and Türkan, 2008: 59).

It is apparent that production of technology-intensive and investment goods has gained weight in Turkey in recent years, even though overall production still relies heavily on intermediate and consumer goods. That is the basis on which domestic capital has become increasingly internationalised. Yet, this transformation has not included the production of production goods, and this can be understood as a peculiarity of late development. The productive has preferred to obtain its input requirements from abroad because that is comparatively cheaper than relying on domestic inputs (see Narin, 2008b for a critical analysis). In this sense, the policy of strong exchange rate has facilitated the integration of domestic capital with international capital. It is shown below that this structural transformation has also brought important changes in the financing of the productive sector, thus intensifying the process of financialisation.

#### **4. Wages and productivity**

Strong growth in the economy did not create corresponding gains in employment. The unemployment rate has increased from 6.5% in 2000 to 9.6% in 2008.<sup>5</sup> This tendency can also be observed in several other developing countries and is often called jobless growth. But jobless growth is not a surprise in view of changes in the structure of production. Production increases in Turkey have been strong in technology-intensive investment goods, thus substituting capital for labour. This development has been behind the increase in the unemployment ratio, as well as intensifying the exploitation of labour.

But wages and productivity levels have also changed significantly. Above all, real wages declined during this period. The value of the real wages index for the manufacturing sector was 111.3 in 2000, but then fell as stood at 93.7 in 2007. In sharp contrast, the productivity index in the manufacturing sector rose from 115.7 in 2000 to 169.4 in 2007. The trend is clear in the table below. Even more important, labour costs declined during 2000-7, as estimated by Yükseler and Türkan (2008: 75). In short, productivity

---

<sup>5</sup> The real unemployment rate is probably higher than the official ratio. According to Sönmez the real unemployment rate in Turkey is around 20% (Sönmez, 2008: 101).

increases in the manufacturing sector was secured by reducing employment, while also squeezing wages. The driving force of the global competitiveness of Turkey has been low wages.

<b>Industrial Production, Real Wages, Workers, Productivity Indexes (Manufacturing Industry-Per Hour Worked) and Inflation Rate (CPI)</b>								
	2000	2001	2002	2003	2004	2005	2006	2007
Industrial Production Index	103.4	94.4	103.3	112.4	123.4	130.0	137.6	145.0
Real Wages Index	111.3	95.1	90.0	88.3	90.5	92.3	93.1	93.7
Index of Production Workers	89.1	81.7	82.2	83.7	85.4	84.8	84.2	86
Partial Productivity Index	115.7	116.9	126.9	136.1	146.1	154.8	162.2	169.4
CPI (2003=100)	39.0	68.5	29.7	18.4	9.4	7.7	9.7	8.4

*Source:* Republic of Turkey Prime Ministry Undersecretariat of Treasury, [www.hazine.gov.tr](http://www.hazine.gov.tr), 20.09.2008

The reduction of labour costs has been essential both to increasing profitability and to sustaining exports (See CBRT; Aydın, Saygılı and Saygılı, 2007). In this context, the policy of inflation targeting has acted as a mechanism for squeezing wages. By indexing the rate of wage increases to an ex ante rate of inflation, wages have been kept low. Both relative and absolute surplus value have intensified.

Nonetheless, export performance has also benefited from technological competitiveness. During the 1980s Turkish exports relied predominantly on labour- and raw-material-intensive products, but this has change dramatically in recent years. The intensity of research and development (high and leading-edge technology) in manufacturing exports has risen sharply, especially in the most globally integrated sectors, such as telecommunications and automobiles. As was mentioned earlier, however, the share of raw-material- and agriculture-intensive sectors has fallen substantially (Aydın, Saygılı and Saygılı, 2007: 22, Aysan and Hacıhasanoğlu, 2007: 27).

<b>The Classification of Exports By Factor Intensity (Turkey, % share in total exports)</b>					
	High tech-intensive	Raw material-intensive	Labour Intensive	Capital-intensive	Agriculture Intensive
1980-1989	6.0	16.9	30.6	9.3	24.2
1990-1996	6.9	5.5	42.7	14.8	17.7
1997-2000	12.0	3.7	44.3	12.8	13.0
2001-2004	18.0	3.9	39.4	16.0	8.8

*Source:* Aydın, Saygılı and Saygılı (2007) “Empirical Analysis of Structural Change in Turkish Exports”, Research and Monetary Policy Department Working Paper No: 07/08, The Central Bank of the Republic of Turkey, p: 22.

