

## **Importance of Globalization Process and Its Impacts on Turkish Economy**

### INTRODUCTION. GLOBALIZATION AND ITS PROCESS

The first uses the concept of global, an Italian economist, is Geminiano Montanari. This concept exactly appeared in 1960s and it is multifaceted, complicated, and dynamic phenomenon. Thus, globalization process consists of many different factors such as economic, social, technological, cultural, political and ecological. Despite the fact that various definitions on this process, most commonly accepted is globalization as the increasing integration and independence of national economies and the growing exchange of technologies, information, ideas and cultures across national borders [*What is Globalization?* (<http>)].

Economic globalization is technically different than the common definition. There are some definitions; firstly, as Anne Krueger, the first managing director of the International Monetary Fund says “economic globalization is a phenomenon by which economic agents in any given part of the world are much more affected by events in any given part of the world than before” [Krueger, 2000]. More precisely David Henderson defines globalization as “the free movement of goods and services, labor and capital, thereby creating a single market in inputs and outputs and full national treatment for foreign investors” [Henderson, 1999]. Globalization is acceleration of technological developments and being more important, the rise of neoliberal policies in the world, and a global multinational capital market development [Abdullah, 2009].

In short, we can say that globalization is gradual increase of communication and interaction between the communities living on the Earth, within the framework of interdependence. World’s balance varies with increased developed countries number. Actually, in my opinion, stronger countries direct balances of the world. They constitute “globalization”. Globalization process is really important for undeveloped and developing countries because they deserve to say something which effects world’s balance.

Today’s globalization started after 1945, accelerated during 1990s. Importance of industry increased with improving information age. During the last forty years, especially, after the falling of central planning regimes, economic

globalization has been particularly rapid. Market directed capitalism had become the paradigm for most of the world. Three fundamental factors; improvement in the information technology, reduction of the number of wars and more cheaper transportation have contributed to this rapid globalization process. In addition, many countries change their market structure from protectionist structure to free market, privatization, and liberalization of capital movements. Effects of globalization on Turkish economy:

- Private sector to become an engine of economic growth,
- To keep down rate of inflation and ensure price stability,
- To reduce state bureaucracy,
- To execute a balanced budget, even if budget surplus isn't provided,
- To remove or reduce tariffs on imported products,
- To get rid of quotas and domestic monopolies,
- To boost export,
- To customize state-owned industrial enterprises and public enterprises,
- To liberalize the capital markets,
- To make currency convertible,
- To open markets to foreign direct investment (FDI),
- To reduce public regulations in order to increase competition in the economy.

On the other hand, there are some agreements, mergers, special unions which are important parts of the globalization process [*Effects of...* (http)]:

- Impact of political developments in the world and giant international organizations which try to control everything, such as United Nations,
- Transnational pacts, such as NATO
- New Transnational Economic Unions; European Union, the North American Union, Black Sea Economic Cooperation etc.
- Socio-political movements; Ethnic Nationalism, Fundamentalism, Feminism, Ecological etc.

Turkey is a developing country. Turkey hosts lots of civilizations and has multi-rooted history. Turkey's globalization process started at 1980s. Turkey took first step with liberalizing capital movements and increasing trade volume. Turkey is greatly influenced by the globalization process because of Turkey's strategic location. Also this special statue affects especially energy sector between East-West in economic areas [Bayar].

Turkey is neighbor with many special countries which have the richest energy resources in the world. Turkey offers transportation of oil and gas reserves in the East-West direction economically with the shortest and least costly route. Nowadays, Turkey still lives universal globalization rules. Inflation rate decreases, state effects on economy reduces, power of bureaucracy is less, tele-

communication privatizes day by day. In addition, Turkey has many special unions such as Black Sea Economic Cooperation etc.

Turkey – EU relations held in EU Heads of State and Government Summit in Helsinki at 10–11 December 1999. Turkey’s candidacy at the Helsinki Summit will be officially approved and an equal position with other candidate countries has been expressed clearly and emphatically [Turkey – EU Relations ([http](http://))].

