

TURKEY AND ARGENTINA: A COMPARATIVE STUDY ON  
INDUSTRIAL POLICIES IN THE POST – 2001 FINANCIAL  
CRISIS PERIOD

A Master's Thesis

by

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Ankara

July 2018

To my grandmother.

TURKEY AND ARGENTINA: A COMPARATIVE STUDY ON INDUSTRIAL  
POLICIES IN THE POST – 2001 FINANCIAL CRISIS PERIOD

The Graduate School of Economics and Social Sciences  
of  
İhsan Dođramacı Bilkent University

by

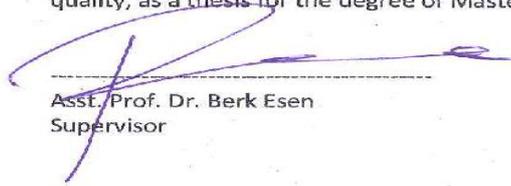
HATİCE İDİL GÖRGEN

In Partial Fulfilment of the Requirements for the Degree of  
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İHSAN DOĐRAMACI BİLKENT UNIVERSITY  
ANKARA

JULY 2018

I certify that I have read this thesis and have found that is fully adequate, in scope and in quality, as a thesis for the degree of Master of Arts in International Relations.



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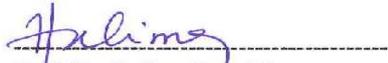
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## **ABSTRACT**

### **TURKEY AND ARGENTINA: A COMPARATIVE STUDY ON INDUSTRIAL POLICIES IN THE POST – 2001 FINANCIAL CRISIS PERIOD**

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July, 2018

In this study, the industrial policies of Argentina and Turkey in the post2001 crisis are analyzed from a comparative perspective. The study discusses both countries' industrial policies through the prism of populist economic agendas. In particular, the study investigates foreign trade policies, investment incentives, sectoral policies and privatization attempts in Argentina and Turkey. Within the scope of this research, comparative method was used. Although it was a qualitative study, descriptive statistics, macroeconomic parameters and shifts on industrial policy preferences were addressed. As a consequence, this study found that Argentina followed selective industrial policy by state led development while Turkey pursued horizontal industrial policy in accordance with a liberal agenda. When both pursued those policies, it might be said that Argentina had a multi class populist alliance, as Turkey mostly followed one or single class populist cooperation.

Key words: horizontal industry policy, industrial policy, populism, sectoral industry policy,

## ÖZET

TÜRKİYE VE ARJANTİN: 2001 EKONOMİK KRİZ SONRASI DÖNEMİ,  
SANAYİ POLİTİKALARI ÜZERİNE KARŞILAŞTIRMALI BİR ÇALIŞMA

Görgen, Hatice İdil

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Temmuz, 2018

Bu çalışmada, 2001 ekonomik krizi sonrası Arjantin ve Türkiye’ de uygulanan sanayi politikaları karşılaştırmalı açıdan incelenmiştir. Bu çalışma, iki ülkenin sanayi politikalarını popülist (halkçı) ekonomik ajanda açısından tartışmaktadır. Hususi olarak iki ülkenin dış ticaret politikaları, yatırım teşvikleri, sektörel politikaları ve özelleştirme girişimleri ele alınmıştır. Bu nicel bir çalışma olsa da, betimsel istatistik, makroekonomik ölçütler ve değişen sanayi politikalarına yön veren tercihler kullanılmıştır. Sonuç olarak, Arjantin, devlet öncülüğünde seçici sanayi politikaları uygularken, Türkiye serbest piyasa ekonomisinden yana olan yatay sanayi politikaları uygulamıştır. İki ülke bu politikaları takip ederken, Arjantin çok sınıflı popülist koalisyon, Türkiye tek sınıflı bir popülist koalisyon kurmuştur denebilir.

Anahtar kelimeler: popülizm (halkçılık), sanayi politikaları, , seçici/ sektör odaklı  
sanayi politikaları, yatay sanayi politikaları

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## LIST OF ABBREVIATIONS

AKP	Adalet ve Kalkınma Partisi (in Turkish, JDP in English)
ANAP	Anavatan Partisi (in Turkish, Motherland Party in English)
CER	Competitive Exchange Rate
CET	Competitive External Tariff
CHP	Cumhuriyet Halk Partisi (in Turkish, RPP in english)
CU	Custom Union
DSP	Demokratik Sol Partisi (in Turkish, DLP in english)
EC	European Comission
ECLAC	Economic Comission for Latin America and Caribbean
EFTA	European Foreign Trade Association
EU	European Union
FDI	Foreign Direct Investment
IMF	Internatıonal Monetary Fund
JP	Justicialist Party

MERCOSUR	Mercado Común del Sur (in Spanish) South American Trade Bloc (in English)
MFN	Most Favoured Nations
ISI	Import Substitution Industrialization
MUSIAD	Müstakil Sanayici ve İş Adamları Derneği (in Turkish) Independent Industrialists and Businessmen Association (in English)
R&D	Research and Development
SCRER	Stable and Competitive Real Exchange Rate
SOE	State Owned Enterprises
SME	Small and Medium Enterprises
SPO	State Planning Organization
TUSIAD	Türk Sanayicileri ve İş İnsanları Derneği (in Turkish) Turkish Industry and Business Association (in English)
WTO	World Trade Organization



## **CHAPTER 1**

### **INTRODUCTION**

Argentina and Turkey are widely regarded as countries that are developing and sharing similar aspects on both political and economic experiences. Both were exposed to multiple military coups, which made their economic and social order more fragile. Fluctuation was not only witnessed in political order but also in economy. Both economies experienced shifts in economic policies during the post-War period. Argentina, between 1945 and 1976, followed Import Substitution Industrialization (ISI) model as a development pattern (Galiani & Somaini, 2010, p.4). However, in 1976, a military government began the first generalized attempt to change “development tracks” and lead a pro- liberal economic agenda. It was sustained till the 2001 financial crisis (Casaburi, 1998, p.3). Turkey had also pursued Import Substitution Industrialization (ISI) model as a development pattern between 1930s and 1980s, till the military coup. After this politically turning point, pro-capital and liberal policies emerged in the economic agenda of Turkey. It continued till the 2001 financial crises. Both countries faced financial crises in 2001. The financial crisis of 2001 resulted in the collapse of these countries’ economies, social unrest as well as temporary loss of governability and unseated the governments. At that point, Argentina and Turkey were diverged in their economy policies because Argentina embraced liberal economy rather than Turkey during the pre 2001 financial crisis. Hence, 2001 financial crisis and its following period was a critical

turning point. While Argentina economy devastated because of the radical liberalization and was not supported by IMF, Turkey was recovered by IMF programs and evaded from the economic crisis due to the structural reforms. However, the most significant similarity might be said that both states have experienced populist governments by the 2001 financial crisis (Aytaç & Öniş, 2014). While Néstor Kirchner leading Justicialist Party (JP) and followed by his wife Cristina Fernández de Kirchner, pursued left populist agenda; in Turkey, Justice and Development Party (AKP) by the leading of Recep Tayyip Erdoğan mostly pursued right populist agenda throughout immediate recovery period of 2001 crisis, as a first step (Aytaç & Öniş, 2014, p.2). In sum, this thesis will make comparative study on industrial policies of Argentina and Turkey. It aims to question and assess what are the differences, similarities and the relative effectiveness of industrial policies implemented after the 2001 financial crisis through a comparative study of Turkey and Argentina under the populism frame. My analysis end in 2015 since it is end of the Kirchner periods in Argentina.

### **1.1 Significance of the Study, Case Selection and Research Question**

Before going into my arguments and my research questions, I should answer why I chose the industrial policy, in which scope industrial policy and populism are observed in this study. Different ideas and ideologies of the policy makers and economists can explain the variations in the adoption and success of different industry policies. It is also supported by Rodrik (2007), industrial policy is very powerful, but, one size does not fit all. Hence, it should be conformed to the specific context of a country. Thus, because of the different sets of market failures, countries can adopt varied industrial policies and experience different results. As a consequence, to see those variations in politically and economically diverged

countries Argentina and Turkey, I focused on the comparative industrial policy. Industrial policy definition by Tyson and Zysman (1984) fits this thesis since both see industrial policy as intermingling of the market promotion policies and sector specific policies. The theoretical scope in the thesis also confirms this definition. According to Warwick (2013), the characteristics and scope of industrial policy range from the narrow involving sector specific government subsidies and grants to very broad and horizontal, including all government grants and subsidies for business environment. At that point, in order to see whether both countries have narrow or broad scope industrial policy instruments, I studied horizontal and selective industrial policy theories to make comparison. When characteristics of selective industrial policy implements specific sectors and firms over others, horizontal industrial policy is implemented regardless of sectors or firms. I make comparison of the industrial policy instruments. It addresses foreign trade policy, privatization/ nationalization attempts, regional or sectoral policies and R&D policies. I discuss and compare the protection barriers such as tariff rate for industrial productions due to regarding the MERCOSUR effect in Argentina and Custom Union influence in Turkey. Secondly, in both cases, I illustrate privatization and nationalization activities, incentives for various sectors with the help of FDI laws and results. Lastly, in the selective or targeting industrial policy frame, sector specific incentives and policies are addressed. In the horizontal industrial policy context, I focus on regional policies and overall R&D development policies in Turkey.

Furthermore, following Rodrik' s (2017) definition, this study adopts economic policies to identify different strands of populism. Kurt Weyland's arguments also support that economy policies are instruments to gain and exchange power, it can help to separate various populist movements. Hence, in the vein of this thesis, what

are the factors behind the left and right wing populist divergence should be provided. Firstly, three factors are essential to call as right or left wing populist. These are the view towards the causes of 2001 financial crisis, such integration patterns as pro market or reindustrialization paths to the international economy and lastly relations with the labor, business and industry related groups. Moreover, Levitsky and Murillo (2008) support it. Both see left wing as political actors aiming to decrease social and economic equality and increase state expenditures. They consider right wing as prioritizing economic stability and security over social equality.