Thus the structure of production has witnessed a remarkable technological transformation after the crisis of 2000-1. Technical progress and productivity growth have accelerated, as is evidenced by increases in investment and intermediate goods production, typically of medium-level technology.<sup>6</sup> At the same time, production in labour-intensive sectors has been much less successful. Consequently, production has expanded without creating employment.

But working hours have not declined despite improvements in technology. On the contrary, working hours have lengthened, particularly through unpaid overtime. Meanwhile, real wages have declined. In short, growth of production and competitiveness has relied on the intensification of labour (absolute surplus value) as well as on increasing profitability through technical progress (relative surplus value) (Narin, 2008a).

## **5. The sources of growth and fixed investment**

Exports aside, the rapid growth of the economy as a whole has been mostly driven by consumption, as is clear from the table below. This growth in private consumption has stemmed from the expansion of credit, particularly consumer credits and credit purchases (BSB, 2008: 86). The surge in capital inflows has also been associated with a boom in consumption, while reducing household savings and raising indebtedness (Akyüz: 4). These trends have been vital to the financialisation of the Turkish economy.

<sup>6</sup> The growth rate of high-technology has been lower than downturn rate of low-technology. Because of that it is called as medium-level technology (Narin, 2008a).



<b>Sources of the Growth (= 1987 Prices, Thousands YTL)</b>							
	2000	2001	2002	2003	2004	2005	2006
Consumption	91.084	82.786	84.834	89.559	97.645	105.579	111.528
Private Consumption	80.774	73.356	74.894	79.862	87.897	95.594	100.584
Gov. Cons. Exp.	10.310	9.430	9.940	9.697	9.748	9.985	10.944
Gross Fixed Capital Formation	33.281	22.783	22.532	24.782	32.802	40.683	46.373
Public Sector	8.630	6.733	7.325	6.482	6.180	7.778	7.760
Private Sector	24.651	16.050	15.207	18.300	26.622	32.904	38.614
Change in Inventories	3.082	-1.699	6.121	9.714	11.145	7.770	4.750
Exports of goods&services	39198	42097	46787	54264	61033	66235	71857
Imports of goods&services	-47498	-35700	-41350	-52541	-65515	-73066	-78259
GDP	118.789	109.885	118.612	125.485	136.693	146.781	155.732
Source: Turkey Republic Prime Ministry State Planning Organisation "Main Economic Indicators", <a href="http://www.dpt.gov.tr">www.dpt.gov.tr</a>							

Nevertheless, the volume of fixed investment and its contribution to growth have also increased. While gross fixed capital formation was (Turkish Lira) YTL22.783 (thousands) in 2001, it rose to YTL46.373 (thousands) in 2007. This tendency is also apparent in the fixed capital investment index, which stood at 66 in 2001, but rose to 138 in 2007. The private sector, especially manufacturing, rapidly increased its fixed investment, taking advantage of the strong exchange rate and abundant external financing facilities.

<b>Fixed Capital Investment Index (1997=100)</b>								
	2000	2001	2002	2003	2004	2005	2006	2007
Total	96	66	63	70	91	114	130	138
Public	132	93	103	97	91	125	131	134
Private	85	58	52	62	91	111	129	139
- Manufacturing Industry	98	63	67	107	167	203	238	250
- Transportation	110	63	62	49	79	90	98	100
- House	56	38	25	25	32	46	54	63
Source: Bağımsız Sosyal Bilimciler (2008) 2008 Kavşağında Türkiye, p : 93, <a href="http://www.bagimsizsosyalbilimciler.org">www.bagimsizsosyalbilimciler.org</a>								

## 6. External Debt

A further important result of the direction adopted by Turkey in recent years has been the increase in the absolute levels of external debt but, more significantly, a change in its composition. External debt stood at \$130bn in 2002 but rose to \$263bn in 2008Q1, due to increases in both public and private sector debt. But the increase has been driven mostly by the private sector, especially the non-financial private sector. The external debt of the non-financial private sector was \$25bn in 2002 but rose to \$87bn, as is shown below.

In contrast, the rate of increase of external public debt has slowed down in the last few years. Fundamental to this tendency has been the reduction of IMF debt by increasing the primary surplus and also reducing public investments (Sönmez, 2008: 72). Historically, the external debt of Turkey has been associated with the state, as is typical of late-developing countries. It is a sign of how much times have changed that the recent increase in the non-financial sector external debt has been due to shifts in the financing of the productive sector. This shift can be seen in both long-term and short-term debt, but the increase in long-term debt has been particularly striking. The cause of this increase is obviously the change in financing investment by the productive sector. Private enterprise borrows form abroad to sustain growth in fixed capital, as is explained in the next section.

