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## **Introduction**

The Republic of Turkey is a republican parliamentary democratic country with the population about 68, 000, 000 people. Possessing a great number of natural resources, manufacturing, agriculture and a range of services, having a good location and opportunities for maritime commerce, the economical potential of the country is successful. The modern borders of the country have been created in 1920, and it is located in the southern-western part of Asia and in the southern Europe. The country is influenced both by the European and Asian forces in cultural, political, and economical life. The country performs the functions of the balancing act, remaining open to the Middle East, it actively searches for the membership in the European Union.

The country is a republic, but the president is elected. The economical situation in the country has changed as the crisis of 2008-2010 has not passed behind. Still, good potential and the desire to be a developed country have made it possible to start the economic recovery program (Sheehan 2004, p.

135). Fast industrialization of the country also contributes to the economical and political development of the country and its high value at the international arena. The main purpose of this project is to consider the political and economical situation in the country as the background for more detailed description of the following issues, economy in the business sector and the economic problems the country faces. Moreover, the fiscal and monetary policy stances are going to be discussed within the topic. Many

financial factors, both at the national and at the international arena, influence the country development.

Economical data in the country's financial relations provides some impact on the micro and macroeconomics of the country.

## **Executive summary**

The paper examines political and economical situation and its influence on the country's development. To have a full vision of the situation in Turkey, a number of different aspects are to be considered. The general situation in the political and economical life of the country is the best way to see the situation in the country and to analyze the general development and the opportunities the country has. The information devoted to the import and export shows the country's capacities and the necessities. The general situation at the national and international market may be considered along with the information about the modern state of the industries and agricultural sector. The information about the economy and its place in the business cycle may help understand the level of business development and state the issues which should be addressed.

The economic problems in the country may be identified and analyzed on the basis of the specific financial data. Fiscal policy stance of the government and monetary policy stance of the central bank along with the discussion of bank's independence is considered to be the focus of the analysis on the basis of the latest data taken from the up-to-date sources. Some data has been put in the table with the purpose to understand its influence on the micro and macroeconomic situation in of the country. Having been impacted

by the international polices and national privatization and democratic facilities, the county has to cope with a number of different problems and at the same time meet the standards of the EU if Turkey wants to be its member.

## **Background**

To understand the background for the country's national and international development, it is important to check the political and economical situation in general, without referencing to the specific situations and financial activities. One of the main barriers on the way to successful development and functioning on the international arena has been the absence of democratic issues. When the whole world has entered the epoch of democratization and liberalization, Turkey remained under pressure of the Islam and the politics on the basis of this religion.

The country had to suffer some hybrid regimes to achieve the democratic position it takes now. Ghanim (2009) is sure that " considering that legitimacy derives from people rather than from God is a huge step in the direction of political modernization and a serious commitment to democracy" (77). This is exactly what Turkey has made, it began to pay attention to human understanding of rights and now is a democratic country. The EU is considered to be the central force which made Turkey stand on the way of democratization and liberalization as the country development depends on it. The desire to become a member of the EU encourages Turkey to improve the economic situation and the relation to the human rights (Carkoglu and Rubin 2003, 192). The successful development of political situation and its neo-liberalism became possible only because Turkey has refused from the <https://assignbuster.com/introduction-be-discussed-within-the-topic-many/>

politics run in the Middle East and has created its own norms and principles. Some people call this politics 'un-Islamic' (Ghanim 2009, 76). Still, such politics has made possible for the country to become the candidate of EU which is considered to be the main step on the way to membership (Carkoglu and Rubin 2003, 208).

The political changes have been supported with the economical recovery and improvement. The main principle of the economics in the country is competition " which possesses the institutional and political capacity needed to be able to provide the appropriate regulatory framework for an outward-oriented, market-based development (Onis 2009, 411)". Having used the Washington Consensus as the basis for the financial changes and having accepted the idea that political liberalization does not require from the state the change of legal and institutional acts, Turkey have faced the problem of inadequate functioning of the economical processes. The absence of the regulatory framework along with monetary and fiscal discipline resulted in three crises the country suffered from during different years (Onis 2009, 411). The economy of the country is on the way to recovery. Many attempts have been provided to make the economy of Turkey stable and developing.