This thesis may make difference in the literature because most studies on 2001 financial crisis and its post period focus on macroeconomic policies of the developing countries and neglect industrial policy. Financial structure and development are regarded as subjects of international political economy in the comparative study literature. Therefore, many cases involve developed countries in order to see plateau phase of developing countries. This thesis is, however, different from those studies. Moreover it sheds light on the industrial policies of Turkey and Argentina which are called as right and left populist governments, acceded to power as a result of 2001 crisis, as part of their economic agenda in the post-crisis recovery process. Regarding the tendency and intensity of the industrial policies there is different coping strategies for developing states. Moreover it may enlighten readers on the significance of the industrial policies and how to balance them with market oriented reformed for economic restructuring. It is aimed to examine the similarities and differences in their industrial policies and their effects on Turkey and Argentina's economic and welfare parameters.

In this vein, this study raises a number of questions. What are the divergent points of left wing and right wing populist governments in terms of their industrial policies?

Why Turkey and Argentina followed different industrial policies although both suffered from 2001 financial crisis? What are the differences in their industrial policy attitudes and instruments? Who are the governments' populist allies in economy when they apply economy and industrial policies?

The first argument of this study is that Turkey which has been regarded as right wing populist government pursued neoliberal restructuring. Argentina which has been regarded as left wing populist government followed statist and heterodox path in the industrial policy and strategies in the post-2001 economic crisis period. Consequently, while Justice and Development Party (AKP) had a horizontal industrial policy approach, both Kirchner governments in Argentina pursued selective/ targeting industrial policy approach. Second argument is that Turkey makes cooperation with business groups in their circle as a single class populist ally. Argentina made multi class populist alliance with labor unions and business, industrialist representatives.

## **1.2 Methodology**

Within the scope of this research, comparative method is conducted. It covers paired comparison and detailed case study. Formal state reports of Argentina and Turkey trade statistics are crucial resources. Descriptive statistics (percentage, frequency, average results) are addressed to compare macroeconomic parameters, industrial production rate and shifts on industrial policy preferences Argentina and Turkey. The main focus is firstly to see the differences and similarities of industrial policies of both countries, secondly determining the impact of these industrial policies on overall economic performance. Although it will be a qualitative study, it also involves the numerated data and its comparison within the stages of the research such

as GDP per capita, industry specific results, tariff, and various rates. In order to compare the macroeconomic parameters under the industrial policy frame; IMF data, ECLAC (Economic Commission for Latin America and the Caribbean) and WORLD BANK results and domestic data provided by government websites are used.

### **1.3 Thesis Structure**

The presentation of the thesis is headlined by four chapters. Firstly, the introduction and literature review about the industrial policy issues. The definition, theories and instruments and populism. Secondly, in order clarify the cases about Argentina and Turkey, their similarities and differences in political and economic aspects between 1980s and 2001 are briefly provided. Thirdly, Industrial Policies of Kirchners' Argentina in the post 2001 crisis period and Industrial Policies of Justice and Development Party's Turkey in the post 2001 crisis period are separately conducted. It is a paired comparison and empirical case study. Hence, rather than delving into the consequences of industrial policy and my arguments in detail, it is important to have some sort of definition of what industrial policy is. I take it to mean that the governments' attempt to promote industry. Nevertheless, there are many ways in which this can be done and many things that can count as 'industrial policy'. This ranges from tariff and trade policy (protection), through tax relief, subsidies of various forms, export processing zones, to state ownership of industry. Hence, those are primarily considered. Lastly, it is aimed the answered that what are the similarities and differences of the industrial policies of Turkey and Argentina after the crisis in the comparative frame through the comments, interpretations and conclusion.

#### **1.4. Literature Review**

Most studies on 2001 financial crisis and its post period focus on macroeconomic policies of the developing countries and neglect industrial policy (Cardarelli, Elekdag & Kose, 2010). Furthermore, financial structure and development are regarded as subjects of international political economy in the comparative study literature, hence, many cases involve developed countries in order to see plateau phase of developing countries. However, this study aims to shed light on particular differences of industrial policies in Argentina and Turkey during the post 2001 period. In regard to tendency and intensity of industrial policies, different coping strategies of both developing states may enlighten readers on the significance of industrial policies and how to balance them with market oriented reforms for economic restructuring. Although literature review chapter mention the concepts of industrial policy and variants of populism, this chapter does not touch on literature about the industrial policies in Argentina and Turkey during the post 2001 economic crisis period because it will be addressed in the following chapters.

Turkey and Argentina are among developing economies where effected by the 2001 crisis. Most of the studies up to date have either focused on the macroeconomic policies that were applied in the recovery process of post-crisis or the effects of international or regional organizations, of which these nations were a part, on their economic agenda. 2001 financial crisis and its effects on Turkish and Argentinean economies are widely conducted in literature. While (Pamukçu & Yeldan, 2013, p.3) addresses the causes and consequences of the crisis in the comparative perspective for Argentina and Turkey, they mostly focus on the macroeconomic scope, apart from industrial policies. (Wylde, 2011) illustrates the political economy of Nestor Kirchner administration between 2003 and 2007. He also mentions the recovery

steps after 2001 crisis. In a similar way, (Chen et al., 2014), reflects Turkish economic situation post- 2001 crisis. It does not touch on the industrial policies of new government in Turkey but (Atiyas & Bakıs, 2013) specifically show the industrial policies and its effects on structural changes. Therefore, most of the study focus on the macroeconomic aspects of the post crisis policies about banking, finance and market orientation. In parallel with the commonly claimed cause of 2001 crisis, Argentina – Turkey comparative studies mostly address the policy shift on the tools of the market oriented economic policies such as banking sectors and monetary policy (Eichengreen, 2001). In addition to that, most of the previous studies separately address industrial policies of Turkey and Argentina. While (Wylde, 2011), (Paolera and Taylor, 2003) represent us the evolution and shifts on industrial policy in Argentina, (Öniş & Şenses, 2009) and (Rodrik, 2009) mainly illustrate the post 2001 crisis atmosphere and industrial policies of new government in Turkey. Hence, this research will take its place in studies which involve the both developing countries' industrial policies in a comparative perspective.

Industrial policy approaches and definitions are varied in the literature. In order to examine the state centered or market centered definitions, this research will benefit from Groenewegen and Elsner's (2012) work "Industrial Policies after 2000s". On the other hand, (Rodrik, 2008) mentions the question of how industrial policy should be. Furthermore, he addresses the significance of the state business relations in order to prevent the corruption which might emerge from industrial policies. Hence, it will be conducted when the results will be compared.

In the economics and political science literature, the definition of industrial policy is inclusive or exclusive. While Donges (1980) defined industrial policy as all government decisions affecting industry in the broadened context, (Chang &

Amsden, 1994) mentioned selectivity and specificity on the level of industry and firm in the narrow concept. However, this study aims to take a position between those extreme points. In addition to that, political economic factors on industrial policy and strategies in both countries are aimed to be provided. Therefore, industrial policy definitions, its theories, and instruments existing in the literature will be provided in the light of brief industrialized, late industrialized and developing country cases. There is no single, agreed definition of industrial policy.

The nature and scope of industrial policy adopted by states has changed for a long time. Historically, national governments had a crucial role in the implementation of industrial policy by supporting industrial sector. Import Substitution Industrialization (ISI) model in mostly developing states was one of them. It refers to a policy that reduces the importation of the commodity and leaves the domestic market mostly domestic producers (Bruton, 1998, p.908). They were also achieved through supporting infant industries, picking the winners and investing large amounts of public money with the help of the expenditure of financial subsidies to private entities (Ambroziak, 2017). Nowadays, however, according to mainstream economists, market mechanisms are inevitable to get the relative price right and provide effectively allocation of resources for industrial sector. Nonetheless, as it can be observed in some cases, governments can play a crucial role in facilitating industrial transformation (Ambroziak, 2017). On one hand, industrial policy is regarded as an equivalent for restructuring public policy and taking over market. It means that it helps change the structure of the economy and gives new impetus for growth and development. On the other hand, it is treated as to intervene in the market, hence disturbing competition (Tekin, 2016, p.49). Therefore, in both approach, we can observe similar arguments for opposite policies, but with the result

for competitors and beneficiary regarded in different path. The main objective of this chapter is a review of the various definitions industrial policy, aims of it, such contending visions, theories and approaches to industrial policy in economic development, arguments in favor and against industrial policy understood in traditional way, and industrial policy in the scope of populism. To this end articles, chapters in books and scientific papers are analyzed to find out the main schools of industrial policy, their aims, goals, instruments, the envisioned consequences to entrepreneurs and for the economy as a whole and including changes for all actors.