## ECONOMIC GLOBALIZATION

Economic globalization means that increasing interdependence of world economies as a result of the growing scale of cross border trade of goods and services, flow of international capital and wide and rapid spread of technologies. The rapid growing significance of information in all types of productive activities and marketization are the most important factors for economic globalization. In recent years, fast globalization of the world’s economies largely depends on the rapid development of science and technologies. The advancement of science and technologies has greatly reduced the cost of transportation and communication, making economic globalization possible.

Different approach to explain economic globalization is “market-driven international monetary system”.

According to this system six features were determined which are about especially about financial globalization [*Globalization of Finance* ([http](http://))]:

1. Transnationalization of financial portfolios by following common liberalization of capital movements in the country,
2. Reduction in importance of banks according to the market,
3. Determination of exchanged rates with financial market,
4. Explanation market variability with development of computing and communication technologies in general,
5. Intensity of market which born with small groups to trade using a similar analysis in international markets.
6. Many countries, which cannot isolate themselves because of exchange rate pressures, are not disciplined in terms of domestic economic policies.

In Turkey, I can say that economic globalization started after 1980s. State removed its effects on economy and gave priority to private companies in many areas. Export was encouraged by government. Turkey’s politic statue has become more important after development foreign trade. Nowadays, Turkey still tries to improve its economic system and it changes their currency market when it needs. Now, firstly I will explain Turkish Economic System and performance, and then I will try to describe effects of globalization on Turkish Economy.

## PERFORMANCE OF TURKISH ECONOMY<sup>1</sup>

In the early 1960s until the late 1970s, the Turkish economy was heavily based on trade of import. This process worked successfully until 1970's, afterwards it started to collapse. Compared to the other developing countries Turkish economic growth performance was fairly good. Comparatively high growth rates had been achieved without the availability of a large amount of natural resources, like oil, in a basically democratic political environment.

During 1960–70s Turkish economic growth rate was higher than many developing countries and this rate has been determined an average annual rate of 7 percent. There was a significant improvement in quality of living conditions with this developing economic structure. But also, three specific structural problems appeared: Firstly, pressure on balance of payments with higher import attitude; secondly, increasing a gap between investments and domestic savings with high level of Gross Domestic Product (GDP) investments; and effects on public sector on economic development.

There were two critical developments on the world economy during 1970s. One of them is high increase in oil prices and secondly recession, inflation and rising unemployment in the industrial countries made international environment worse. These factors played an important role in deterioration of the Turkish economic situation. And Turkey faced a severe balance of payments crisis in late 1977. In order to regain confidence and continue sustainable developing model, Turkish authorities adopted an export oriented development strategy in 1980 based on realistic exchange rate. Other factors reduce the bias against exports, increasing in domestic savings and increasing the role of public sector. This policy was advised by international organizations such as the International Monetary Fund and World Bank. These advices were started to be implemented in early 1980's for more market-focused economy.

Globalization has accelerated in this process. At the end of 1980s, some guidelines, which called "Washington Consensus". This consensus included fiscal discipline, competitive currency and trade, financial liberalization, privatization, competitive currency and trade. As Dani Rodrik pointed out that these were perceived to be the key elements of what Paul Krugman has called the "Victorian virtue in economic policy" namely "free markets and sound money". [Rodnik, 2003].

According to these conditions, the methods of export-led growth together with Washington Consensus' principles, Turkey has been highly successful. The average annual growth rate was 5.8 percent between 1981 and 1988. The lack of

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<sup>1</sup> Summary of [Erçel, 2006].

economy was quickly increasing. Although annual inflation rate did not reach hyperinflationary levels, it remained around 35–40 percent in beginning of 1980s and 60–65 percent in end of 1980s.

