Published on *League for the Fifth International* (https://fifthinternational.org)

Turkey: Economy at the cliff edge

Markus Lehner, Neue Internationale 231, September 2018 Mon, 27/08/2018 - 09:07
Markus Lehner, Neue Internationale 231, September 2018

Writing in the Guardian at the beginning of June, Kenneth Rogoff, a professor of economics at Harvard, posed an important question: "Are the brewing exchange rate and debt crises in Argentina and Turkey local events? Or are they a warning sign of deeper breaks in the bloated global debt markets in an environment of rising interest rates?" (Guardian, 11.6.2018).

We have also pointed out for some time that changes in the global economic situation since 2016 will lead to problems, particularly for a number of emerging markets. The crisis in Turkey is not an isolated incident. It has many parallels with similar ones that have intensified in Argentina, Egypt, South Africa and Pakistan in recent months. The renewed rise in interest rates in the USA, the US tax reform and the strong wave of investment in the imperialist centres that has just begun, have led to a reversal in capital flows; investments in less profitable emerging markets are now being returned on a massive scale to the main imperialist centres.

Externally, the current worsening of the economic crisis in Turkey is presented as the result of the clash of two irrational egomaniacs, the Turkish autocrat Erdogan and US President Trump. Erdogan himself tries to use the actions of the US president to explain the real problems as caused by a "terrorist economic war" against Turkey. Certainly, US sanctions in response to the holding of Pastor Brunson for alleged connections to the Gülen movement and "supporting terror", together with the punitive tariffs on steel and aluminium, accelerated the devaluation of the Turkish lira, but it was already in catastrophic decline before that.

Inflation and debt
In the last six months, the lira lost 40 percent of its value against the dollar, and another 20 percent in the week following the announcement of the sanctions. At the moment, the official rate of inflation is 15 percent and devaluation means the price of imports must rise further. This is in itself politically dangerous. What is much worse is that the currency decline is an expression of a debt problem in the core components of the Turkish economy.

In recent years, Turkey has only been able to secure high growth through massive inflows of foreign capital. Its current account balance has been negative for more than a decade, in 2017 it amounted to -5.5 percent of GDP, which has to be covered by corresponding capital inflows from abroad. Even where this takes the form of "investments", this represents, de facto, an annually growing indebtedness of Turkish households and companies amounting to 3-5 percent of annual economic output and those debts are mainly in US dollars. The foreign debts of Turkish private companies, after allowing for their own dollar assets, have now grown to $220 billion.

In total, Turkish private companies' debts add up to 60 percent of GDP, half of it in foreign currencies. Since their income is in lira, servicing those debts in dollars is becoming more and more expensive. Even the debts that are held in lira are often financed by the banks via foreign currency equivalents, so that the debt problem is even more serious for them. This year, they and non-financial companies still have to pay $51bn and $18.5 bn in debt servicing respectively. In view of the accelerated collapse of the lira, the collapse of the Turkish stock market (40 billion losses in the week following the Trump actions) and Erdogan's political decision to prevent interest rate hikes at any price, it was logically inevitable that fear of an imminent insolvency of important Turkish banks would circulate in the economic world. This, in turn, had considerable consequences for some major European banks, especially in Spain and Italy.

The problem is compounded by the fact that Turkey has lower dollar reserves than other emerging markets. These have now been used to temporarily stabilise the lira, but that has left the country with only enough foreign exchange for four months of imports. In mid-August, the rating agencies Moody's and S&P downgraded Turkish government bonds from "junk" to "highly speculative". In any case, the "creditworthiness criteria" of other financial institutions make all transactions with foreign equity participation many times more expensive and are subject to ever-harsher conditions.

The $15 bn loan from Qatar announced with much pomp and circumstance is a joke in view of the scale of this debt problem. Nor is a possible turn towards Russia economically viable. Rather, that country itself is being hit by a severe economic crisis and foreign debt. German media emphasis on such a turn expresses the fears of German foreign policy rather than an actual strategy for Erdogan. China, which is currently heavily involved in other "problem cases", such as Pakistan and Iran, has absolutely no reason to exacerbate its conflict with the USA by supporting Turkey, or to risk money that is needed elsewhere, especially in the trade conflict with the USA.