#### **1.4.1. History of Industrial Policy**

The starting point of this part is acknowledgment that industrial policies have mostly achieved the growth process of today's rich countries. Hence, they should be considered as a permanent feature of the 'establishing of markets' and a significant part of their well functioning (Dosi, 1988). Every country has an industrial policy. There is lots of historical evidence showing that today's advanced states had widely applied targeted government intervention in industry and trade throughout their catch-up process (Maio, 2009)<sup>1</sup>. In addition to that, government intervention in industry and trade has also played an essential role in the development process of developing countries. For example, in the 1930s, most of the Latin American states started to adopt interventionist policies which are called as the Import Substitution Industrialization (ISI) strategy (Ground, 1988). Industrialisation was necessary for development and needed particularly infant industry protection, state ownership and co ordination 1940s to late 1960s (Naude, 2010, p.10). Turkey has also started to implement ISI strategies between 1960s and 1980s. However, the debate on

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<sup>1</sup> He cited by Landes, 1970, Reinert 1994, 1999, Freeman 2004

industrial policy and its application have been one of the most ideological topics in the economics and political science literature. It goes back decades for both developed and developing countries. Nonetheless, it was not debated much throughout the Washington Consensus period (Cimoli et. al.,2009, p.1). The Washington Consensus on development is mostly based on the liberalization of key sectors of the economy. It means that government is not active. It was dominant among international policymakers after 1950s (Cimoli et. al., 2009, p.1). After 1980s, the emerging Washington Consensus, many developing countries started to give up industry policies. Deindustrialization became the most political economic frame.Hence, it downturned the manufacturing economy (Doussard, Peck & Theodore, 2009, p. 184). Moreover, practical obstacles to industrial policy were significant. Government failures were regarded as worse than market failure, and industrial policy may lead an invitation to waste and rent- seeking. Hence, liberalization in trade and privatization with minimum government inference as a basic requirement for growth and industrialization were agreed point 1970s to 1990s (Naude, 2010, p.10). Nevertheless, industrial policies are seen as intrinsic fundamental part of successful industrialization and development process. It is ranging from Germany and USA, almost two years ago and all the way to Korea, Brazil, China and India nowadays. (Cimoli et.al. 2009). On the other hand, for a while it appeared that industrial policy had lost its strength after the 1980s. However, by the mid 2000s, it re-emerged. Hence, according to Rodrik (2008) debates started among some academics, in a few multilateral agencies in Washington, and in some policy making bodies in Latin America and other developing regions. The reasons for the revival were diverse, ranging from depreciation as the results of the macroeconomic market reforms in the 1990s, to the surprising success of left-wing

parties, to ongoing repairing and pragmatism among officials in surviving development agencies, and the new developmentalism in the region (Ban, 2013). In addition to that, the ‘how’ rather than the ‘why’ of industrial policy implementation gained importance. Promoting national innovation system and technological upgrading have become essential part of the industrial policy and strategies since the beginnings of 2000s (Naude, 2010).

#### **1.4.2. Definition of Industrial Policy**

There are various definitions of industrial policy. These different definitions are shaped by the depending on industrial policy’s goals, scopes, instruments, expected results and its economic environment. As the aims and measures of industrial policy are regarded, it appears that the level of economic development in the country has a dominant role on the industrial policy itself. In less developed economies, the main goal is to choose and constitute a particular path of catching up, and vertical policies are preferable, as a developmental pattern across various sectors of industry. However, in developed economies, development patterns in the scope of industrial activities, industrial policy has a more horizontal approach and is based on comparative advantage including public inclinations to improve technologies or selected activities, building infrastructure and stock of skills as the components of R&D (Ambroziak, 2016, p.7)<sup>2</sup>.

Rodrik does not regard industrial policy as an industry per se. His central argument is that the task of industrial policy is more achievable by eliciting information from the private sector on important externalities. Thus, their remedies are about the implementing appropriate policies. Therefore, Rodrik sees the right model for

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<sup>2</sup> Ambroziak (2016) cited it from Landesman, 2015 (Landesman, M. A. (2015). Industrial policy: its role in the European economy. *Intereconomics*, 50(3), 133-138.

industrial policy as a strategic collaboration between the private sector and the government with the aim of revealing the obstacles to restructuring and type of interventions are appropriate to remove them (Rodrik, 2004). Furthermore, Pack and Saggi supports Rodrik's claims and mention that industrial policy is type of intervention or government policy aiming to improve the business environment or to change the structure of economic activity for diverse sectors or technologies that are expected to lead better results for economic growth and social welfare than absence of an intervention (2006).

As the scope of industrial policy is concerned, Pindel et al. (1979) agreed that industrial policy directly affect structure of industry rather than indirectly particular emphasis on regions, capital markets, labor force and their demand, safety. Therefore, the policies directed at industrial sectors; promotion, innovation, research and development, competition etc. Furthermore, Donges (1980) refers that industrial policy embraces all governmental actions, thus, it includes domestic and foreign investment, foreign trade, regional activities, research and development, labor policies, access to capital markets, environmental issues and other aspects. It should be mentioned that Tyson and Zysman made a distinction between industrial policy and market promotion policies. They claimed that the market promotion policies are designed as a governmental policy to improve the functioning of the market system in labor market, regional markets, the capital market and certain industrial markets. Thus, market promotion policies can be regarded as broader category of aggregate policies. It may deluge industry specific effects, but their naturally objectives are aggregate. Hence, Tyson and Zysman believe that industrial policies are an intermingling of aggregate policies, market promotion policies and sector- specific policies (1984, pp.21- 46). On the other hand, Wren argued that industrial policy is

less concerned with the broad objectives of policy, thus, they claim that it should be social, environmental, regional and macroeconomic, that aiming to impact the industrial sector. Wren also illustrated that macroeconomic policy dimensions which target stabilizing the economy are part of industrial policy when they include subsidizing some part of industry. National policies having particular firms focus discriminate between broad sectors or industry. Those are also part of industrial policy and have unintended effect on the industrial structure (Wren, 2007). Geroski approached industrial policy in slightly different way and called industrial policy as collection of micro- based supply-side initiatives to improve market performance in a variety of ways. Hence, he argued that the application of industrial policy targeted realizing such micro- economic goals as growth in industry exports, stimulating the rate of product (1989, p.21).

On the other hand, although industrial policy generally interprets the state policies towards industry, the economic theory and its literature lacks a common definition of industry policy because of the difficulties of economy scholars on reaching consensus on the concepts of industrial policy. Thus, the existing definitions are either too narrow or too broad. Therefore, when the lacks of definitions of industrial policy in social science literature are considered, this thesis aims to unearth definitions, instruments and theories about industrial policy in the context of political economy and political science studies.

Furthermore, technology and innovation policy which are part of industrial policy gained importance. Both are regarded as a means to realize the transformation from production of medium technology to production of advanced technology in late industrialized countries.

Rodrik (1999, 2007) and Ocampo et al.(2009, pp. 62- 64) state that although technology and innovation policies gained momentum, the gap between industrial and technology policies is one of the reason why industrializing countries could not benefit from this opportunities for development. Apparent by globalization and rapid technological development, the importance of industrial policies appeared at such points as controlled global integration and active use of potential for technological and industrial development. It is well observed by the experiences of East Asian countries.

#### **1.4.3. Theoretical Arguments Underlying Industrial Policy: Horizontal vs. Selective Industrial Policy and Integrated Industrial Policy**

It is obvious that there hasn't been an agreement on what an industrial policy or industrial policy orientation theoretically is. The instruments used in industrial policy change from explicit to implicit support for specific industries and firms with the help of grants, subsidies and tax credits in order to support institutions, infrastructure, skills (Warwick, 2013). Hence, the characteristics of industrial policy's instruments range from the very narrow including all government subsidies and grants for specific sectors, firms to very broad, involving all government grants, subsidies for improving business environment in a great sense (Warwick, 2013).

In the large scale, orthodox neoclassical theory and heterodox theories of evolutionary- institutional theories include significant differences of approach towards industrial policy. These differences are based on market failure arguments in neoclassical theory and systematic failure arguments in evolutionary- institutional theories (İyidoğan, 2012, pp.50- 58). In the economic literature, concept of market failure in the neoclassical theory is opposite to selective policies. This approach to

industrial policy states an open choice for overall effective horizontal policies to eliminate market failures. Market failure is about micro- economic efficiency of the distribution of resources. These failures emerge from imperfect competition, shortages of information, externalities and learning- related externalities. Neoclassical theory argues that market failures can be eliminated by market- like arrangements, thus, horizontal policy is adequate in this respect because it limits its goals merely improving the business environment through the implementation of fiscal policy, monetary policy and competition policy in order to stimulate investments, constitute rules of game which are market- oriented institutional infrastructure and offer support to education, professional formations and R&D in general sense. However, Shapiro (2007) and Lauridsen (2010) state that horizontal policies stuck on low- value added production activities with low rate of growth. Lauridsen (2010) also adds that late industrialized countries should focus on selective- sectoral strategies in order to break lock-in in medium- technologies and path dependence through structural transformation. Therefore, as the scholars view in literature are regarded, market failures arguments which is dominated by the distribution of existing resources rather than creating new one has no effectiveness and functionality on breaking path- dependence and structural transformation. Instead, it causes restrictions on improving the business environment through overall effective policies. On the other hand, evolutionary- institutional theorists state that horizontal policies do not provide specific guidance changing case by case (Metcalf, 1994, p.932), (Lall and Teubal, 1998). They underline by theoretical approach, structural transformation and breaking path- dependence occur through the specific / selective policies in the process of technological and industrial catch- up (Cimoli et al., 2009), (Lipsey & Carlaw,1998) and ( Lall, 2003). Therefore, there are various

attempts to categorize industrial policy's instruments. However, most engaged in a debate tend to define industrial policy as 'selective industrial policy'. It is also referred as 'targeting'. It is kind of a policy that favors of particular industries, firms over others and against market signals. At the beginning, it should be reminded that Adam Smith mentioned that nations can't deal equally and importantly with every sort of industry (Smith, 1976). Hence, the discussion on sectoral industrial policy emerged at those times. At that point, it must be noted that direct industrial policy should embrace tariffs, quotas, subsidies, trade practices, legislation, scrutiny, pricing, R&D, regional development funding and it can be made to particular industries (Commonwealth Secretariat, 1980, p. 103). Furthermore, White (2008) state that industrial policy attempts the promotion of specific industrial sectors rather than overall industrialization. Moreover, they observed that industrial policy does not only support the losers to delay or compensate their decline but also aim to stimulate advancing sectors. Selective industrial policy aims to enhance efficiency, promote productivity growth of targeted industries as well as whole economy (Warwick, 2013). Tyson and Zysman (1983) touch on international competitiveness problem and political pressure for a more active government involvement in the development of industrial sectors. Hence, industrial policy reflects the view that competitive adjustment problem need policy measures predisposed the demands of individual sectors. They also mentioned that distinction between sectoral policy and aggregate or horizontal policy being mentioned later is that sectoral policies are conducted to the performance of an individual economic sector, while horizontal policy is addressed for the realization of all economic objectives on each sectors. Moreover, Chang (2011) underlined that although it is directed toward specific industries, industrial policy especially aims at improving the efficiency of the economy as a

whole, thus, not that of specific industries. Efficient is used to consider that guiding industrial policy in its basic form not the aim of equity. In a similar line, Cohen (2006) argued that industrial policy should be sectoral, in contrast to general business environments and its policies involving macroeconomic, social, national defense policies and capital equipment. Hence, he stated that industrial policy should target to promote sectors where intervention should be designed to serve national independence on technological autonomy, failure of private initiative and decline in traditional activities, and political or geographical balance (Cohen, 2006). However, after 1980s, the will to apply selective industrial policy started to decline with the rise of neoliberal economy (Chang, 1998).