<b>Composition of External Debt Stock (Million \$)</b>							
	2002	2003	2004	2005	2006	2007	2008Q1
External Debt Stock	129.721	144.319	160.835	168.849	205.548	247.094	262.934
Short Term	16.424	23.013	31.880	37.103	40.354	41.810	44.550
A. CBTR	1.655	2.860	3.287	2.763	2.563	2.282	2.357
B. Deposit Money							
Banks	6.344	9.692	14.529	17.741	18.275	14.657	15.028
C. Other Sectors	8.425	10.461	14.064	16.599	17.766	22.708	24.829
D. General							
Government	0	0	0	0	1.750	2.163	2.336
Medium and Long							
Term	113.297	121.306	128.955	131.746	165.194	205.283	218.385
A. Total Public	63.619	69.507	73.813	68.215	69.840	71.272	72.009
B. CBRT	20.340	21.504	18.114	12.654	13.115	13.519	14.233
C. Private	29.338	30.295	37.028	50.877	82.239	120.492	132.143
1. Financial	4.728	5.168	8.451	15.954	29.134	42.712	45.048
a. Banks	3.030	3.142	5.757	12.244	22.068	30.479	32.307
b. Nonbanking	1.698	2.026	2.694	3.710	7.066	12.233	12.741
2. Nonfinancial	24.610	25.127	28.577	34.923	53.105	77.780	87.095

*Source:* Turkey Republic Prime Ministry State Planning Organisation “Main Economic Indicators”, [www.dpt.gov.tr](http://www.dpt.gov.tr) , 17.09.08.

## 7. Transformation in the financing of the productive sector

There have been dramatic changes in finance for the Turkish productive sector in recent years, and key to them has been production of import-dependent investment goods. Consequently, the productive sector has been forced to seek cheap foreign exchange, and this has meant borrowing abroad. The turn to foreign lenders has been greatly facilitated by the policy of high domestic interest rates and strong exchange rate as part of inflation targeting. The productive sector has been encouraged to borrow externally to sustain its investments.

The Central Bank's Sectoral Balance Sheet Analysis Report, based on information from 7308 enterprises, shows that industrial enterprises furnished their increasing foreign exchange requirements generally from foreign sources. It is shown below that the bulk of foreign cash credits were taken up by the manufacturing sector, while its share of total credit stood at 55.4% during 2004-2006. The transportation and communication sectors were the second largest users of credit after the manufacturing sector production (CBRT "Sector Balance Sheet Analysis (2004-2006)", [www.tcmb.gov.tr](http://www.tcmb.gov.tr), 18.09.2008).

Sectors	Share of Sectors	YTL-FX Credit Shares						Percentage Increase			
		2004		2005		2006		2005		2006	
		YTL %	FX %	YTL %	FX %	YTL %	FX %	YTL % Increase	FX % Increase	YTL % Increase	FX % Increase
Agriculture	0.3	49.9	50.1	47.3	52.7	45.6	54.4	34.6	15.8	49.2	24.0
Manufacturing	55.4	22.3	77.7	26.8	73.2	31.2	68.8	51.8	56.0	18.8	26.1
Electricity	7.8	3.6	96.4	4.6	95.4	3.4	96.6	25.9	-1.6	-0.7	31.8
Construction	6.2	23.9	76.1	29.1	70.9	40.6	59.4	62.3	57.4	24.5	-5.7
Trade	15.9	35.6	64.4	43.7	56.3	47.4	52.6	71.8	37.3	22.5	18.0
Transportation and Communication	3.9	30.4	69.6	36.2	63.8	57.7	42.3	158.9	273.8	99.2	55.2
Real Estate, Hiring	6.3	22.0	78.0	15.9	84.1	8.5	91.5	-2.6	24.7	44.8	152.9
Total	100	22.7	77.3	27.8	72.2	31.7	68.3	57.4	58.0	20.2	31.1

Source: Central Bank of the Republic of Turkey "Sector Balance Sheet Analysis (2004-2006)", p: 12, [www.tcmb.gov.tr](http://www.tcmb.gov.tr), 18.09.2008.

The same point can be seen in terms of the credits received by the productive sector as a whole. The table below shows that the volume of credits received from abroad was

\$26bn in 2003 but rose to \$87bn in the third quarter of 2008. Credit from abroad has consistently exceeded domestic credit for the productive sector throughout this period.

