

Hitting the Wall: Erdoğan's construction-based, finance-led growth regime

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The Middle East in London, Vol. 10, No. 3, (April-May 2014), pp. 7-8

As students of Turkey will remember well, the AK (Adalet ve Kalkınma–Justice and Development) party (AKP) came to power in 2002 immediately following a period of institutional restoration in the aftermath of a major banking sector-led economic crisis and deep political turmoil concerning the legitimacy of mainstream political parties. As a right-wing populist leader, Erdoğan won the elections by re-fashioning his predecessor Erbakan's Islamist developmentalism into a capital-friendly, "conservative democratic" center-right electoral coalition. The institutional restoration entailed a regulated banking system, an independent central bank, and fiscal discipline in the government budget. Throughout the past decade, Erdoğan remained committed to this fiscal-financial configuration: An independent central bank kept inflation under control; banking reforms paved the way to financial internationalization; and fiscal discipline meant a well-managed budget. AKP's repeated electoral success during this period also established the conditions of political stability. However, it was most importantly the various reciprocity and solidarity networks among conservative circles that AKP mobilized that underwrote this story.

Before the 2008 crash, politically and economically stable Turkey was already enjoying the benefits of global credit expansion. After the crash, with its regulated financial system and strong image of political stability, it managed to emerge as a safe haven for global capital. Alas, the composition of foreign capital changed dramatically, with short-term inflows increasingly replacing long-term foreign direct investment. Turkey's dependence on a steady stream of capital inflow stems not only

from a reliance of its growth strategy on domestic production with high import content (intermediary goods and energy), but also from low savings rates (capital formation).

The low savings rates can partly be explained by an unemployment rate officially at about ten percent, low wages, and a young population ready to make use of easily accessible consumer credit. Yet, another dimension of the story can be elucidated by broader demographic changes. The fiscal discipline mentioned above entailed the partial elimination of agricultural subsidies, which, in turn, spurred a rapid rural-urban migration, especially of the young, in search of jobs, a better life and housing. As a result, private and public investment in housing became the first leg of the three key components of the boom in the construction industry that quickly became central to the AKP's credit-led growth regime. Erdoğan led this charge both by actively directing investment in construction across Turkey through the Housing Projects Authority and by using the devastating 1999 earthquake as a pretext for legislating urban renewal.

The second key component of construction's ascent was investment in energy sector following its liberalization. In particular, an inordinate number of micro-dams and hydro-power plants were built in the lush valleys and rivers in various regions in Anatolia. Although these projects were justified on grounds of growing energy deficit, in spite of (sometimes irreversible) high environmental and social costs, they may be considered as part of the construction industry, rather than as a long-term solution to Turkey's energy deficit.

The third component, finally, comprises of infrastructure investments on a massive scale (some in progress, some on paper)—such as a third bridge to span the Bosphorus, a third airport in the midst of Istanbul's northern forests, and a canal

parallel to the Bosphorus, to the west of Istanbul (Erdoğan's self-claimed "crazy project").

To sum up, these three components came to be the main drivers of economic growth, and given Turkey's low savings rates, of the growing current account deficit. The increasing dependence on foreign (and short-term) capital, in turn, ends up increasing the risk premium associated with Turkey.

It is within this background that the Gezi Park uprising is to be situated. The uprising was certainly an irreducible and over-determined event; yet, it is possible to make sense at least some of its complexity by theorizing it, following Karl Polanyi's account of the *Great Transformation*, as a "double movement"—an attempt by various societal groups to take a stand against the dislocatory effects of a finance-led, construction-based regime of accumulation coupled with extensive marketization and commodification. The defense of a tiny urban park that Erdoğan wanted to replace with a late-Ottoman revivalist shopping mall could not be more symptomatic. Two days before the uprising, the construction of the third bridge with connections to the planned third airport began with a big fanfare. Two weeks prior, employees of state-owned Turkish Airlines went on strike, notably not for higher wages but rather for better work conditions. The uprising appears to have been the result of people having come to the end of their rope, reaching the limits of a complexly-woven regime of accumulation. These construction projects, although seemingly unrelated, are all components of the same vast modernist-developmental project of transforming Istanbul into a touristic Dreamworld; a layover site for global travelers, a concrete-and-glass landscape of high-rises, perhaps even a global financial center. In a way, the demands of the protestors are not so different from those of Turkish Airlines workers: Yes, we experience high growth rates, but at what cost?

More importantly, the question that will linger in the coming years is this: Was this construction-based, finance-led growth regime the most appropriate configuration for shaping Turkey's future? The economic gains realized by Erdoğan have generally been interpreted as the main motive behind the continued support of a large constituency. The tamed inflation, increased economic stability and high growth figures were considered by many as the underpinnings of Erdoğan's popularity. Alas, the "good days" now seem to be over—just before the coming local elections in late March. With investors fleeing due to political turmoil that shook the country last December (a sweeping corruption inquiry aimed initially at Erdoğan's inner circle and most recently directly at him and his family), the Turkish stock market took a severe bashing and the Lira went down to historic lows. The Central Bank recently moved to raise interest rates sharply to halt Turkish Lira's decline, which would certainly affect the inflation rate. A similar trend was observed last June, albeit at a much smaller scale, following the violent street protests. Notwithstanding the recent role played by US bond purchases and the threat of rising global interest in the latest stock market fall, the problem lies much deeper: An economic structure that is dependent on foreign capital (which is highly sensitive to internal politics) and largely fueled by the construction sector (which is known to be prone to bubbles). Yet, instead of focusing on structural problems, Erdoğan keeps on referring to various conspiracy theories in efforts to provide an explanation for growing economic problems.