Mainstream views started to insist that industrial policy should be ‘general’ or functional, horizontal rather than selective or vertical. Crafts (2010) noted that general competitiveness policies matter more than selective policies for successful sectors. However, it is debated because the line between the two can disappear because governments’ actions can be conducted by vested interests, according to Stiglitz et al. (2006). It is also argued that the state should focus on providing education, R&D, infrastructure benefiting all industries equally which are underprovided by the market. Hence, it does not aim to pick winners through favoring particular industries (UNECA). Rodrik (2009) claims that horizontal intervention should be thought as limiting case and not as an alternative for sectoral industrial policy. Although these meant to be horizontal, in practice, most intervention necessarily favor some activities over others. Crafts (2010) simply frames it and claims that industrial policy should be horizontal in terms of its focus on activity, but in order to improve particular sectors, it should be selective for economic growth. European Commission (2002) defined industrial policy horizontal in its nature and

leaded security framework conditions favorable and convenient to industrial competitiveness. It must include enterprise policy providing framework conditions for business to take initiatives, exploit their ideas and establish on their opportunities. However, it should be applied in the line of individual sectors' needs. Therefore, industrial policy is regarded as a combine of horizontal basis and sectoral applications. Furthermore, Naude (2010) touches on different point that industrial policy should not be considered as just being limited to manufacturing sectors and embrace supply- side of economy.

All in all, while Naude (2010) illustrates different instruments by distinguishing broad domains including economic signals, incentives, selective industry support, rising productivity and selection mechanisms, Cimoli et al (2009) distinguish similar domain of policy intervention with some differences in how policy instruments are applied. However, in most general sense, Weiss (2013) makes a categorization of more common policy instruments, separating horizontal measures from selective measures and illustrating the underline rationale for all. Therefore, these definitions as a typology have their roots in the industrial policy literature and reflect specific views on the rationale for industrial policy. World Bank (1992) makes an overall definition that industrial policy is a set of government efforts to change the industrial structure in order to promote productivity- based growth. It may include learning, technological innovations and catching up to international practices.

In recent years, scholars have started to evaluate the new industrial policy orientation particularly for such developing countries as Turkey. They argue that horizontal industrial policy alone cannot be considered as adequate and appropriate to achieve aimed industrial restructuring. On the other hand, time and country specific selective/sectoral, vertical policies along with horizontal policy are efficient and

necessary to influence the direction of industrial development. Therefore, in the literature, it is defined as integrated approach to industrial policy combining horizontal and vertical ones in an interrelated manner aiming more flexible and systematic approaches which are changing in the case of time, country and sector (İyidoğan, 2012). Aiginger and Sieber (2006) argue that the European Union's industrial policy approach has entered a process of integrated industrial policy since 2005. It was based on the concrete work program for cross- sectoral policy initiatives. Those were applied to address the common challenges among various industry groups and improve the synergies between different policy areas in the aim of competitiveness. Overall, it is underlined by Lauridsen (2010) that the oppositions between the strategy of import substitution industrialization (ISI) and export-oriented industrialization (EOI) is not a functional contrast because late industrialized countries have combined two approach in different industries in the form of temporary protection or infant exporting activities. Studies on industrial policy illustrate that Eastern Asian countries and Brazil from Latin America are regarded as late industrialized. The role of institutions and selective industrial policies are pursued in the process of structural transformation and technological catch- up (Amsden & Chang, 1994), (Wade, 1990), (Lall, 2000) and (Westphal, 2002). Therefore, this thesis focus on the success of industrialization under the industrial policy theories in late industrialized countries through the literature review. Argentina and Turkey are regarded as developing countries<sup>3</sup> and both are studied through the next chapters. It will be occur through their instruments under the horizontal and selective industrial policies at a certain time of post 2001 economic

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<sup>3</sup> Rodrik (1995) address the industrial toolbox of the developmental state. He mentions that proliferation of the multinational agreements and trade groups such as WTO limited the government interventions in the economy. Hence, it limits the uch industry policy themes as use of selective subsidies and export subsidies for the domestic growth. Argentina and Turkey were newly developing and embracing the liberal policies countries.

crises. However, this study/thesis mostly focuses on the political economic factors on the evolution of industrial policy in both countries.

#### **1.4.4. Contending Visions of Industrial Policy in Economic Development**

It is obvious that there are several arguments for and against industrial policy. However, industrial policy in developing countries is fundamentally divided in two different vision of economic development in the literature. These are the theory of comparative advantage and theory of infant industry promotion.

The debate focuses on the question of whether policies to encourage industrialization should conform to comparative advantage or infant industry protection. The first hand can be regarded as associated with neo- liberal theory which avoid from intervention, while, the second is more structuralist view and agree with government support (Lin & Chang, 2009). The notion of comparative advantage was firstly emerged by the Classical economist, David Ricardo. However, the classical version of the theory of comparative advantage is different from the contemporary. The role of state as a facilitator to encourage the emergence and improvement of the firms, industries, and sectors will make effective use of the country's current comparative advantage. However, it means labor or resource- incentive production and growth in underdeveloped countries, while, it is mostly technology incentive growth in developed industrial countries (Lin & Chang, 2009).

Historically, when governments implement industrial policy, they support infant industries by picking the winners and investing huge amount of public money through disbursement of financial subsidies to private firms (Hannon et al, 2011).According to World Bank Reports (1993), industrial policy in Japan, Korea and Taiwan- China showed market-conforming results. While they selectively

promoted knowledge and capital intensive industries, they also aim to reach profitable, internationally competitive firms. Hence, these governments' industrial policies used market information as a yardstick. Success history of these Asian countries is supported by Rodrik's (2005) and Ambroziak (2016, p.22) arguments that supporting high- tech sectors and in line with this, strategy of subsidizing domestic investment make economy more desirable. Furthermore, arguments in favor of industrial policy instruments for infant sectors were supported by Pack who argued that active industrial policy should emphasis on the potential of the such activity to encourage more modern, newer and compatible sectors being characterized by industry- wide external economies and learning-by- doing on the individual firms (2000, p.48). Valila (2006) and Navarro (2003) agreed the same point in favor of infant sectors. Both claimed that public intervention to support infant sectors is grounded by the need for protection in early stages of their life cycle in order to become mature, strong enough to deal with the competition by established advance foreign firms. Furthermore, in a practical sense, Rotemberg (2014) said that protection and similar forms of direct and indirect subsidies lead these firms to grow, increase productivity and reduce cost of production. Therefore, infant industries need temporary protection because it is not internationally competitive in initial steps.<sup>4</sup> Ongoing process, productivity can improve through increasing returns and learning by practicing. On the other hand, there are such criticism about comparative advantage and infant sectors. Haley and Haley (2013) interpreted that economists generally ignore that subsidies contribute to aspects of a country's comparative advantage, but do not eliminate disadvantages. Hence, trade liberalizations make it costly for domestic industrial sectors to invest learning-by- practicing involving

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<sup>4</sup> Robert Wade (1990) sees infant industries as not compensatable and not replaced in the international market. Thus, it might be said that it should be protected for he supporter of this view.

producing but not selling in the short run because domestic costs are higher than foreign cost.

#### **1.4.5. Arguments In Favor of Industrial Policy**

The prior argument for industrial policy has been grounded in the idea that the most effective industrial policy should come from countries within close relations with and between industries, banks and government (Ambroziak, 2016). However, today, it is not sufficient condition for industrial policy because business became more international and patriotism, national interest has become hindrance (Williams, 2010). As it is regarded by neoclassical theory, it justifies public intervention by market failures, rising from information failure, imperfect competition, externalities and coordination problems. Thus, there is an unavoidable fact that government intervention is needed due to market failure (Pack and Saggi, 2006). In addition to that, Naude (2010) and Crafts (2010) see market failures as a call for industrial policy. This concept was confirmed by Rodrik (2008) through his claim which provides a significant role for industrial policy after the market failures.

In the developmental and industrial policy literature, well known arguments for industrial policy is exemplified by the success of industrialization process in the East Asian countries in the 1970s and 1980s era when the world met with liberal economy and its instruments. This success story is associated with the government's industrialization activities to a great extent. Those activities are principled by withholding control on the allocation of investment focusing on what changes occurred in the availability of inputs in technology, education, region of industrialization and on the overall economic structure. (Enos, 1986). The East Asia case and relation with the success of industrial policy is also supported by Pack and

Westphal (1986) and Chang (2006). They claim that neutral policy regime is not sufficient condition for rapid industrialization, thus, the role of industrial policy is huge on the spectacular economic transformation in the East Asian countries. Furthermore, Rodrik specified East Asian success with the claim that as long as high-tech sector is more capital intensive than low-tech sectors, strategy for subsidizing domestic industry can push economy in the line of more desirable equilibrium and self-sustaining places. It is also agreed by Spencer and Brander (1983). Both claim that if governments apply export and R&D subsidy production, it leads domestic firms to capture larger share from domestic industry. Above-mentioned theoretical claims behind the industrialization success cases are conducted to see our developing countries, Argentina and Turkey in order to see differences and underline motivations of those governments when they apply varied industrial policies.

Under the relation between industrial policy and external commercial policy, market failures justify a strategic trade policy to successfully realize industrial policy. It is imperfect competition emerging from scale economies in production.<sup>5</sup> Therefore, governments aim to support national champions to maintain those rents within the national border (Toivanen, 2006). It might be regarded as more political approach because industrial policy is based on national interest which leads supervision of industrial policy and fostering national championship.