<b>Non-financial Enterprises Foreign Exchange Assets and Liabilities (Million Dollar)</b>						
	2003	2004	2005	2006	2007-12	2008-03
<b>ASSETS</b>	30.980	38.659	45.701	63.426	77.864	80.832
Deposits	19.958	24.565	30.890	45.452	54.834	55.377
<i>Domestic Banks</i>	8.578	10.598	12.636	18.756	24.402	24.051
<i>Overseas Banks</i>	11.385	13.967	18.254	26.696	30.432	31.326
Securities	920	1.306	1.035	933	830	898
<i>Government Debt Securities</i>	808	1.175	790	632	573	622
-Issued internally*	271	379	96	83	61	106
-Issued externally	536	797	693	549	512	516
Overseas Portfolio Investments	112	131	245	301	257	276
Export Receivables	5.158	7.005	6.721	9.584	12.009	14.154
Direct Capital Investments Abroad	4.945	5.783	7.056	7.467	10.191	10.403
<b>LIABILITIES</b>	50.759	59.006	72.383	100.047	138.843	154.584
Cash Credits	44.204	49.603	61.348	88.275	124.250	138.905
Credits Derived Domestically	18.158	20.457	26.429	34.804	46.305	51.666
Credits Derived from abroad	26.046	29.146	34.919	53.471	77.964	87.239
Import Debt	6.555	9.403	11.035	11.772	14.593	15.679
Net Foreign Exchange Position	-19.778	-20.347	-26.682	-36.621	-60.979	-73.752

Source: Central Bank of Republic of Turkey (2008) "Firmaların Döviz Pozisyonu Göstergeleri", [www.tcmb.gov.tr](http://www.tcmb.gov.tr), 15.09.2008.

Meanwhile, the burden of debt during this period has declined for the productive sector, reflecting the lower rates of interest on foreign debt. The distribution of net value by the top, and second from top, 500 Industrial Enterprises, according to factor income, is instructive in this respect. The ratio of interest payments by the top 500 industrial enterprises stood as 33.4% in 2000 but it declined to 8.8% in 2005.

<b>Interest Payments of Industrial Enterprises</b>						
Years	2000	2001	2002	2003	2004	2005
Top 500 Industrial Enterprises	33.4	93.5	30.4	13.3	11.7	8.8
Second Top 500 Industrial Enterprises	28.5	78.2	34.7	17.3	13.6	13.8

Source: Istanbul Chamber of Industry, [www.iso.org.tr](http://www.iso.org.tr)

Although the financing of the productive sector continues to rely heavily on domestic bank loans, external borrowing became prevalent during this period. It is also probable that non-bank sources of funding have also increased. These shifts should be considered as an impact of financialisation on the productive sector, directly related to the process of internationalisation of domestic capital. The productive sector has been able to compete globally by squeezing wages and increasing productivity. It has been able to obtain investment goods necessary to production through imports. Hence a strong exchange rate has become a facilitating factor in the changing finances of the productive sector.

It is interesting to note that the transformation in the financing of the private sector is openly accepted in argument between the government and representatives of capital groups. This became important as the current crisis began to emerge. Rifat Hisarcıklioğlu, the chairman of the Union of Chambers of Commerce and Commodity Exchanges of Turkey, directed the following toward Tayyip Erdoğan, the prime minister of Turkey:

"Someone (Erdoğan) is saying that `the government is not indebted. Who told you to become indebted in foreign currency, you became involved in this debt on your own`. I am now asking you, is there someone giving long term credit in Turkish Lira and we have not taken advantage of it? There are no savings in Turkey. We are using the savings of others. And did we spend it in gambling, or profligately? We invested. If Turkey has grown since 2002 this was realised thanks to private sector (Rifat Hisarcıklioğlu, Hürriyet, 29<sup>th</sup> October 2008)"

## **8. Transformation of the banking sector**

During this period a transformation has also occurred in the structure and activities of the banking sector. Penetration by foreign banks has intensified, and their market share reached the high proportion of 39.7 % in 2007 (Banking Regulation and Supervision Agency, 2007). The Turkish banking sector, especially after 2005, became one of the most attractive markets for foreign banks. In 2005-7 fifteen domestic banks were bought by foreigners partially or wholly (one of those sales has not been fully ratified). The reasons for foreign banks' entry are both international and national, typically discussed as "push and pull factors" in mainstream economics. Historically,

the entry of foreign banks reflects the internationalisation of capital. As huge international capital flows were directed toward developing countries in recent years, foreign banks also entered to explore profit opportunities and expand their market share.

