SUMMARY

This research was mainly structured by considering two significant concepts, which constitute a large area of interest in economics. These are macroeconomic factors and institutional factors that complete with each other and combine economic theory and institutional economics. The analysis of the Turkish economy in its historical periods was divided mainly into two periods: before and after the 2000−2001 economic crisis when it became necessary for new institutional changes that give way to creating a certain degree of complementarity in the macroeconomic factors of Turkey by considering its accession process to the Economic and Monetary Union (EMU). The main discussion emerged by analyzing how Turkey can become part of the EMU and which type of institutional changes must be considered. Then, the competitive position of Turkey with respect to China was examined thoroughly with an institutional approach to find why Turkey does not have a high competitive power. Moreover, explaining Turkey's current account deficit problem and its accession to the EMU became an important purpose of this research to qualify institutional changes. The general framework of the macroeconomic factors in Turkey is not favorable in terms of the EMU, which is important for its possible future integration, and its competitive position against the European Union (EU) countries and China. Because its macroeconomic factors have caused deepening and long lasting problems as they were shaped with high cost production and over-valued currency against the other countries which have lower cost production and less over-valued currencies. The high cost production basically precipitates into over-valued currency especially after the Turkish economy experienced an institutional change to the floating exchange rate system following the 2000−2001 economic crisis, and high wage rate growth surpassing the productivity growth of non-tradable goods and export goods causes high inflation and low competitiveness, respectively. The less competitive position of the Turkish economy with respect to the EU and China deepened its current account deficit problem that was stimulated by trade deficit. Thus, the main discussion developed in this work concerns how to find a favorable area with institutional factors to re-shape the macroeconomic factors and industrial policies of Turkey. As a conclusion, Turkey needs to implement new institutional changes in its exchange rate system by creating a managed exchange rate system, and in its income policies to set wage rate growth by considering its productivity growth of export goods for the EMU with a mathematical base social contract. The tripartism negotiation as a social contract between the government, trade unions and employer unions gains importance in considering a wage rate growth according to the productivity growth of export goods under the wage−labor relations, which will become an important factor in eliminating over-valued currency in the Turkish economy that can be structured within the managed exchange rate system in the band limit of the Exchange Rate Mechanism (ERM II). In addition, necessary institutional changes will increase Turkey's competitive position generally against the countries discussed in this project because the new institutional changes will decrease unit labor cost (ULC) growth of export goods, and play a significant role in reducing the over-valued currency and trade deficit.

After Turkey became an EU candidate country in 1999, it was still not possible to consider institutional changes to increase the country's competitive position and create a stable economy. The economy suffered from higher inflation and greater devaluations than the other countries analyzed in the research. The 2000−2001 economic crisis created the conditions for the implementation of institutional changes, which decreased inflation, increased productivity growth and somewhat stabilized the volatility of the exchange rate. However, with this economic performance, it remains unclear whether Turkey can become a member of the EMU following its integration with the EU. Between 1995 and 2002, Turkey experienced the severe inflation and devaluations associated with high government debt and a trade deficit, and was far from meeting the Maastricht Criteria; however, after 2002, by gaining new leverage through institutional changes, Turkey was able to satisfy some criteria concerning the ratios of government deficit to gross domestic product (GDP) and gross government debt to GDP. Nevertheless, there remain significant problems, with the potential to cause economic instability if Turkey were part of the EMU. These problems are mainly related to inflation and high devaluations resulting from unsuccessful income policies. Therefore, a new base of institutional changes should be developed to link wage growth with the productivity growth of export goods; this would reduce the disparity between wage growth and the productivity growth of non-tradable goods, which would then decrease inflation, and the over-valued Turkish lira would come into balance with purchasing power parity (PPP) under the EMU.

Although the Turkish economy became more stable in the 2000s compared with previous periods, it could not conquer its high inflation and over-valued currency. Thus, it began losing its competitive position relative to the Chinese economy. Macroeconomic factors in Turkey today are still insufficient to make the country a strong competitive power next to the Chinese economy. China successfully created a complementarity between its macroeconomic and institutional factors that helped it to become the largest exporting country in the world. This was achieved in a developing economy, with export-led growth strategies designed around low cost production and an under-valued currency that contributed to its trade surplus. However, Turkey kept wage rate growth above the productivity growth of non-tradable goods and export goods, which eliminated its competitive power and accelerated its current account deficit in a biliteral trade with China. In this position, Turkey must implement essential institutional changes in order to decrease its wage rate growth to the level of productivity growth of non-tradable goods, and reduce over-valuation of its currency. To do this, Turkey must re-design its wage−labor relations by limiting wage increases and reducing the effect of trade unions and social pressure, both of which cause excessive wage growth. Moreover Turkey must move from a floating exchange rate system into a managed exchange rate system to facilitate an under-valued currency. In other words, Turkey must restrain extensive labor rights related to unionization and collective bargaining and must control the exchange rate with a managed exchange rate system to support export-led growth.

Most of the countries in the EMU experienced over-valued currencies and high costs of production, and hence increased current account deficits, between 2003 and 2011. The only country which followed export-led growth strategies and was able to increase its current account deficit was Germany, which kept its wage rate growth consistently below the productivity growth of export goods and followed an under-valued currency strategy. Although Turkey was not the part of the EMU, its current account deficit increased in parallel with the countries collectively known as PIGS: Portugal, Italy, Greece and Spain. Following the Custom Unions agreement, which opened Turkey's market to the EU countries, Turkey's high costs of production and over-valued currency pushed the country into an increasing current account deficit. A combination of unfavorable macroeconomic factors and technological upgrades that turned many low− and medium−tech industries into medium− and high−tech industries, increasing FDI inflows, plus the strategies of multinational automobile companies, became the driving forces of Turkey's increasing current account deficit; the country was experiencing a higher ULC growth in export goods than the EU countries, and had one of the most over-valued currencies. Thus, to increase its ability to compete with EU economies and reduce its current account deficit, Turkey must implement new institutional changes to reduce its wage rate growth to match the productivity growth of export goods. Hence, its ULC growth in export goods will decrease and its macroeconomic factors will meet at an optimal level that reduces over-valued currency against the EU countries. If Turkey continues its integration process with today's macroeconomic factors, high inflation, low competitive power, an over-valued currency and a high current account deficit, it will surely run into problems.