Ertugrul and Selcuk's research shows that in order to contain inflation in late 1980s, various forms of nominal anchoring and monetary tightening were implemented without any serious efforts to reduce public sector borrowing. This policy necessitated a higher interest rate on domestic assets and a lower depreciation rate which attracted short-term capital inflow-namely "hot money". Turkish authorities and as well as public realized the fact that there is a close relationship between economic growth and foreign flow to the Turkish economy. If foreign flows are available, the economy runs smoothly. If not, serious problems arise. Thus macroeconomic policies were directed to attract external flows either external borrowing or direct foreign investment [Ertugrul, Selcuk, 2001].

Turkish economy unfortunately experienced several serious financial crises in the year of 1994 together with capital account liberalization in 1989. There is no comprehensive macroeconomic program until at the end of 1999 because of political instability and uncertainties. Although a crises in 2001, the government decided about inflation rate, fiscal deficit, structural reforms. However, Turkey has had still risks about currency appreciation and current account deficits of balance of payments.

Turkey's economy has entered an era of high growth and structural reform. A comprehensive reform program, which encompassed an exchange float rate, financial-sector supervision and privatization, led to significant economic growth with an annual GDP growth rate of 6.8% between 2002–2008, compared to an annual average of 4% in the 1990s. The private sector has grown considerably in recent years, but the government still plays an important role in leading industries such as banking, transport and communications. Significant improvement in budget management was introduced, and government debt declined significantly from 76% of GDP in 2001 to about 35% in the second quarter of 2010 [IMF, 2012].

In addition, European Union praised about Turkish economy in spring economic forecasts. It mentioned that despite shrinking demand in foreign markets, Turkish economy has shown strong growth in 2011 and 2012.

## EFFECTS OF GLOBALIZATION

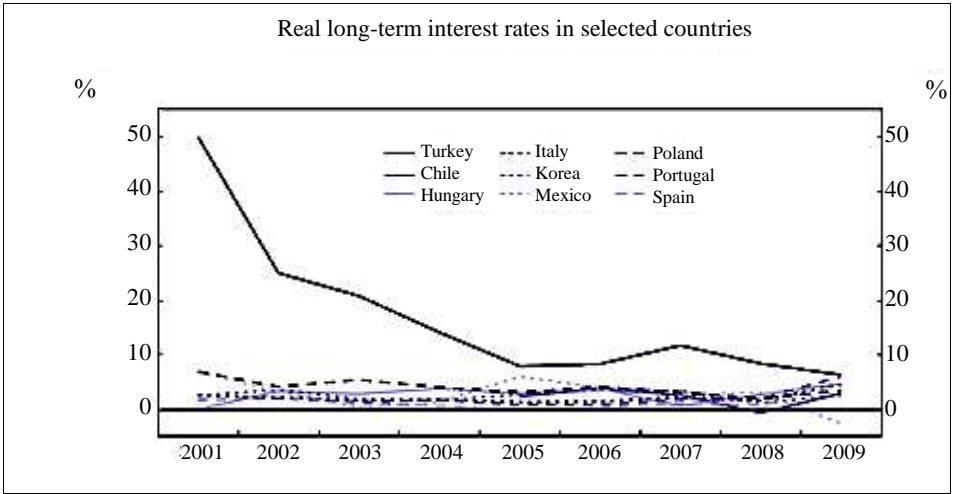
There is a common suggestion about trade liberalization for helping people in a more integrated global economic area. Liberalization of trade contributes to

undeveloped and developing countries' levels for economic development. According to George Stiglitz, "The economic growth literature has been successful in demonstrating the importance of some variables for economic development, including education, institutions, health and geography; however, the relationship between trade liberalization and growth is much more controversial" [Stiglitz, Charlton, 2005]. Also, he is in favor of liberalization for increasing level of welfare of public, but in short-term.

In Turkey, policy of trade liberalization started in the 1980s and concluded successfully. The export ratio in GDP was %16 in 1990, %33 in 1998. Turkey has been accelerated policy of outward, it had not sustainability of the growth rate yet. Since the end of 80's, Turkish economy faced two major and three minor recessions principally owing to high inflationary environment and public sector debt. However, the opening current and capital accounts could not help Turkish economy, because the implemented macroeconomic policy did not continue long time. Turkey lived several financial crises in the years of 1994, 2000 and 2001. Briefly, as the general cause of these crises was to decline trend of global liquidity, debt-financed growth strategy, and also many investors who fled from domestic commodities etc. [*OECD Economic Surveys of Turkey*, 2010 (http)].