The crisis of 2000-1 made Turkish banks more attractive to foreign banks as mergers and acquisitions led to rationalisation of branches and personnel (Aysan and Ceyhan, 2008: 94). The restructuring of the Turkish banking system also encouraged foreign banks because the banking sector was strengthened. The total assets of the banking sector increased from \$132.2bn in 2002 to \$501.7bn in 2007. Deposits and credits increased in parallel. The ratios of deposits to GDP and of credits to GDP were, respectively, 17.2% and 35.1% in 2003. They rose to 42% and to 34.6%, respectively, in 2007. The ratio of credits to deposits rose from 49% in 2003 to 83% in 2007 (Central Bank of Republic of Turkey, 2008: 36). These structural improvements motivated foreign banks to acquire domestic banks. In addition, the Turkish market seemed to have strong growth potential as the ratio of assets to GDP in 2007 was 76%, well below the average of the EU, at more than 300 % (Kutlay, 2008: 4).

On the other hand, from the standpoint of domestic banks or the conglomerates that own them, there were several reasons to sell to foreigners, wholly or partially. Returns from sales were typically high. Moreover, domestic banks have increased their credibility and are increasingly able to seek alternative credit facilities in international markets. By the same token, the large conglomerates that typically own private Turkish banks have acquired a lot more flexibility in obtaining funding.

It is important to note that foreign banks have directed their attention particularly toward the sector of consumer credit. Their expectation appeared to be that the growth of the consumer credit market was likely to be high, even in comparison with EU countries. To this purpose, foreign banks have been able to acquire consumer databases by buying domestic banks or becoming their partners.

In similar spirit, domestic banks have also shifted their activities towards individuals rather than the industrial sector. The supply of consumer credits, such as housing, education, and automobile, has increased rapidly. The total volume of the individual

credits rose phenomenally, from \$4bn billion in 2002 to \$81.9bn in 2007. The proportion of individual credits within the aggregates similarly rose from 13.4% in 2002 to 33.3% in 2007. The bulk of the increase was in housing credits – private mortgages emerged for the first time as a significant economic phenomenon in Turkey.

<b>GDP, Assets and Credits' Indicators (2002-2007) Billion Dollar</b>						
Billion Dollar	2002	2003	2004	2005	2006	2007
GDP	230.5	304.9	390.4	481.5	526.4	658.8
Total Assets	132.2	183.0	234.8	303.2	355.5	501.7
Total Credits	29.9	47.5	74.4	116.6	155.9	246.4
- Commercial and Institutional Credits	25.9	38.3	54.4	80.1	103.3	164.4
- Individual Credits	4.0	9.2	20.0	36.5	52.6	81.9
Percentage of commercial credit in total credit %	86.6	80.6	73.1	68.6	66.2	66.7
Percentage of individual credit in total credit %	13.4	19.4	26.9	31.4	33.8	33.3
Total Credits/GDP	13.0	15.6	19.1	24.2	29.6	37.4
Total Assets/GDP	57.3	60.0	60.1	63.0	67.5	76.2

*Source:* Banking Regulation and Supervision Agency (2007) Financial Market Reports, December 2007, p: 54, [www.bddk.org.tr](http://www.bddk.org.tr) and estimation

Foreign banks have pioneered the transformation of activities of the banking system as a whole. As they moved aggressively into the consumer credit market, they increased competitive pressure across the entire sector, and pulled domestic banks behind them. Foreign banks have had major advantages in technology and banking experience. But domestic banks have tried to improve their competitive strength through differentiated consumer loans and rapid adoption of technological innovation.<sup>7</sup>

### **9. Rise in individual indebtedness**

The inevitable result of banks orienting themselves toward consumer credit was has been accelerated indebtedness of individuals. Consumption expenditures have also risen, financed through consumer credits and credit cards. The ratio of household debt to household disposable income rose extremely rapidly: from 7.5% in 2003, it became 29.5% in 2007.

<sup>7</sup> See Ergüneş, 2008 for a detailed study of the transformation of the Turkish banking sector.

Consequently, the proportion of interest payments out of household disposable income has also increased dramatically. The ratio of interest payments to disposable rose from 2.1% in 2003 to 4.6% in 2007. These interest payments represent a direct transfer of disposable income from individuals to the financial system. Moreover, the increase of individual indebtedness implies that finance has acquired greater control over the economic and social life of individuals.

<b>Households Disposable Income, Indebtedness and Interest Payments</b>					
	2003	2004	2005	2006	2007
Interest Payments/Disposable Income (%)	2.1	3.2	4.2	4.1	4.6
Household Debt/Disposable Income	7.5	12.9	20.9	25.1	29.5
Source: Central Bank of the Republic of Turkey (2008) Financial Stability Report May 2008, p: 22; Central Bank of the Republic of Turkey (2006) Financial Stability Report December 2006, p: 11					

Finally, increasing individual indebtedness means that individual insolvencies have also risen. Individuals have been encouraged to spend in excess of their normal practices by the means of consumer credit and credit cards, eventually finding that they cannot pay back their loans. The number of people who could not pay their credit card bills and consumer loans rose from 38538 in 2002 to 203736 in 2006 (Yukseler and Turkan, 2008: 12).

