Industrial Clusters in Turkey

The Turkish business environment, past and present

During the first ten years of the newly established Republic of Turkey (1923–32), state involvement in economic activities was rather limited. This was mainly because (1) the basic principles adopted in the Izmir Economic Congress (1923) committed the government to the establishment of a private enterprise economy, and (2) some economy-related provisions in the Lausanne Treaty (1924) considerably restricted the area in which the government could operate. For instance the country was bound to apply the Ottoman tariffs for another five years. Over this period little was achieved in terms of industrialization since the private sector lacked the necessary technological competence and capital. These factors, combined with external ones such as the Great Depression, were enough to convince the policy makers that the private sector could not be entrusted with the task of leading the country’s economic development. This marked the beginning of a new period (1933–45) in Turkish economic history called ‘etatism’, during which the government heavily intervened in the production of goods and services. The First Five Year Industrialization Plan (1934–38) placed strong emphasis on the industrialization process, particularly in the case of textiles, iron and steel. As a result of the related policies the pace of industrialization accelerated, with industry’s share of GNP rising from 14 per cent to 18 per cent during the period in question (Kepenek and Yentürk, 1997).

Between the end of World War II and 1960, some attempts were made at liberalization, shaped by a new type of etatism in which the government supported the private sector. The transition to a multiparty regime and the provisions of the Marshall Plan are considered to be the major reasons for this policy shift. Significant investment in energy and motorways as well as a boom in the housebuilding sector associated with rapid urbanization created a considerable demand for construction firms, thus promoting the development of the Turkish construction industry. Another feature of the period was that special emphasis was placed on agriculture in accordance with the Marshall
Plan, which brought modern practices to the sector. The government was clearly committed to encouraging the private sector and therefore pursued pro-business policies. However, this fostered rent-seeking activities, which subsequently became an increasingly deep-rooted problem. Interestingly, since the pro-business policies did not bring stability, both politicians and business people started to question whether it was possible to achieve stability and liberalization at the same time. In this respect it is worth mentioning that even Prime Minister Menderes, who was very sceptical about planning, had a change of mind and took certain steps to prepare a development plan in his last year in office, prior to the military intervention in 1960.

The disappointing results of liberalization, together with the tendency elsewhere in the world for greater government intervention, caused the military government of the early 1960s to introduce a 20-year import-substitution development strategy for a mixed economy, to be implemented via five-year plans. During this period there were improvements in the growth rate of overall output and industrial production. Big businessmen were also in favour of a planned approach and stressed the importance of having a long-term economic strategy to reduce the uncertainty in the economic environment. The need to clarify the boundaries of private sector activity was another factor in this. The sense of responsibility felt by the newly emerging bourgeoisie for the economic development process resulted in the establishment of influential business associations such as TÜSİAD (Buğra, 1994).

The period 1960–80 was a time of unusual political turmoil and there were three military interventions (in 1960, 1971 and 1980). After these interventions, concern about the position of the private sector was soon replaced by concern about the instability generated by the regimes' macroeconomic policies. In the 1970s two additional developments, the oil shock and the Cyprus crisis, exacerbated the already bleak scene. The coincidence of an unfavourable global economic environment with the political instability in Turkey led the country into a major crisis in the late 1970s, resulting in another military takeover in 1980. In that year the ‘January 24 Resolutions’ introduced a comprehensive stabilization programme under the auspices of the IMF and the World Bank. The structural adjustment policies adopted in accordance with the programme were intended to shift the economy from an inward to an outward orientation, with an emphasis on export-led growth. Reforms were conducted in a number of key areas, one of which was trade policy, with the introduction of extensive export promotion measures and the gradual liberalization of imports. The results were impressive in terms of exports in general and manufactured exports in particular, although the increase in exports was matched by a boom in imports (Öz, 1999).

In the second half of the 1980s there was a considerable reduction in export subsidies. Tariffs and quotas, and therefore the level of import protection, were also reduced. With the unexpected but comprehensive financial liberalization achieved by making the Turkish lira convertible in 1989,