DOES UPGRADING ALWAYS MEAN NATIONAL DEVELOPMENT?

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Presentation Map:

- The question: “Does upgrading always cause national devlopment?”

-Anatolian Tigers and middle and small producers in the export oriented development project.

- Basic transformation stages in Turkish economy beginning from 1980s.

-Main characteristics of the firms which have joined with upgrading activities in Turkey.

-The question whether it is upgrading or downgrading for Turkey is still relevant.

-What can be offer to” improve the quality of life in the country?

WHAT DOES UPGRADING MEAN?

- Think about a business which is able to produce just a simple part of a whole product. If this factory would be able to shift its production from this simple part to the more complicated and more value added ones; moreover, if it could make OEM and OBM production; or if it could make full packaging production, these shifts would be called as upgrading for this business or factory.

- Firm level upgrading is being presented as a new development model for developing countries, especially by World Bank, UNCTAD – in its World Investment Reports, etc. In this context, foreign direct investments, the cooperation of native organizations with transnational ones, and increasing research and development investments in developing countries are being supported.

- It is asserted that Turkish firms had upgrading practice after 1995.
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  FORESIGHT:
- Countries are usually seen as unique identities from abroad. Their development stories are narrated as the rise of a nation in whole battle fields. However, reality does not always work like this. There are always winners and losers. In a zero-sum game there are, naturally, some losers. But what if there are some winners while a developing country has been losing? What if a country's industrial upgrading involved actually losing its former employment levels and subsequently needs ever more imported goods to produce exports? Does industrial upgrading always has winners and losers, and are upgrading and downgrading always symbiotic at the local level? Is it possible to improve both, the quality of the life totally in the country and firm level upgrading?
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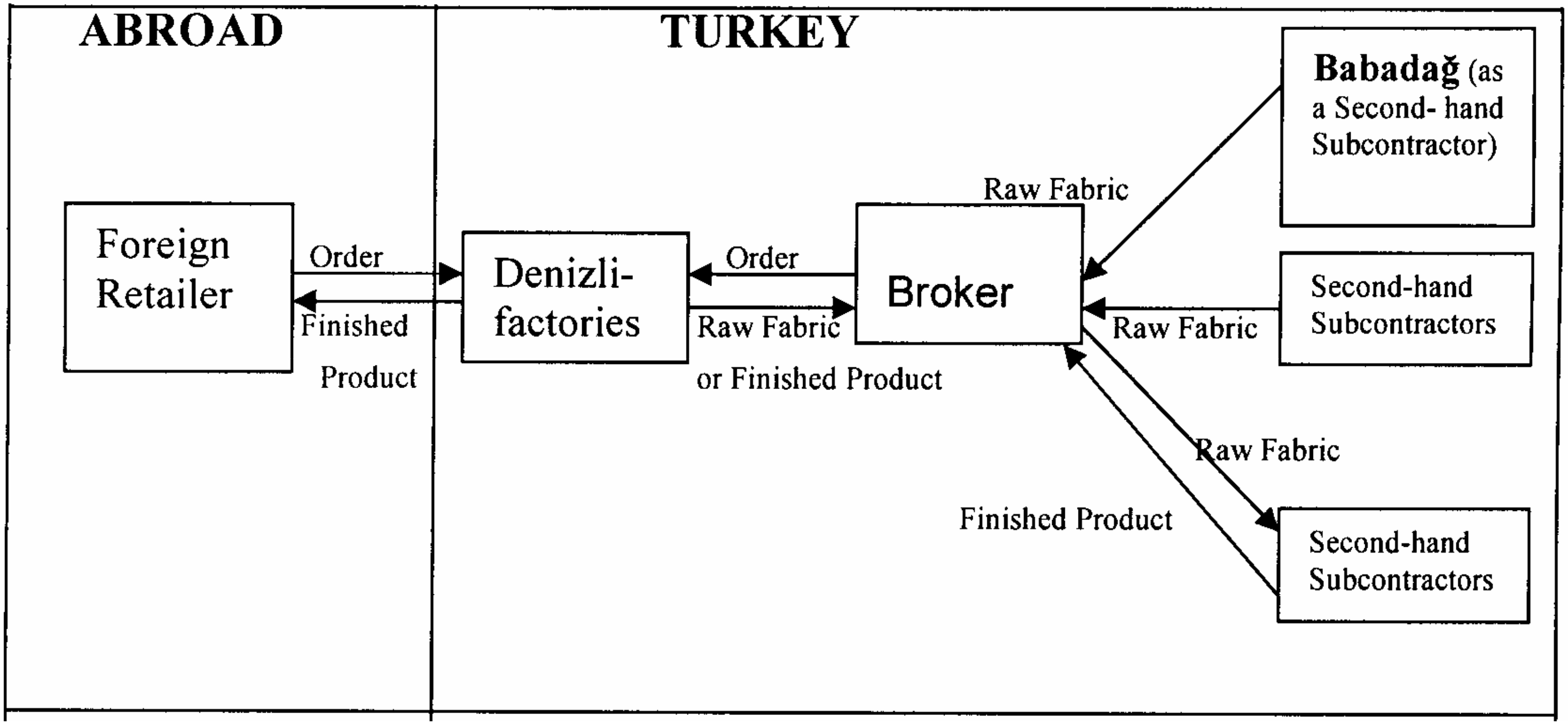
TURKISH CASE: ANATOLIAN TIGERS

- Between 1984 and 1991, textiles and garments were the rising star in Turkey, and many were eager to invest their money accordingly. Ironically, not only the entrepreneurs or investors but also lawyers, doctors, dentists—in short, anybody who had enough money to start a business entered the textiles and clothing sectors.