## **10. Conclusion**

It is often said that the Turkish economy converted the 2000-1 crisis into an opportunity, entering a period of rapid growth. Undoubtedly this has been based on the weakness of the working-class movement during this period. Thus, Turkish capital became globally integrated, while the country has been opened to the full effects of financialisation. This was a strategic choice by the Turkish ruling class, but it was also necessary for domestic capital, if it was to succeed globally. Financialisation has manifested itself as growing capital inflows, affecting all aspects of the economy.

Inflation targeting has been an important mechanism shaping capital accumulation during this period. Inflation targeting has made it easier to attract capital inflows into the country, while serving to keep wages low. Depressed wages have been vital to the competitive strength of the productive sector, which has been particular acute in the



export sector. Meanwhile, the productive sector has financed its import-dependent production by means of external borrowing.

This financing behaviour has sent an advance warning that the current crisis is likely to burst out first in the productive sector. The risks to the banking sector appear less pronounced as banks have restructured since 2000-1 in ways explained above. That is not to say that banks are immune to danger, particularly as consumer lending has increased so rapidly. Still, Arzuhan Yalçındağ, the chairwoman of the Turkish Industrialists' and Business Association, clearly expressed the main dangers facing the current accumulation strategy:

“We ought to assume that private sector external debt, the amount of which has reached \$140 billion, is an important risk factor. The deterioration of external financing that has affected the private sector would also interrupt the growth process. It is obvious that the sources that have featured in private sector investment during 2001-7 would be restricted during the current global financial crisis (Arzuhan Yalçındağ, “Küresel Kapitalizmin Geleceği ve Türkiye” Conference, Opening Speech, 10<sup>th</sup> October 2008).”

The leaves have begun to fall. Not surprisingly, the first enterprise that stopped production as the crisis of 2007-9 began to hit Turkey was a textile firm, Sönmez Filament. The traditional sectors of the Turkish economy have lost competitive strength during the period of financialisation, and Sönmez Filament was the largest fibre producer in the country. Denteks Textile followed, also a very enterprise in this sector, and the fabric producer in the Denizli Industrial Zone. Soon other textile firms, Atakan, Atak, Irem, Bordo, and Türkmar, stopped production in late 2008.

Eight years of financialisation have left Turkey with import-dependent production, a huge current account deficit, large public and private debts, increasing unemployment and indebted individuals. How will the country cope with the current crisis?

## REFERENCES

- Aglietta, M. and Breton, R. (2001) "Financial Systems, Corporate Control and Capital Accumulation", *Economy and Society*, Volume 30, Number 4, November, p: 433-466.
- Akyüz, Y. and Boratav, K. (2005) "The Making of the Turkish Financial Crisis", in *Financialisation and the World Economy*, edited by Gerald Epstein, Edward Elgar Publishing.
- Akyüz, Y. "Financial Instability and Countercyclical Policy", paper prepared for UNDESA.
- Arrighi, G. (2003) "The Social and Political Economy of Global Turbulence", *New Left Review*, March April, p: 5-71.
- Aydın, F., Saygılı, H. and Saygılı, M. (2007) "Empirical Analysis of Structural Change in Turkish Exports", Research and Monetary Policy Department Working Paper No: 07/08, The Central Bank of the Republic of Turkey.
- Aydoğuş, I. and Öztürkler, H. (2006) "Merkez Bankası Döviz Rezervlerinin Sosyal Maliyeti", *Afyon Kocatepe Üniversitesi İ.İ.B.F. Journal*.
- Aysan, A.F. and Bektaş, F. "Export Competitiveness of Turkey: The New Rising Sectors in Turkey Comparison with Eastern European Countries".
- Aysan, A.F. and Hacıhasanoğlu, Y.S. (2007) "Investigation on Determinants of Turkish Export-Boom in 2000s", MPRA Paper No, 5493.
- Bağımsız Sosyal Bilimciler (2008) 2008 Kavşağında Türkiye, [www.bagimsizsosyalbilimciler.org](http://www.bagimsizsosyalbilimciler.org).
- Bağımsız Sosyal Bilimciler (2007) IMF Gözetiminde On Uzun Yıl: 1998-2008: Farklı Hükümetler Tek Siyaset, [www.bagimsizsosyalbilimciler.org](http://www.bagimsizsosyalbilimciler.org).
- Boratav, K. "Dünya Ekonomisinde Değişimler ve Türkiye'ye Yansımaları".
- Boyer, R. (2000) "Is a Finance led Growth Regime a Viable Alternative to Fordism: a Preliminary Analysis", *Economy and Society*, Volume 29, Number 1, p: 111-145.
- Central Bank of the Republic of Turkey (2005) General Framework of Inflation Targeting Regime and Monetary and Exchange Rate Policy For 2006.
- Carney, M. (2004) "The New International Monetary Order", Speech to the Toronto Society of Financial Analysts