Turkey has importantly improved its terms of integration with global capital market before as well as after the international crises. Developing markets' risk premia and interest rates are driven primarily by worldwide investment conditions and risk tendency, but continuous advance in national economic fundamentals in 2000s has significantly increased Turkey's credibility and reduced capital costs. In comparison to other developing countries, Turkey has lived a strong fall in risk premia, an important decline in domestic interest rates, but improvement in credit ratings has been relatively slower. The improvement of Turkey's access to global capital market has broad effects on capital supply conditions in the entire economy with taking place under an entirely liberalized capital account. Real interest rates have declined. This supports not only the post-crisis recovery, but also offers a basis for stronger and broader-based long-term growth. There are some improvement areas; prime determinants of international risk premia and credit rating include the fiscal situation, price stability, trade and growth performance, governance quality and political stability to help Turkey to evolve into a fully normalized and resilient economy and foster its full participation in the global capital [*OECD Economic Surveys of Turkey*, 2010 (http)].

In addition, Turkey has enjoyed rapid catching-up thanks to improving macroeconomic framework, increasing openness to trade and foreign investment in 2000s. This was possible against the adverse business environment, reflecting restrictive product and labor market regulations, since the semi-formal and informal economy had a significant contribution to the expansion of the private sector.

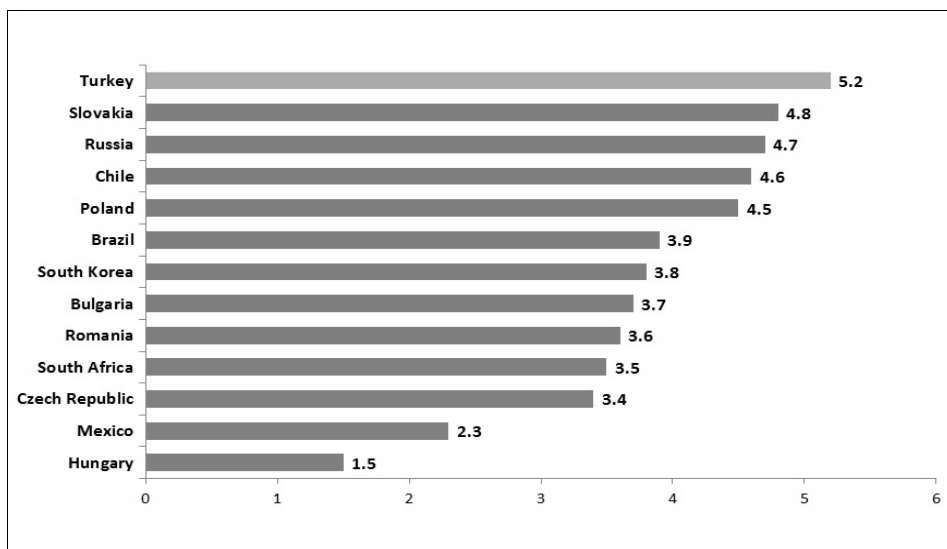


Source: OECD, *OECD Economic Outlook Database*.

Productivity growth was strong, but labor utilization remained very low, affecting negatively social cohesion and the growth performance. Looking forward, higher employment and productivity growth will not be possible without profound regulatory reforms. They primarily require labor market reforms to lower minimum wages, possibly via regional arrangements, to reduce severance payments and social security contributions and to introduce more flexible forms of job contracts. These reforms have been discussed for a long time, but political obstacles prevented implementing them. Resolving this deadlock calls for advancing an integrated strategy of labor reforms and formalization via experimenting with new regulation on the voluntary basis to identify the most successful solutions that can be later rolled over to the whole economy. Moreover, Turkey has to ease further anti-competitive product market regulations by reducing barriers to entrepreneurship and foreign direct investment and by reducing government involvement in business. A successful implementation of these reforms would allow Turkey to enjoy golden decades. In the 2000s, Turkey has enjoyed rapid catching-up thanks to improving macroeconomic framework, increasing openness to trade and foreign investment. This was possible against the adverse business environment, reflecting restrictive product and labor market regulations, since the semi-formal and informal economy had a significant contribution to the expansion of the private sector. Productivity growth was strong, but labor utilization remained very low, affecting negatively social cohesion and the growth performance. Looking forward, higher employment and productivity growth will not be possible without profound regulatory reforms. They primarily require labor market reforms to lower minimum wages, possibly via regional arrangements, to reduce severance payments and social security contributions