All in all, after the Washington Consensus, industry policies lost its popularity. Many developing countries left ISI policies and evolved export dominated model. It retarded. However, compare to the many countries, countries in East Asia pursued strategic industry policy and gave a momentum their economic growth. It is worth to

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<sup>5</sup> Scale economy means the reduction of production costs that is a result of making and selling goods in large quantities, for example, the ability to buy large amounts of materials at reduced prices

say that post economic crisis period in 2000s, industrial policies gain importance in the literature and governments' economical agendas as a need for active industrial policies in late industrialized countries. Hence, there were significant attempts to create a common area for industrial policy. However, for such late industrialized countries as Turkey and Argentina, industrial policy approaches shows variations depending on the political motivations of governments through conducting strict or flexible foreign trade policy points.

#### **1.4.6. Industrial Policies in the Context of Populism**

Populism can arise in various economic circumstances. According to Richardson (2008) different historical moments or patterns of socioeconomic development might lead populist eras with different policy tools to maintain a populist coalition. These different strategies and policies have implication on the sustainability of the populist coalition and in general sense, political stability. Therefore, those clarify that after 2001 global economic crisis, Turkey and Argentina welcomed similar period.

Literature on populism is rich about specifying the characteristics of populist movements to separate them from non- populist. However, there have been less attention exists on analyzing different types of populist movements (Aytaç & Öniş, 2016). Although this study has objective to understand the views on and compare industrial policies which are implemented under the populist responses by focusing on the cases of Argentina and Turkey post- 2001 period, various definition for populism in the literature will be provided in order to see appealing definition for this study. Nonetheless, academia has not much a lot focused on industrial policy in the context of populism concept. Instead, it is clarified in various concepts particularly economic policies, socioeconomic structure or social constituency.

Should populism be defined in political, social, economic and discursive terms? Due to these conceptual and definitive disagreements, a great variety of governments, movements, political parties, leaders and particular policies has been labeled as populist, and academics have regarded populism as radically divergent characteristics (Weyland, 2001). In the beginning, according to Weyland (2001), from 1960s to the 1980s, most authors embraced cumulative concept definitions for populism. It was considered as useful in empirical studies since they reflected fairly well the syndrome of political and socioeconomic features that characterized classical populism from 1930s to the ends of the 1960s. Throughout these decades, populist political strategy have a tendency to have close relation with a multi class social constituency that had its main point in the working class, with developmental its economic policies and expanded social programs with the reinforced industrialization. Therefore, different spheres and concepts reflected throughout these decades were overlapped with the cumulative definition of populism. However, the period of 1980s and 1990s reflected challenges the cumulative definition in the literature since resurgence of old populism and new personalistic leaders caused doubt on cumulative definition by mostly concluding the close relation between political attributes of populism and its alleged socioeconomic characteristics. Hence, political developments in different context, which diminished the overlap among various presumed characteristics of populism, posed conceptual challenges for cumulative definitions. To date there has been little agreement on how to define populism. Weyland (2001) proposes a clarified definition of populism by criticizing modernization and dependency theories. Hence, he applies one-dimensional approaches on his analysis. He founds cumulative and radical definitions of populism problematic not only they are limited to explain populist surge in 1980s and 1990s

but also both fail to provide a comprehensive causality. Weyland also adds that defining populism as a classical concept is useful. He argues that political definition should be over an economic definition. Therefore, he states that “ populism is the best defined as a political strategy through which a personalistic leader seeks or exercises government power based on direct, unmediated, un institutionalized support by great numbers of mostly organized followers”. (14). although Weyland highlights relationship between populism and neoliberalism, he mostly focuses on leaders rather than organized groups. Therefore, we may say that populism is considered as a top- down political with the help of mass constituencies by personalistic leaders. In this thesis, under the parallel populist political strategies with such different wings as right and left, industrial policies in the light of political economy are aimed to be analyzed and compared. Therefore, rather than leaders, government and some level of organized group analyzes will be proper.

As the contrast view with Weyland is observed, Robert (2006, p.127) approaches populism’s organizational characteristics by illustrating limitations of political and economic approaches. He takes consider the socio- economic and political transformation in Latin American countries. He also adds that organizational structures of the populist movements have transformed. Roberts identifies four distinct subtypes of populism: organic, labor, partisan and electoral by examining interplay between the organization of civil society and organization of party system (2006). High partisan and civil society organization leads to organic populism; weak partisan structure with high civil society organization leads to labor populism; high partisan structure with low civil society organization leads to partisan populism and lastly low level of organization in both leads to electoral populism. This category oration provides theoretical clarification in order to enlighten this contested subject

demonstrating transformative and dynamic nature of this concept. This categorization can be helpful in order to understand both governments of Argentina and Turkey's particular term's political parties' relations with such civil groups as labors, business groups and industrial sector groups.

In his last study, Rodrik (2017) touches on the rise of populist backlash worldwide. More importantly, he focuses on the economic roots of populism particularly the role of economic globalization. He takes hand globalization as having interdependent relation with changes in technology, increasing on winner- take- all markets, decline of restricting norms and erosion of labor market. Rodrik states that populism comes in different versions, in particular left- wing and right- wing variants which varied in accordance with the societal cleavages. Furthermore, Rodrik (2017) states that different reactions to globalization suggest populist politicians' strategies in the context of trade, finance, foreign investment, mobility and social/ income class lines. He distinguishes left and right wing populism between European and Latin American countries. He argues that rise of populism in Europe is recent and swift by right-wing movement, while it has always been strong in Latin American countries by left-wing populism. To understand this predominance of left and right wing dimensions, the rise of populism is considered as the product of demand- supply side factors in this frame. Rodrik (2017) states that demand side in under the economic fault lines deepened by globalization and it leads potential public support for movements having position outside the political mainstreams. At that point, these anxieties need to be channeled in programmatic direction by narratives providing explanation to those groups. Therefore, the supply side of politics emerges. Populist movement supplies the narratives which prompt political mobilization. Hence, populist politicians mobilize support by drawing advantage from the national/ cultural and

social class cleavages. At that point, according to Rodrik right wing populists emphasizes the identity cleavages target foreigners and minorities whereas left wing populism touches upon the income cleavage target wealth and income. Those mentioned points by Rodrik will be conducted in order to understand claims categorizing Turkey and Argentina into the right and left wing populism. It will also help to understand emergence of these different side populist movements in the light of economic faults followed by public movements. Industrial policy instruments will be placed under the wide political and economic concepts of arguments underlined by Rodrik.

Robert R. Barr (2009, p.38) defines populism as “a mass movement led by an outsider or maverick seeking to gain or maintain power by using anti- establishment appeals and plebiscitarian linkages.” It is a minimal definition of populism which distinct from the concepts of opportunism and does not link it with specific economic policies, socioeconomic structure and social constituency (Mudde, 2004, p.543). Therefore, populists do not target a particular group or constituencies and it changes in accordance with conjectures.

Parallel with the referring by Barr (2009) and Mudde (2007), Öniş and Aytaç’s (2016) definition of the populist phenomenon will be adopted in order to understand long term governments in Argentina and Turkey post 2001 economic crisis. According to them, both apply three aspect of the populist phenomenon. First, rhetorical appeals against power elite and it is called as anti- establishment politics. Once it is mentioned above, the view of Rodrik which consider populist concept as supply in politics is overlap with this aspect. Second is to be people’s voice, the populist leader must be considered either an outsider o maverick. Lastly, plebiscitary link between political actors and the citizens is clarifying aspect of populism concept.

On the other hand, in the economic frame, populist leaders and political groups raise their power or emerge following economic crisis. It supports the emergence of Kirchner and Erdoğan governments in Argentina and Turkey. It also dates back to the emergence of Juan Peron and Carlos Menem in Argentina (Öniş & Aytaç, 2016).

While there is a large body of literature on populism in political science, economists and academics studied political economy have devoted less attention to the subject. Dornbusch and Edwards (1990, 1991) and Acemoğlu et al. (2013) focus on populist macroeconomic policies which are associated with various periods in Latin America. Furthermore Acemoglu et al. (2013) focus on the question of why populist policies are implemented despite of these poor economic outcomes. In the literature review of this study, those arguments will be provided. However, it should be noted that populist countries' industrial policy and strategies are not conducted in particular. This thesis aims to deduce from populist governments' economic policies, trade policies, political and ideological factors on those strategies. However, it does not mean that quantitative methods of economy policies will be conducted. Instead of that, incentives in specific sectors, export- import taxes, privatization and its variations, government relations with business groups and labors in industrial sectors will be studied in the comparison of Turkey and Argentina post 2001 economic crisis period.

As the characteristics of the populist economic agenda in the most important policy areas is discussed, the questions of what are the economic implications of populism and which economic policies are linked to populist ideology emerge. Populist macroeconomic policies are expansionary and emphasize more public spending or lower taxes and consider unimportant the consequences of growing public debt or inflation (EEAG, 2017, p.9).

Levitsky and Roberts (2013) define populist machine as institutionalized parties with concentrated power in the hands of a personalistic leader. In the Literature on Latin America's left turn, both claim that a populist outsider conducted plebiscitary means to rewrite constitutional rules of the game and applied a statist and redistributive projects. They represent right wing populist governments in the neoliberal form, as outsiders appealed to the disorganized and informal urban groups against political and economic elite that was associated with import substitution industrialization (ISI) concept. Thus, those prioritize economic stability and physical security rather than redistribution of wealth. On the other hand, Gratius (2017) reconsiders left- wing populism as the third wave of populism in Latin America. In the frame of political economy concept, it states that left- wing populist governments reject prioritizing neoliberal economic policy and which aims to reduce state intervention- shaped policies of the so- called neo- populism with the help of increased state intervention and mostly returned to nationalism. It also refuses to embrace import substitution and neoliberal economic orthodoxy. Therefore, compare to the right- wing economic policies, left- wing populist governments extend state control over the economy including nationalization on key economic sectors and industries, public policy arrangements on the benefit of employment, health, education and target reducing inflation, controlling prices and providing subsidies in order to development of domestic economy and production in key sectors and industries.