Crotty, J. (2005) "The Neoliberal Paradox: The Impact of Destructive Product Market Competition and 'Modern' Financial Markets on Nonfinancial Corporation Performance in the Neoliberal Era", in *Financialisation and World Economy*, edited by Gerald Epstein, Edward Elgar Publishing.

Epstein, G. (2003) "Alternatives to Inflation Targeting Monetary Policy for Stable and Egalitarian Growth: A Brief Research Summary, Working Paper Series Number 62, PERI.

Epstein G. (2005) "Introduction: Financialisation and the World Economy", in *Financialisation and World Economy*, edited by Gerald Epstein, Edward Elgar Publishing.

Epstein, G. and Yeldan, E. (2006) "Developing Policy Alternatives to Inflation Targeting, The New Facade of Neoliberal Conditionality: an Introduction".

Ergüneş, N. (2008) Transformation of Turkish Banking Sector within the Financialisation Process of Turkish Economy, unpublished.

Ersel, H. and Özatay, F. (2007) "Fiscal Dominance and Inflation Targeting: Lesson from Turkey".

European Central Bank International Relations Committee (2006) "The Accumulation of Foreign Reserves", Occasional Paper Series No 43, February.

Farrel, D., Lund, Susan M. and Maasry, A. (2007) "Mapping the Global Capital Markets", the McKinsey Quarterly.

Fine, B. (2008) "From Financialisation to Neo-liberalism, Engaging Neo-Liberalism", unpublished.

Foster, J. B. (2007) "Financialisation of Capitalism", *Monthly Review*, April, Volume 58.

Foster, J.B. (2008) "The Financialization of Capital and the Crisis", *Monthly Review*, April, Volume 59.

Froud, J., Haslam, C., Johal, S. and Willams, K. (2001) "Financialisation and The Coupon Pool", *Gestao&Producao*, v.8, n.3.

Harvey, D. (2007) "In What Ways is 'The New Imperialism' Really New?", *Historical Materialism*, 15, p: 57-70.

IMF World Economic Outlook 2008

Lapavitsas, C. (2008) "Financialised Capitalism: Direct Exploitation and Periodic Bubbles", Historical Materialism, forthcoming.

Mahlebiciler, O. (2006) Türkiye Cumhuriyet Merkez Bankası'nın Rezerv Yönetim Politikaları ve Kredi Mektuplu Döviz Tevdiat Hesaplarının Analizi, Uzmanlık Yeterlilik Tezi, TCMB Muhasebe Genel Müdürlüğü, Ankara.

Masson, P., Savastano M.A. and Sharma S. (1997) "The Scope for Inflation Targeting in Developing Countries", IMF Working Paper.

Montgomerie, J. (2008) "(Re)Politicizing Inflation Policy: A Global Political Economy Perspective, Centre for Research on Socio-Cultural Change, Working Paper, No 53.

Mishkin, F.S. (2002) "Structural Issues for Successful Inflation Targeting in Transition Countries", for presentation National Bank of Poland's Annual International Conference "Monetary Policy in the Environment of Structural Change".

Narin, Ö. (2008a) Bugünü Anlamamak: Üretimde Teknoloji Artıyor Ama Çalışma Saatleride, İşsizlikte Artıyor, Karaburun Bilim Kongresi, 4-7 Eylül 2008.

Narin, Ö. (2008b) Teknolojik Değişim: Türkiye'de Üretim Araçları Üretimi (1996-2005), unpublished PhD thesis, Marmara Üniversitesi.

Onaran, Ö. (2006) "Speculation-led Growth and Fragility in Turkey: Does EU Make a Difference or 'Can It Happen Again'?", Vienna University, Department of Economics Working Paper Series, no 93.

Painceira, J.P. (2008) "Developing Countries in the Era of Financialisation: From Deficit Accumulation to Reserve Accumulation", Historical Materialism, forthcoming.