In fact, there are some indications that, in view of the situation, attempts are being made in Ankara to move closer to the EU, in particular to German capital. The sudden lifting of the ban on German-Turkish journalist Mesale Tolu is an indication of this. This would be the only real source of credit on the necessary scale outside the IMF without having to bow to the US. However, here, too, the political price would be high; German imperialism would unexpectedly, but inevitably, expand its influence in the region. In Berlin, the government, primarily the social democratic ministers Nahles and Scholz, have already announced their willingness to support NATO partner Turkey and to overlook political differences with Erdogan.

Debt

Sooner or later, according to capitalist logic, Erdogan will have to do two things: quickly and sharply increase interest rates and request an effective credit programme from the International Monetary Fund, IMF. The same scenario was played out recently with Argentina and Egypt. The problem for Erdogan and his Justice and Development Party, AKP, is that massive interest rate hikes would lead, on the one hand, to a massive wave of bankruptcies, especially in the construction industry and retail, and, on the other, bring the IMF and its "advisors" into the country, who would then de facto take over economic policy. This is because the IMF usually links loans on such a scale to very concrete demands in terms of economic and social policy and decisions over which companies are to be eliminated. The AKP would thus openly force a large part of its (petty-bourgeois) electorate to the wall, and Erdogan would quickly lose his image as a supposed "anti-imperialist". The alternative would be the nationalisation of overindebted industries and the introduction of capital controls. This in turn would make the Turkish (non-Kemalist) bourgeoisie break with the AKP.

To date, there is no sign that Erdogan and his ministers are prepared to take either option. If the debt problem, the collapse of foreign exchange reserves, the decline of the currency and the explosion of inflation continue at their present pace, then there will be a real threat of insolvency of large banks and the collapse of important companies. Given the scale of their investments, EU capital will certainly try to intervene and make "offers". It is also possible, however, that dissatisfaction with the AKP on the part of capital and the social base of the party will force a change of course beforehand. This could even lead to the downfall of Erdogan or to a more professionally organised coup this time.

Working class

For the Turkish working class, the crisis is already a massive turning point. Not only the rising prices of everyday necessities but also growing unemployment, officially at 10 percent, are severe problems. For the coming year, the international agencies expect a recession with a slump in economic output of 0.5 percent, representing a quite dramatic reversal after the strong growth rates of recent years, and inflation of over 20 percent. Together with company failures, this will cause unemployment to rocket once again. Resistance by the working class in Turkey continues to be extremely difficult because of anti-union policies, restrictions on company and inter-company organisation and the regime's erosion of democratic rights. In addition, the oppression of the Kurds and Turkish nationalism also have the effect of dividing and weakening the working class.

Successes such as the recognition agreement won by the Petrol-Is union at the Flormar cosmetics company in Gebze, east of Istanbul, part of the Yves Roche Group, may be signs of a possible change in view of the economic crisis (see labournet, 17 August 2018). Erdogan seems to be aware of the potential threat posed by an organised, resistant working class in crisis. For this reason, he also tightened control and state supervision of the trade unions by decree of 15 July. (https://www.neues-deutschland.de/artikel/1095149.repression-in-der-tuerk... [1])

In the face of inflation, unemployment and company bankruptcies, the main lines of attack for the workers are obvious: the struggle to protect wages against rising prices, no layoffs, the distribution of work among everyone; cut the hours, not the jobs, with no loss of pay, workers' control of the companies and opening of the books. Under Turkish conditions, this can only happen in conjunction with the struggle for basic democratic rights, for trade union and strike rights, against the political repression and oppression of organisations representing the working class, the interests of the Kurdish people, other minorities and the refugees. For this, however, the working class will need a political organisation capable of developing a programme against the crisis of capitalism and implementing it in the struggle for political power. It is time for leftists in the People's Democratic Party, HDP, to fight for a socialist programme and to stand up to the right wing, which is even flirting with an IMF loan.

Faced with the necessarily intensifying crisis of capital, the Turkish working class must remember its sharpest weapon, the mass strike up to the general strike! Such a fight would immediately raise the question of self-defence against repression, the need for strike committees and self-defence militias. It would pose the question of power in a form that could put an end to Erdogan's regime and bourgeois rule. The international workers' movement must support its comrades in Turkey, threatened by impoverishment and bloody repression, by all means necessary!

Source URL: https://fifthinternational.org/content/turkey-economy-cliff-edge

Links:
[1] https://www.neues-deutschland.de/artikel/1095149.repression-in-der-tuerkei-gewerkschaften-in-erdogans-visier.html