However, this literature review illustrates right- wing and left- wing populist governments and their economic policies. Through employing a minimalist definition of Rodrik (2017) and placed his concepts in Turkish, Argentina case, this study will display the main characteristics of populism in the following chapters. Particular conducted economic policy segments will be provided to illustrate the

question of why is Turkey placed in right wing and Argentina in the left wing populism in economic frame. However, Öniş and Aytaç (2016) simply explain that while the state was regarded as a significant role in the political economy of Argentina, Turkish case shows the principle of regulatory neoliberalism by the retreat meant of state to a regulatory role based on theoretical and factual points. Both again argue that public discontent accompanying the difficulties and crises associated with the Washington Consensus policies has generated a variety of populist responses in the newly industrialized and developing countries. It is supported by who argued that the literature on Latin America has focused on different variants, shifts and classification of populism in the continent and observe that the softer more market friendly version associated with Kirchners in Argentina. However, it is interesting that the shifts of neoliberalism are also visible in other parts of the emerging world, in Turkey throughout Justice and Development Party (AKP) period, after 2001 economic crisis.

## **CHAPTER 2**

### **THE POLITICAL AND ECONOMIC DEVELOPMENTS BETWEEN 1980 AND 2001 IN ARGENTINA AND TURKEY**

Argentina and Turkey are categorized as emerging markets (Önder & Mugan, 2006). They suffered from similar economic and political problems during the same period, despite their dissimilar histories and political traditions. Both countries experienced a major economic crisis during the same year that led to a major political shift. This section reviews the period pre 2001 crisis in the both countries that were affected we will analyze the underlying facts and the causes of the 2001 economic crisis that emerged new and lasting governments in those two countries . Both countries had a tumultuous history ridden with frequent military intervention. Both are on the path from democratic transition to democratic consolidation. It is confronted with globalization. Throughout the 20th century, both aimed to achieve industrialization due to varied intensity in the liberalized economy (Onis, 2006).

Turkey and Argentina turned from protectionist and statist economy to market oriented paths after 1980s. However, in Turkey newly adopted neo liberalism was less radical and gradual, hence, it also illustrated differences on the industry policy preferences of both countries during 1980s and 1990s. IMF – led Washington Consensus offered a set of policies including privatization, trade liberalization, export promotion and deregulation of labor markets. However, for both late industrializing countries, it did not only mean an economic transformation but also social and political transformation. As a result, it redefined the state's nature and

functions and shifted its nature from inward oriented to outward oriented growth by emphasizing trade and finance over industry.

In Argentina, it was more concrete. Neoliberal reforms challenged Peronist working class. Due to the mass privatization of state owned enterprises unemployment raised. It caused social conflict between labor groups and state. On the other hand, by the intensified liberalization in economy, Argentina imposed neutral and horizontal tools in industry sector by refusing the sectoral policy of picking winners of the ISI period. However, it did not deny the improvement of the competitiveness of the economy. Government also provided special treatments to automotive industry. It included import tariff exception, compensation of imports due to exports, import quotas for the vehicles which were not imported by local auto makers to benefit local companies and attract FDI in the sector. The national content was raised by 10 per cent to modernize this sector. Lastly, auto factories were obliged to present plans and targets including trade, investment, employment results. Hence, the local automotive industry would be enough competitive in global market (Casaburi, 1999, pp.56- 57).

In Turkey, it was similar. ISI period's inward oriented growth turned to outward orientation by export led expansion. Coherent with industrial policy framework, facilities for efficient restructuring and capital formation in manufacturing were existed. However, in parallel with current conjunction, more opened and capital flow pushed industry policies into the background. As a consequence, although export originated mostly from such specific sectors as textile, food processing, iron and steel which are labor oriented, tariff system and tariff policies for industrial sectors were not selective in government intervention. It did not also aim to improve the labor skill and skill intensive industries. Hence, the comparative disadvantages started to decline in that period (Celasun, 1995).

## **2.1. The Argentina Development Experience in Retrospect: Between 1980 and 2002**

Since the beginning of the 20<sup>th</sup> century, Argentina established a lead in such agricultural products as beef, meat, cereal and corn as an exporter country. It placed Argentina in the top ten economies around the world (Paolero & Taylor, 2003, p.36). However, because of the elite's comparative advantage commitments for agricultural products, Argentina's manufacture industry was underdeveloped. It also occurred due to the high demand for industrial goods resulting from rapid export growth (Thomas et al, 2005). Nevertheless, due to decreasing foreign trade, the great depression of the 1930s damaged Argentina's economy. As a consequence, Argentina turned into a less developed country between 1930s and 1980. In order to deal with the great depression turbulence, governments pursued ISI model, hence, transformed Argentina into a self sufficient country in industry and agriculture. This model became successful by means of the high tariffs on import. It protected Argentina textile, home appliance manufacturing productions from foreign competition. However, governments' encouragements for domestic industry growth downscaled investment from agriculture and industry production. Hence, at the end of the 1970s, Argentinean government ended the ISI era by lowering import barriers, liberalized restrictions on trade. It has embraced liberalized economy since 1980s. <sup>6</sup>

In economic and political realms, Argentina has lived extreme situations and that appears as a characteristic of the development in the post war Turkey (Öniş & Şenses, 2007, pp.28- 29). After severe hyperinflation, extended period of military

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<sup>6</sup> At the same time, large government spending, wage raises, inefficient production caused rising chronic inflation throughout 1980s. Successive regimes priorly aimed to control inflation due to the wage and price control, cut in public spending and restriction on money supply and changes of the value of peso. Thus, this Picture pushed Argentine governments to pursue more liberalized economy strategies till the 2001 economic crises.

took government between 1966 and 1973. Although it achieved democracy from 1973 to 1976, military coup revisited Argentina in 1976. After that, Argentina experienced a transition to democracy in 1983 under the presidential system. However, Pini and Cigliutti (1999) mention that the period of democratic return coincided with the economic crisis, hence, the country exposed to the bankruptcy because of the external debt. In that period, after the consequence of successive high-rate devaluations and uncontrolled budget- deficits, the inflation rate increased from 165 percent in 1982 to 672 percent in 1985 ( Dogruel & Dogruel, 2006, pp. 86- 90). Raul Alfonsin government dated between 1983 and 1989. A new era began in Argentina because of the many challenges as consolidation of the democracy that was destroyed by military coups and dictatorship, intense human right violations and high inflation, massive external debt (Tedesco, 2013, pp.148- 158). Therefore, rapidly rising unemployment, peak in inflation pushed Alfonsin to adopt a neo liberal program (Tedesco, 1999, pp.148- 158). Country committed to the laissez faire economics, privatization, and decentralization and minimized spending on social services such as education, health; thus, its consequences brought impoverishment and social inequality (Pini & Cigliutti, 1999, p. 197). Because of the instability in the economy, a new stability program was applied and approved by IMF (Akyüz & Boratov, 2003). However, it was not sufficient to decrease inflation by structural reforms and to enhance the effects of the Austerity Plan.

After this period, Carlos Menem was elected as the president in 1987 and applied fast liberalized reforms<sup>7</sup>. According to Tedesco (1999) Menem had an unchecked discretionary authority. Therefore, he enjoyed it by exposing his policies during his term. According to Lewis (2014) Menem tried to pass a constitutional reform to

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<sup>7</sup> It was different from the neo liberal programs of the Alfonsin period. Alfonsin could not stably implement neo liberal reforms. Hence, it weaved because of the public backlsh.

increase the term of the president because 1983 constitution was limited for one term and it was currently applied. Menem aimed to change it for his re-election. Although his re-election was accepted, the presidential term was diminished from six years to four years (Lewis, 2014).

During the following years, the most radical economic liberalization was applied by the Minister of Economy Domingo Cavallo between the 1991 and 1996, during the Menem government (Chudnovsky & Lopez, 2008, p.5). Besides turning free market economy, privatization of most of the state enterprises and elimination of hyperinflation, the governments started to use of Convertibility Plan in 1991. It was implemented by the collaboration of IMF (Onis, 2002). It pegged the Argentina peso to US Dollar. If they were not backed up by US dollars, the printing of the pesos limited. Therefore, it aimed to put under check of inflation (Saxton, 2003). The plan performed price stability and controlled hyperinflation during the first year of the plan. Onis (2002) called it as an extreme version of a fixed exchange rate system since the plan pushed aside government's power on finance budget by Central Bank, rising inflow of foreign exchange and extensive privatization of most of the public branches and enterprises (Onis, 2002). Nevertheless, Onis (2002) mentions that Argentina's liberalized economy became dependent on the external events and fragile to external shocks. Although Argentine was not affected by the 1994 Mexican crisis, the Asian crisis of 1997 badly affected it.<sup>8</sup> The similar scenario was in 2001 economic crisis which illustrates the external shocks' negative influence on Argentina's economy. Throughout the 1990s, in order to deal with recession, Menem

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<sup>8</sup> In addition to that devaluation of the Brazilian real in 1999 constrained the peso since Brazil was her trade partner and this situation made Argentine's export more expensive than other countries in the continent. As a consequence, lower export earnings limited the ability for pay dollar dominated debts. On the other hand, as the US dollar raised, Argentine peso also overvalued, thus, it made peso overvalued relatively other countries in the region. Hence, industrial production and exports declined and it replaced with cheaper Asian consumer goods. Besides the external shocks and crisis, massive privatization also did not only decrease industrial export but also diminished employment rate.

worked for new reforms diminishing social service spending by not denying workers' benefit (Lewis, 2014). Convertibility plan, following recession and new reforms under Carlos Menem government show that Argentina had received a short break from its previous economic instability. Those strategies had a short term benefit; however, it caused long term disadvantages. Therefore, recession of late 1990s was not coped, additionally, as a consequence of downsizing, the flow of dollar diminished. After that, Argentina economy again was being exposed to external shocks. It brought the path of 2001 economic crises.