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The Turkish economy has shown remarkable performance with its steady growth over the last eight years. A sound macroeconomic strategy in combination with prudent fiscal policies and major structural reforms in effect since 2002 has integrated the Turkish economy into the globalized world, while transforming the country into one of the major recipients of FDI in its region. The structural reforms, hastened by Turkey’s EU accession process, have paved the way for comprehensive changes in a number of areas. The main objectives of these efforts were to increase the role of the private sector in the Turkish economy, to enhance the efficiency and resiliency of the financial sector, and to place the social security system on a more solid foundation. As these reforms have strengthened the macroeconomic fundamentals of the country, the economy grew with an average annual real GDP growth rate of 5.2 percent over the past nine years between 2002 and 2011 [Economic Outlook (http)].

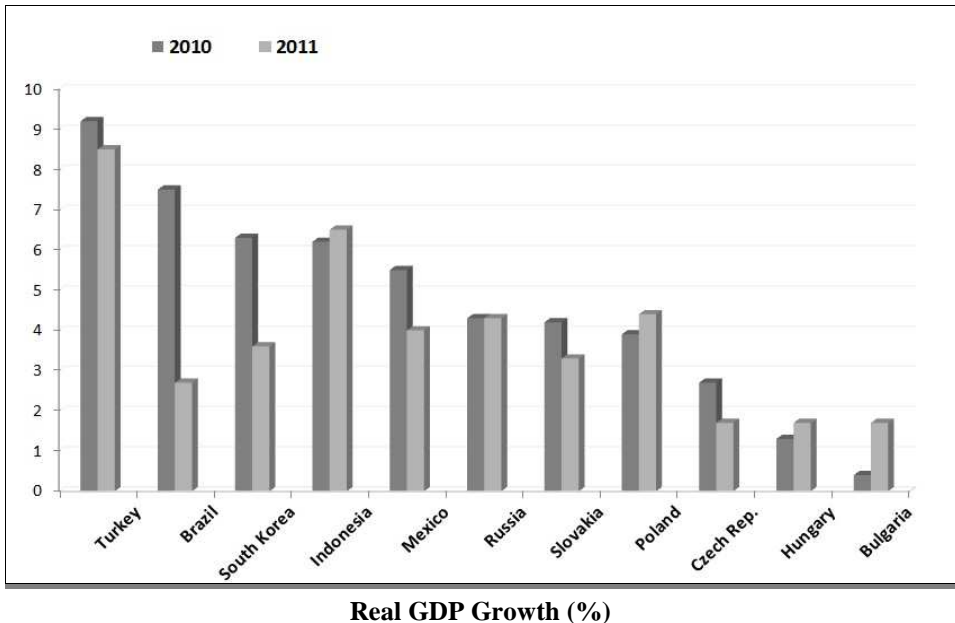


Average Annual Real GDP Growth (%) 2011– 2012

Source: [IMF, 2012].