Papadatos, D. (2008) "Central Banking in Contemporary Capitalism; Monetary Policy and Its Limitations", Historical Materialism, forthcoming.

Petursson, T.G. (2000) "Exchange Rate or Inflation Targeting in Monetary Policy", Monetary Bulletin 2000/1.

- Rodrik, D. (2006) "The Social Cost of Foreign Exchange Reserves, National Bureau of Economic Research, Working Paper 11952.
- Rose, A.K. (2007) "Are International Financial Crisis a Barbarous Relic? Inflation Targeting as a Monetary Vaccine", Centre For Economic Policy Research.
- Saraçođlu, B. and Suiçmez H. (2006) Türkiye İmalat Sanayinde Verimlilik, Teknolojik Gelişme ve Yapısal Özellikler ve 2001 Krizi Sonrası Reel Deđişmeler, National Productivity Center.
- Sarı, M. (2004) Dış Borç Yönetimi ve Türkiye Uygulamaları, TCMB.
- Skott, P. and Ryoo, S. (2008) Macroeconomic Implications of Financialisation, Cambridge Journal of Economics.
- Sönmez, M. (2008) 2008 Dünya Krizi ve Türkiye, Petrol-iş Yayınları.
- Stockhammer, E. (2007) Some Stylized Facts on the Finance-Dominated Accumulation Regime, Political Economy Research Institute Working Paper Series, Number 142.
- Svensson, L.E.O. (2007) "Inflation Targeting", The New Palgrave Dictionary of Economics, 2<sup>nd</sup> Edition, edited by Larry Blum and Steven Durlauf.
- Taymaz, E. and Yılmaz, K. (2008) Integration With The Global Economy, The Case of Turkish Automobile and Consumer Electronics Industries, Working Paper 0801, TUSIAD-Koc University Economic Research Forum.
- Yeldan, E. (2006) 'Patterns of Adjustment under the Age of Finance: The Case of Turkey as a Peripheral Agent of New-Imperialism, paper prepared for presentation at the annual meeting of URPE (Union for Radical Political Economy).
- Yükseler, Z. and Türkan, E. (2008) Türkiye'nin Üretim ve Dış Ticaret Yapısında Dönüşüm, Turkish Industrialist's and Businessmen's Association.
- Yükseler, Z. and Türkan, E. (2008) Türkiye'de Hanehalkı: İsgücü, Gelir, Harcama ve Yoksulluk Açısından, Turkish Industrialist's and Businessmen's Association.
- Yalçındađ, A. (2008) "Küresel Kapitalizmin Geleceđi ve Türkiye" Conference, Opening Speech, 10<sup>th</sup> October 2008.
- Yeldan, E. (2006) "Neoliberal Global Remedies: From Speculative-led Growth to IMF-Led Crisis in Turkey", Review of Radical Political Economics; 38; 193, SAGE.

## **Reports**

Banking Regulation and Supervision Agency (2007) Financial Market Reports 2007, [www.bddk.org.tr](http://www.bddk.org.tr), 12.08.2008.

Central Bank of the Republic of Turkey (2006) Financial Stability Report December 2006.

Central Bank of the Republic of Turkey “Sector Balance Sheet Analysis (2004-2006)”, [www.tcmb.gov.tr](http://www.tcmb.gov.tr), 18.09.2008.

Central Bank of the Republic of Turkey (2008) Financial Stability Report May 2008.

Central Bank of Republic of Turkey (2008) “Firmaların Döviz Pozisyonu Göstergeleri”, [www.tcmb.gov.tr](http://www.tcmb.gov.tr), 15.09.2008.

Istanbul Chamber of Industry (2008) The Turkish Economy in 2008.

International Monetary Fund (2008) World Economic Outlook 2008.

State Planning Organization “Main Economic Indicators”, [www.dpt.gov.tr](http://www.dpt.gov.tr), 17.09.2008.

Treasury Undersecretariat “Economic Indicators, Financial Markets”, [www.treasury.gov.tr](http://www.treasury.gov.tr), 11.08.2008.

Turkish Industrialist’s and Businessmen’s Association (2007) 2008 Yılına Girerken Türkiye Ekonomisi.

## **Web sites**

[www.bddk.org.tr](http://www.bddk.org.tr)

[www.tuik.gov.tr](http://www.tuik.gov.tr)

[www.dpt.gov.tr](http://www.dpt.gov.tr)

[www.iso.gov.tr](http://www.iso.gov.tr)

[www.tcmb.gov.tr](http://www.tcmb.gov.tr)

[www.hazine.gov.tr](http://www.hazine.gov.tr)