As it is mentioned above, the explanation of the Argentina crisis focused firstly on the negative implications of too rigid principles of the convertibility plan. It allowed government to finance its budget deficit by debt of the domestic and international capital markets. Decline in tax revenues and incomplete fiscal stabilization caused rising public debt and slowing economic growth. In addition to that, one of the world' s most rapid and massive privatization programs served against fiscal and account imbalances and sustaining fixed exchange rate system. However, its revenues did not serve as a continuous source of government revenues because Argentina consumed all assets to sell. Therefore, Argentina could not attract foreign direct investments' long term inflows. It applied portfolio investment. Argentina, unavoidably, had a lot of difficulties to conduct fiscal stability without privatization revenues (Onis, 2002).

2001 economic crisis and 1998 economic turmoil happened while Argentina's economic policies were under the close relation of IMF supported program. However, before the crisis, country saw the market oriented reforms and IMF provided technical assistance between 1991 and 2002 as means to an end for their economic success. End of the 1990s, observers started questioning IMF's finance aid

and policy advices because accountability for a member country's economic policy must be with its national authority; however, it was not the same for Argentina (IEO, 2002).<sup>9</sup> It is addressed that negative consequences of convertibility plan and its cost to IMF triggered the economic crisis.<sup>10</sup> Therefore, the role of IMF in the Argentina crisis can be considered as dilemma. Despite the facing high probabilities of failure by government, IMF supported the Argentina economic program such as convertibility plan in the light of the great and sudden costs of withdrawing support.

This process led to a political instability in Argentina. During the pre and post of 2001 crisis, due to the economic hardship and massive strikes, Finance Minister Domingo Cavallo who was architect of neoliberal steps of Argentina economy policy was dismissed. In 1999, De La Rúa was elected as a result of the presidential election. His office inherited a recession and mostly collapsed economy. Thus the main economic priority was to stop the recession, diminish unemployment and poverty and aim at stabilizing public finance (BBC, 2017). Consequently, a restrictive 2000 budget was prepared by the amount of about \$ 7 billion financial support of IMF in March 2000 (IEO evaluation report, 2004). In 2001, a run on banks occurred and people began withdrawing their deposits from the banks. Thus, Argentina economy was dragged down by the crisis. After the default of the debt payment was announced, the convertibility plan was abandoned. In addition to that, Argentina denied paying its debt to the IMF in 2003 because Argentina accused IMF for the crisis, and it caused the weakened relations between Argentina and IMF (Onis, 2004).

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<sup>9</sup> Independent Evaluation Office (IEO) provides the IMF ongoing projects. It explains the role of the IMF in Argentina, 1991- 2002 as an issues paper.

<https://www.imf.org/External/NP/ieo/2003/arg/index.htm>

<sup>10</sup> <https://www.imf.org/External/NP/ieo/2003/arg/index.htm>. The whole document is in Spanish. However, only the English version produced by the IEO is the authentic version by URL.

In the end of 2001, during the presidency of de la Rúa (1999-2001), in fifteen days, the country had five presidents. One of the largest defaults in the world was also experienced (Wylde, 2011). The recession, the macroeconomic consequence of the crisis, continued until the second half of the 2003. GDP took year- on-year falls, in 2002, with a massive 10.9 % contraction of the domestic economy. In addition to that, official unemployment reached 21.5 % (Tedesco, 2013). Massiveness of the economic crisis and its social results pushed many Argentines to re-evaluate the domestic politics and search the causes of the crisis. It showed a reappraised Menem term in 1990s and a public deny of the policies that led to crisis (Dinerstein, 2002). Consequently, in this dark economic and political atmosphere, Nestor Kirchner, then governor of the Santa Cruz was elected in 2003, following the emergency government headed by Duhalde in 2002 and 2003 (Wylde, 2011). This election result shows the collapse of the liberal economy period and its supporter governments. Rising debts, unemployment rate, and unsteady government and worker group relations diminished the liberal policies popularities among society. Hence, it was a good timing for the election of Nestor Kirchner who had a radical leftist populist political and economic agenda. Nestor Kirchner has been mentioned a left of center Peronist governor and left wing- populist, a president elected by the same Peronist party which had presented right wing populist Carlos Menem (Schamis, 2006).

## **2.2. The Turkey Development Experience in Retrospect: Between 1980 and 2002**

Turkey politically entered a surging period. The military leaders being headed by Kenan Evren declared martial law<sup>11</sup>. The new regime officially gained its legality by the declaration of Temporary Constitution in 1980 (Hale, 1994). As the Argentina and Turkey cases are regarded, military in the both countries, gained its legitimacy

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<sup>11</sup> It is the charge of military in specific area, in the emergency situation.

by benefiting from the fail or turmoil of previous democratic government. The military governments of both asserted that they aim to combat with terrorist groups, massive protests and lead economic stability for their people.

Regarding the economy, up to 1980s, Turkey had followed import substitution industrialization (ISI) strategy. This model is expressed by high protection on imports, control on domestic prices, suppressed financial system and dominance of the state owned enterprises on the banking and specific industries. Turkey was affected negatively as a result of the oil shock in the 1970s. Inflation increased imbalances in the aggregate demand and supply. Thus, balance of payment crisis became unavoidable. Therefore, Turkey headed towards the neo liberal economy and its instruments (Karacalal and Oskooee, 2008). Turgut Özal who was the Head of State Planning Organization under Suleyman Demirel announced the 24<sup>th</sup> January decisions in order to curb the inflation by liberalizing the trade regime (Hale, 1994). This period became economically different from previous decades because this decision allowed the country export subsidies, export oriented growth and increase on the price of local goods opposite to previous ISI period. During the programs of liberalizing the Turkish economy, policies of Özal aimed at moving away from protectionist economy and making Turkish products competitive in the international market. Thus, the Turkish Lira was devaluated to make them more competitive. Privatization of some state enterprises, wage controls, price increases and prevent from state industrial subsidies occurred throughout the 1980s (Howard, 2001, pp.175- 180). As a consequence of these efforts, it might be said that Turkey gained the appreciation of the international creditors, thus, the IMF stand- by and World Bank adjustment loans were arranged. Furthermore, FDI inflows to Turkey increased by the decision of 24<sup>th</sup> January 1980 decisions. Saatcioglu (2003) states that by the

emerging of export oriented and liberal period between 1980- 1990, foreign investment increased six fold compare to the previous decade dominated by ISI period. However, economic liberalization could not bring political stability to Turkey. Economic turmoil brings political and economic instability. It triggered military to take government which is the case experienced in Argentina on the similar path. The military government took power on 12 September 1980 and took three years (Hale, 1994).

After the military coup, Turgut Özal was involved in the formation of a new political party, the Motherland Party (the ANAP). It gained a major victory in the elections of 1983 that signed Turkey's return to parliamentary democracy. As a leader of ANAP, he became the Prime Minister and occupied this position until 1993 (Onis, 2007). Under the leadership of Turgut Özal, economic policies of Turkey prioritized negotiating with the principal international organizations such as IMF, World Bank and the common market. To involve the world free capitalist market and balance foreign trade, Turkey introduced realistic exchange rates and export subsidies (William, 1994). Turkey was not only dictated from Washington with its economic policy, but also adopted a foreign and military policy being designed as Western oriented.

Baratov, Yeldan and Köse (2000) separated this period in two broad phases: "1981-1988" and "1989- 1998". According to them, the characteristic of the first phase is structural adjustment due to the export promotion, regulated foreign exchange rate system and controls on capital flows in the light of integration to international markets. Although this period might be characterized as suppression on the wage incomes and tough measures against labor groups, this classic mode of surplus creation was limited in economic and political context by 1988. The second phase:

1989- 1998 was considered as a new wave of populist pressures under the close new elections. This is because; organized labor groups attained increases in wages, government increased public spending and act towards a more fair tax system. On the other hand, we may say that suppress on the wage incomes effected the decreasing of the domestic demand, thus, leded more exportable surplus, goods and less labor cost. As the economically liberalized period is compared in Argentina and Turkey, there are parallels between Özal and neo- populist political leader of Argentina, Carlos Menem in terms of radical- market oriented economic implementation and justifying it to gain segments of electorate (Onis, 2007).<sup>12</sup> In addition to that, Özal's vision was closer with the Latin American style presidential system. It was characterized by the less check and balance and provided great powers for the key individual in government throughout the liberal economy period (Onis, 2007). At this point, leadership might be regarded as a critical need to incorporate with population during the phase of implementing radical- liberal economic reforms. Therefore, it might be inferred that alike in Argentina, although decisions are taken rapidly and government can overcome powerful interest groups' pressure, the consequences of the program did not provide long term advantageous.

By the aim of opening the global market, close coordination with international institutions such as IMF and World Bank as the massive financial support provider emerged as an earliest step. Furthermore, for the consolidation of the reform process, Özal saw European Community (EC) as a significant external anchor, membership of

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<sup>12</sup> Both shared similarities. Both took economic and politic decisions rapidly and aim to satisfy interest groups' demand. Menem and Özal applied decrees, by passing ordinary parliamentary procedures, its limits and legal forms (Öniş, 2004). However, those denied the long term liability of the newly implemented economic programs and did not provide long term advantageous. Hence, it triggered economic crisis in 1994, 2000 and 2001 in Turkey. As a consequence, in short term, after the 1970s economic crisis, 1980s demonstrated economic success, in long term, unstable and less successful era was experienced at the end of the 1990s and beyond. Due to the improved economic efficiency, elimination of state intervention and protectionism, Öniş (2004) and Weyland (2003) separately regard both as neo liberal populist governors.

the EC and accelerate the trade liberalization process. Although, Turkey's application was rejected, Customs Unions became crucial step in the liberalization process of Turkish economy in the 1990s. A major step for the liberalization period was taken due to the Custom Union of European Union in 1996. Its influences on the Turkish government's economy policy decisions remained throughout 2000s (Atiyas & Bakış, 2013, p. 1210). In parallel with the CU involvement, according to IMF data (2016), while Turkey's export with EU was 15 billion \$ in 2000, it reached 64 billion dollar in 2015. Its imports with EU was also 28, 552 billion dollar in 2000, it reached 78, 685 in 2015. It did not only show that the Custom Union (CU) affected and increased the foreign trade between Turkey and EU countries, but also showed that CU and EU became significant external anchors in the following industrial and economic policies. External actors' initiatives were also emerged in the building of regulatory institutions in the privatization, banking sector reforms. Customs Union agreement, IMF which was responsible for the introduction of a key regulatory institution in the banking sector, namely the Banking Regulatory and Supervisory Authority (the BRSA) were double external anchors as IMF and EU in Turkish Economy (Oniş, 2007). It gained momentum post- 2001 economic crisis.