Together with stable economic growth, Turkey has also reined in its public finances; the EU-defined general government nominal debt stock fell to 39.4 percent from 74 percent in a period of nine years between 2002 and 2011. Hence, Turkey has been meeting the “60 percent EU Maastricht criteria” for public debt stock since 2004. Similarly, during 2002–2011, the budget deficit decreased from more than 10 percent to less than 3 percent, which is one of the EU Maastricht criteria for the budget balance. As the GDP levels more than tripled to USD 772 billion in 2011, up from USD 231 billion in 2002, GDP per capita soared to USD 10,444, up from USD 3,500 in the given period. The visible improvements in the Turkish economy have also boosted foreign trade, while exports reached USD 135 billion by the end of 2011, up from USD 36 billion in 2002. Similarly, tourism revenues, which were around USD 8.5 billion in 2002, exceeded USD 23 billion in 2011. Significant improvements in such a short period of time have registered Turkey on the world economic scale as an exceptional emerging economy, the 16th largest economy in the world and the 5th largest economy when compared with the EU countries, according to GDP figures (at PPP) in 2011. While many economies have been unable to recover from the recent global financial recession, the Turkish economy expanded by 9.2 percent in 2010, and 8.5 percent in 2011, thus standing out as the fastest growing economy in Europe, and one of the fastest growing economies in the world [*Economic outlook* (<http>)].



Source: [IMF, 2012].

## FINAL REMARKS

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### *Summary*

Globalization is the most important tool of the economy planning on international scale in a manner consistent and occurring in the integrated world economy. Factors effecting economy also effects globalization. In this context, it is difficult to give a single definition of globalization. The simplest form of globalization is gradual increase of communication and interaction between the communities living on the Earth, within the framework of interdependence. Globalization is not a new concept. Especially after World War II, more than one country tried to be the best not only in term of the economic also in political area. Therefore, many undeveloped and developing countries became a potential market for those powerful countries. In this study, the importance of globalization process and its effects on Turkey's economy are investigated. Turkey is greatly influenced by the globalization process. Turkey's strategic location is one of the most important reasons for this influence. Turkey embraces two continents, one arm reaching out to Asia, the other to Europe. Turkey hosts many civilizations, which has both positive and negative impacts on the country's economy. In 1980, Turkey has undergone a fundamental structural change to ensure compliance with the world economy and economic globalization. Protectionist economic structure has become freer, export was more encouraged than import, foreign trade, currency, interest, and capital accounts were liberalized. In today's economy, globalization is gaining momentum with trade volume increasing.

## **Znaczenie procesu globalizacji i jej wpływ na gospodarkę Turcji**

### *Streszczenie*

Globalizacja stanowi najważniejszy czynnik zmian gospodarczych w skali międzynarodowej, oddziałujący w zintegrowanej gospodarce światowej. Inne czynniki determinujące sytuację gospodarczą również pozostają pod wpływem globalizacji. W tym kontekście trudno jednoznacznie zdefiniować pojęcie globalizacji. W najprostszym sposobie można ją określić jako stopniowy wzrost komunikacji i interakcji pomiędzy społeczeństwami na całym świecie, w ramach wzajemnych współzależności. Globalizacja nie jest koncepcją nową. W szczególności po II wojnie światowej wiele państw dążyło do przejęcia dominacji zarówno w sferze gospodarczej, jak i politycznej. Stąd też wiele słabo rozwiniętych i rozwijających się krajów stało się potencjalnym rynkiem dla najsilniejszych gospodarek. W opracowaniu analizom poddano znaczenie procesu globalizacji i jego oddziaływanie na gospodarkę Turcji. Turcja pozostaje pod znacznym wpływem procesów globalizacji. Jedną z najistotniejszych przyczyn tego oddziaływania jest strategiczna lokalizacja Turcji. Turcja usytuowana jest na dwóch kontynentach: azjatyckim i europejskim. Turcję charakteryzuje różnorodność cywilizacyjna, co ma zarówno pozytywny, jak i negatywny wpływ na gospodarkę turecką. W 1980 r. Turcja doświadczyła fundamentalnych zmian strukturalnych, które zapewniły jej spójność z gospodarką światową i poddały ją wpływom globalizacji gospodarczej. Protekcyjna struktura gospodarcza została urynkowiona, eksport wzrósł w większym stopniu niż import, waluta, stopy procentowe i rachunki kapitałowe zostały zliberalizowane. Współcześnie globalizacja skutkuje wzrostem wolumenu handlu.