- Starting in 1980, after Turkey's adoption of export oriented economic policy, some new provinces, called 'Anatolian Tigers' obtained a chance to start businesses as subcontracting factories for transnational brand names and retailers. Private enterprises, utilizing numerous public incentives, established integrated textiles and garment plants in these cities for foreign textiles and apparel demand.

- Anatolian Tigers work labor intensive. They improved employment and people had work even though they leaned on relatively cheap labor facities of the country.

ANATOLIAN TIGERS: HOW DOES THEY WORK?



PERIODIZATION OF TURKISH ECONOMY

1981-1989:

- Structural Adjustment Programs,
- Export-oriented development model,
- Export promotions,
- Regulated foreign exchange rate,
- Controls on capital inflows,
- Severe wage suppression,
- Domestic demand suppressions to create exportable surplus,
- Golden age for labor intensive sectors, especially for garment exporters; rise of “Anatolian Tigers”,

1989-1998:

- Severe suppression of wage incomes via hostile measures against organized labor reached its economic and political limits by 1988;
- Motherland Party lost many councils and mayors in the municipal election of 1988;
- Real wages in manufacturing increased by 90% from 1988 to 1991;
- When wage level increased, foreign demand for Turkish products (especially the products of labor intensive sectors) has diminished. Thus, the foreign money coming from the exports has reduced.
- Turkish economy needed additional sources as money flows in foreign exchange to pay foreign loans;
- The solution came from the “hot money” flows by national and international players;
- Turkey opened up its domestic asset markets to global financial competition in 1989 initiated with the elimination of controls on foreign capital transactions and the declaration of convertibility of the Turkish Lira;
- The Central Bank lost its control over the exchange rate and the interest rate as policy instruments;
- The rentier activities have climbed, and the time to earn money from the money, the degradation of productive activities has started;
- The demand for labor intensiveTurkish products from global buyers entered into declining period;
- Leading firms (the biggest firms) in Turkey turned their route into upgrading activities; these producers connected with financial-rentier activities; itii
- Labor intensive sectors and small and middle level producers couldn’t compete with countries which produce cheaper than Turkiey like Romania, Russia, Hungary, Egypt, South Africa and sure China; on the other hand, couldn’t adapt into the rentier activites; many lost their jobs, others lost their company; as a result unemployment raised.

1998-2002:

- Crises time; fragile financial characteristics of Turkish economy;
- While annual interest rates was between 35% and 45%, in the crises time of 2000 and 20001 it was jumped into 2000%;
- Firms which have connected with financial-rentier activities earned, firms (especially the small and middle level producers) not connected with these activities lost;
- One more time, many lost their firms while many others lost their jobs: The number of the firms which were closed down in 2001 reached at 26 990 with an increase of 17.4%; in 5 years (between 1999 and 2003) the number of firms closed down was 110 566.
- Unemployment rate increased from 7.6 % in 1999 to 12.3 % 2003; the highest increase was among educated people.

2003 +

- Valed Turkish Lira period started.
- Valued Turkish Lira made imports cheaper
- Producers used more imported inputs in their production. For automobile production the ratio of imported input in the final product become 80%.
- Valued Turkish Lira improved hot money inflows and made economy more fragile.

THE FEATURES OF UPGRADING FIRMS IN TURKEY

- The upgrading firms in Turkey are OEM and full-packaging producers for the global buyers from the beginning.
- All samples of upgrading in Turkey joined with retailing activities,
- All samples interested in rentier activities; and all has their own banks or credit cards to carry out their financial portfolios, which facilitate firms' resistance to the financial crises.
- All samples constructed new factories or join new network relations with cheap labor countries, like Romania, Russia, Poland, South Africa,China etc.
- All samples of the upgrading firms in Turkey catch the quality standards of the leading firms of central countries in their production but make price competition.
- Skilled-educated peoples' (engineers, architects and designers') labor cost was felt down after the crises of 1994, 1997, 1998, 2000 and 2001; and these people entered into high competition to have a job or to save their jobs, which provided the necessary conditions for technological upgrading, functional upgrading, orijinal equipment manufacturing (OEM) and original brand manufacturing (OBM) production.
- Upgrading in white goods/household articles as well as retailing activities has different features by necessitating merge and acquisition among firms.

-The question whether it is upgrading or downgrading for Turkey is still relevant.

-What can be offer to" improve the quality of the life in the country?

- To be able to mention about an upgrading as a total improvement in the life of the country; a national growth with high employment rates should be appeared. If not, that means a partial enrichment of a group in the country while others loosing.
- We should save our jobs and our labor intensive sectors while improving new ones with original equipment manufacturing and original brand manufacturing. We should reach capital intensive and high tech. sectors while saving our labor instensive ones.
- That means for developing countries we should think about more planning and corporations, more responsible to the people. Especially at the times of global crises this proposition is more relevent than before…

THANKS FOR LISTENING…