

TURKEY'S ECONOMIC BUBBLE BURSTS

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✘ Editorial, 26 March 2015

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Erdogan came to power after the government—an incompetent coalition—lost the confidence of Turkey's citizens in the months leading to February 2001. During its tenure Turkey had lost half its wealth. If Erdogan doesn't watch his step, he might be gone with the wind, like his predecessor. It has been an economically rough two years for Erdogan and Turkey.

Back in 2002, when he took power, he launched massive privatization and reduced Ankara's involvement in basic industry, communication, transportation and banking. He became the darling of international financiers. Privatization also brought much-needed \$62 billion to the government coffers. Small entrepreneurs, sidelined by the previous government, hugged Erdogan's liberal economic policies and helped create the Turkish Tiger. Soon Turkey was exporting automotive, mechanical, construction and even electronic equipment. A Turkish company bought the high-end Godiva chocolate company and the Turkish Airlines began to fly everywhere except perhaps to Nome, Alaska.

Foreign investors enamored by Erdogan's policies and perceived democratic values, poured billions of dollars into the Turkish economy. Turkey's courting of some Arab countries paid off in bushels as the latter became a huge market for Turkish goods and services. As the economy ballooned, so did the ambitions of Erdogan. He and his foreign minister (Ahmed Davutoglu) fantasized about a neo-Ottoman Empire and declared Turkey was born in 1453 (when the Ottomans conquered Constantinople) and not in 1923. Davutoglu also boasted "zero problems with neighbors". Some swallowed the lie and forgot Turkey's illegal occupation of northern Cyprus, that it continued its blockade of Armenia, oppressed its Kurds and was working to unseat Syria's Bashar Assad. To gain the support of Arab masses, Erdogan went after Israel. They were heady days for the Erdogan/Davutoglu pair.

But then Erdogan over-reached his grasp and began to believe his cowed domestic press' clippings; he exposed his autocratic nature; insulted the West; ushered semi-theocratic rule; jailed journalists, banned Facebook, Google... his police viciously attacked Gezi Park demonstrators; he began an internecine battle with his former ally billionaire Fethullah Gulen.

As a result of Turkey's interference in Arab politics, he precipitated an endless war in Syria/Iraq. He tacitly supported ISIS and wouldn't allow the US Air Force to use the Incirlik base to bomb the terrorist entity. As a result of war, Turkey lost access to the Arab market. Recently Turkish businesses were being driven also out of Libya because of Ankara's clumsy response to that country's civil war and its aftermath. Erdogan is anathema in Egypt because of his support of the Muslim Brotherhood.

While its eastern markets were drying up, Turkey's European markets were going through turmoil: unemployment; recession; the Greek Crisis...began to impact Turkish exports and foreign investments.

It's an economic axiom that the first requirement of investors is that the country where they invest must be at peace and have a stable government. Turkey's domestic/foreign policies and reckless Erdogan's rants began to cause upset stomachs to Wall Street financiers. They began to wonder how safe was their money when the government was led by an autocrat who over-ruled the governor of the Central Bank. When the foreign investors made their voices heard, Erdogan hinted that the Turkish economy was being sabotaged by "external influences" (his rival Gulen), "the interest lobby" and the "international conspiracy" (read Jewish financiers). The raving president of Turkey even accused the Lufthansa German Airlines of conspiring against Turkey.

Foreign investors became also jittery by the corruption scandals. They worried that a great deal of the Turkish boom was based on a single sector--construction. There were far too many examples elsewhere of the type of abyss such dependency can lead. Unemployment rose to double digits (in the southeast, where the population is mostly Kurdish, unemployment was close to 25%. Western Turkey, which had enjoyed a halcyon decade, unemployment soared to double digits. Turkey's GDP fell and inflation ballooned making an interest rate hike inevitable.

Result? The lira took repeated dives in the past year. In early March it hit a record low of 2.6470 to the dollars when a strong US jobs data raised the specter of the Federal Reserve raising interest rates and putting further pressure on the lira. On March 5 Citigroup announced it would leave Akbank, Turkey's second largest bank, selling its 10% stake. It did so although it lost \$800 million in the transaction. One Turkish analyst said that Citigroup's hasty withdrawal indicated how eager the company was to flee the Turkish market. To persuade Wall Street that all was well in the Turkish economy, Prime Minister Davutoglu rushed to New York. He was in such a hurry that he didn't even inform the State Department of his visit. Dr. Jonathan Schanzer, vice-president of research at the Foundation for Defense of Democracies, told "Business Insider" the "Turks appear to be in panic mode." The Deltec International investment group said Turkey is one of the emerging economies

"most at risk because of its high current account deficit and low foreign exchange reserves, short term external debt, and weak domestic demand..."

Incredibly, while his economy is being buffeted, pugnacious Erdogan is fighting Erdem Basci, governor of Turkey's Central Bank. According to economic logic and orthodoxy, Turkey has to raise its interest rate to control inflation. But raising the rate would increase unemployment. With parliamentary elections in June, Erdogan doesn't want to see a further increase in unemployment. He said the Central Bank's policy was unnerving investors and added that anyone who defended high interest rates was guilty of treachery. Erdogan's tirades against the Central Bank made foreign investors wonder about the bank's independence. His self-made economic theories will pull Turkey's economy deeper into the abyss. It's possible that he might repeat his predecessor's undignified exit. Those the gods want to destroy they make mad.