Analyzing the after-crises situation, it may be concluded that GDP is high, inflation is reduced as well as the budget deficit, the banking sector is significantly improved, GNP debt is large, but the tendency to its reduction are seen. The economy still depends on short-term capital, therefore, the risks of a new crisis is reduced due to the regulation of the banking system and better macroeconomic environment. Even though the export has increased, the current account deficit is large. In spite of the time-lag,

inflows of foreign investment and privatization have significantly increased. The productivity has strongly improved and may be considered as the source of growth (Onis 2009, 422). So, the conclusion may be drawn that the general situation at the political and economical arena is stable and developing in the direction of the international market and relationships.

## **Imports and Exports**

Turkey is heavily relied on exports, for which the economy was influenced by the economic crisis in 2008 (Economy Watch 2011). After the economic boom experience<sup>4</sup> in the period between 2002 and 2007, Turkey's trade, exports, and imports " were hit badly in the year 2008, when the trade deficit stood at 31%" (Economy Watch 2011).

The relation between the amount of import and export and economic growth is positively correlated, i. e. the expansion of the volume of trade leads to an increase in employment growth and labor productivity. The main exports of the country revolve around clothes, automobiles, agricultural products, and electronics. Additionally, exports include natural resources such as iron and steel, oil, precious stones, and other (Economy Watch 2011). The most apparent impact of the economic downturn of the financial crisis can be seen in 2010, where until 2009, the number of the exports continued to grow, reaching its peak of almost \$140 billion. As of 2010, the export number started to recover, but they nevertheless are far behind (Index Mundi 2011).

Currently, the total exports stand at \$117, 4 billion (Index Mundi 2011).

When it comes to imports, the main imported commodities for Turkey include " electrical equipment, mechanical appliances, optical instruments,

iron and steel, and pharmaceutical products” (Economy Watch 2011).

Comparing imports and exports during the whole period between 2003 and 2011, it can be stated that Turkey suffered through a trade deficit, which can be seen through graph 1. In that regard, the decision to explore alternative markets through countries in Africa, Central Asia, and the Organization of Islamic Countries (OIC) is a wise decision. The results of such expansion can be seen through increasing Foreign Direct Investments and strengthening trade relations with Africa. Currently, Turkey’s imports stand at \$166, 3 billion (Index Mundi 2011).

Imports, Exports, and Trade Deficit (Index Mundi 2011, 2011)

## **Comparative Advantages and Disadvantages**

The competitiveness of Turkey can be attributed to several comparative advantages it enjoys, of which several are natural, and others are handmade. In that regard, the country’s geographical location can be seen among the advantages the country enjoys and which contributes to the country’s tourism industry. Turkey’s natural endowment can be seen through the year-round sunshine, extended holiday season, ecological diversity, and others, all of which contribute to Turkey being a popular tourism destination (Europe CEIC Database Team 2011). In general, the assessment of Turkey’s competitiveness internationally was revealed to be limited to labor intensive and easily imitable research-oriented products (Utkulu and Seymen 2004). Revealed Comparative Advantages (RCA) of Turkey were identified in Utkulu and Seymen (2004) in seven groups of products, which cover seven product groups, including “ clothing and clothing accessories; vegetables and fruit; sugar, sugar preparations, honey; tobacco; oil seeds and oleaginous fruits; <https://assignbuster.com/introduction-be-discussed-within-the-topic-many/>

rubber manufactures; textile yarn, fabrics and related products” (Utkulu and Seymen 2004, 18). The disadvantages, on the other hand, can be seen in advanced technology products, compared to the EU.

It can be stated that the comparative advantages of Turkey in such sectors as textile and apparel industry are related are both natural and handmade, based on geographical location and labor. The disadvantages, in that regard, are based on capital and technology (INCE and DEMIR 2009).

## **Economy in the business cycle**

Having considered the economy from the point of view of business, it is possible to state the main strengths of the Turkey’s business are the climate and strong government. The EU has created a customs union which continues functioning. The influence of integration with the global capital market to the Turkish economy has been considered from two different sides.

On the one hand, the benefit is seen in the sphere of business investment. On the other hand, the risks and vulnerabilities are too high as the business sector becomes dependant from the foreign savings (Gonenc, Sahinoz and Tuncel 2010, 6). It is obvious that the changes in the country’s economy have influenced the business sector. Turkey has opened international investment policy that has led to the reduction of the real long-term interest rates. The tendency can be easily followed. Figure 1.

1. Real long-term interest rates in selected countries (OECS 2010)

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