As it is mentioned above, liberalized economy did not mean the stabilized economy for Turkey. After 1987 and during 1990s, Turkey experienced macroeconomic instability in the form of huge budget deficit, public debts, high inflation and slow economic growth (Bakır & Öniş, 2006, p.149). In order to deal with deep public debt, government firstly held banking system. However, banking supervision and regulation were weak at those times of Turkey. Thus, banking system was obliged to increase foreign exchange risk because of the arbitrage opportunities by high domestic interest rate. According to Bakır and Öniş (2010, p.81), shadow of the

Washington Consensus and bank based financial system catalyzed economic growth because soft budget limitations caused crowding out effect<sup>13</sup> and politicization of banking affairs which referred to heavy rent seeking government intervention in the banking system. Thus, it caused loss of state banks. Consequently, Turkey witnessed the 2001 economic crisis and many banks were wiped out (Atiyas & Bakış, 2013, p.1210).

After the Ozal period, political problems and economic problems were interferingly experienced. The Kurdish ceasefire broke up, thus, military operations against terrorist organization PKK occurred (Howard, 2001). In 1994, International Credit Rating Agencies downed Turkey's status. Hence, Turkey went into the budget deficit. Turkey experienced currency crisis in 1994, inflation reached three-digit levels, output fell six percent and the Central Bank lost half of its reserves. Lastly the exchange rate of Turkish lira against US dollar depreciated by more than half (Celasun, 1998, p.2). From the 1994 to the 2002, Turkey was governed by coalition governments. In 1996, the Islamist Political Party which is named Welfare Party formed a coalition and Turkish army started to investigations on Welfare Party (Howard, 2001). It may show that the strong and significant role of the military traditionally continuous. In 1998, Turkey also faced one more economic downturn. As it was touched in the Argentina case, Turkey was affected by external shocks. These are Asian crisis which occurred by decreased commodity prices. Thus, such countries as Argentina and Turkey dependent on exports of primary goods affected negatively. However, the crisis in Russia affected Turkey much more than Asian

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<sup>13</sup> Crowding out effect is a situation when increased interest rates caused a reduction in private investment spending, thus, private consumption decreased. To compensate it, governments borrow Money by selling government bonds, rise interest rate

crisis because Russia was one of the main trading partners of Turkey (Howard, 2001).

After the 1998 crisis, a stabilization program involved in the 17<sup>th</sup> stand- by agreement by the IMF emerged in 2000. The program aimed at taking inflation under control. Despite improvement in growth that reached 6 % in 2000 and inflation could not block the following crisis (Eder, 2013, p. 206). In 2002, Turkey entered one of the deepest economic crises. Although, there are many claims about the reason of the crisis, Cizre and Yeldan simply stated various argues about the reasons,

We argue that the February 2001 political and economic crisis in Turkey was not the product of a few technical errors or mismanagement, but was the result of a set of cumulative processes that were set in motion by the overly premature attempt to liberalize and deregulate the economy. Contrary to the official stance, economic evidence clearly shows that the fiscal targets were reached throughout the implementation of the program in 2000, and the central bank (CB) was successful in maintaining its monetary targets (Cizre and Yeldan, 2005, p.389).

As a consequence of the economic crisis, the DSP led coalition government while the crisis occurred launched a “recovery program” in 2001. Although most of the elements in the recovery program were applied or adopted by little changes during the Justice and Development Party (AKP) government that was elected in November 2002, the post- 2002 macroeconomic environment of AKP government was mostly different from the earlier liberalization period. Macroeconomic data shows that GDP grew about 5.1 percent from 2002 to 2010. While public debt’s ratio to GDP was 66 percent in 2001, it decreased to 30 percent in 2010. Annual inflation, as the rate of

GDP deflator decreased to almost 6 – 7 percent in 2010, while 53% in 2002. Furthermore, while the 2001 economic crisis started, real interest rate was more than 15 percent, however, after 2009, it was less than 5 percent (Atıyas & Bakış 2011, p.1210).

On the other hand, after the crisis, according to Atıyas and Bakış (2011), the banking system got strength and its capitalization, supervision and regulation enhanced dramatically. As a consequence of the macroeconomic stability in Turkey's economy, the share of credits in the total bank assets was 30 percent in 2003, but, it reached almost 50 percent in 2010. Thus, it shows that credit access increased gradually especially for small and medium enterprises (SMEs). On the other hand, the growth in the demand for financial services of Turkey raised gradually due to the liberalized economy. Consequently, the role of foreign owned deposits bank increased in Turkish banking system. Accordingly, the role and strength of the foreign actors, the amount of FDI inflows, and gains from privatization not only increased in financial sector but also in the other sectors, particularly in industrial sector (Süer, Levent & Şen, 2016). These actions illustrates that measures curtail the power of the government in some economic policy decisions such as industrial development policies. At that point, the Custom Union (CU), its elements and EU negotiations appeared in order to address the industrial policy components of Turkish government including restrictions or flexibility on Turkey's policy response. This study focus on the industrial policy of AKP government during the post 2001 crisis, however, to understand how it was shaped, previous economic structure is explained, then, industrial policies of pre 2001 economic crisis is illustrated.

After the crisis, Kemal Derviş who was the vice president of the World Bank appointed as the Minister of State of Economic affairs. He declared a new program

which is considered as transition to a strong economy in 2001. The program addressed transparency in the public sector, reconstructing the financial and banking system and supported privatization. However, some argue that this program could not deal with the social and distributional problems of the crisis (Kazgan, 2006). Consequently, the AKP came to power since the National elections were called early. The AKP came by unexpected victor. It had been established in 2001 from the remnants of the Welfare Party, RP. AKP government was backed by the support of social and religious conservatives and represent Anatolian capital. During the crisis, the AKP government successfully embraced the excluded or alienated people in Turkish society (Marois, 2012, P.177).

## **CHAPTER 3**

### **ANALYSIS OF INDUSTRIAL POLICY OF TURKEY AND ARGENTINA: POST 2001 ECONOMIC CRISIS**

#### **3.1. Turkey**

This chapter aim to understand how Turkey experienced a severe economic crisis during 2000 and 2001. Economy and industry policies, their indicators, the macroeconomic environment under the summary of Turkey's economic development between 1980 and 2001 are briefly explained. Therefore, to comprehend how Turkey transferred from non- industrial policy period of 1990s to new industrial policies of post 2001 economic crisis, industry policies are addressed by dividing industrial policies during the pre and post 2001 economic crisis. After that, industry policies of AKP government are discussed on the basis of the key elements. These elements are foreign trade policy, investment police, technology/ R&D policy and regional incentives. Lastly, these findings are analyzed.

##### **3.1.1. Industry Policy and Indicators throughout Pre- Crisis Period in Turkey**

The crisis speeded by contrast in growth, industrial production and trade. Hence, it triggered the problems in industrial sector. Thus, it resulted in higher need for growth and competitive industrial policies. However, in the early 1980s, industrial policies were rejected due to the pro minimize state principle by Washington Consensus and as a consequence of the shift from inward looking industrialization to export oriented growth. It restricted selective state intervention and signified the overall effective

horizontal industrial policies which were felt during the AKP government (İyidoğan, 2012, p.40). Thus, Turkey entered a non industrial policy period. It did not implement strict industrial policies in a real sense. As a consequence, it embraced a comprehensive program to liberalize financial system, foreign trade, political credibility and political stability. It was mostly based on the classical consecutive approach due to the liberalized capital account of the balance of payments after the competition of the reforms in finance and trade.

In the 1990s, as it can be seen from Table 1, including industrial and manufacturing production index, after the tiredness of ISI period, there were not any huge growth in industry production and manufacturing production. When the openness on the capital account emerged in 1990s of Turkey, technological and economic development entered a new juncture in the world. Turkey aimed to keep in step with it. Therefore, its value added growth, the rate of capital accumulation and productivity decreased. It also shifted the production and trade from low technology products to medium technology products due to the full opening of capital account (İyidogan, 2012, p.44).

During this period, investment incentives were also used to influence industry with the help of abolishing cash incentives and tax exemption. However, according to Ersel and Filiztekin (2005), investment incentives do not affect the productivity, employment, sectoral allocation and level of investment; instead, government aimed to compensate for the previous deficiencies in the investments. Throughout this period, government prioritized technological and research improvement to provide incentives regardless of its sector and region. Hence, it shows that government industry strategies include horizontal aspects. However, many observers considered

lack of progress in reforming the public sector<sup>14</sup> and believed that it causes of debt trap. Table 2 details the changes on the growth rates of industry gross fixed investment of public sector and private sector and foreign trade in million dollar by export and import between 1980 and 2004. It shows that industry had steady growth. Additionally, while the share of public sector in gross fixed investment decreased, the share of private sector increased. Özaslan (2006, p.5) supports it. He illustrates that while the industrial sector in total public investment was 20.7 % in 1978, it first decreased to 18.7 % in 1984, to 4.5 % in 1990 and gradually to 2.9 in 1994. Hence, extending placement of private sector and privatization having started after the 1980s liberalization period gradually increased in AKP period.

On the other hand, regional disparities and regional development policies changed due to the outward orientation policy and decrease of the public sector after the 1980s. Hence, development disparities, deindustrialization and recession were experienced in many regions of the country. It led to industrialization of some urban centers which were called as the new industrial districts (NIDs) (Özaslan, 2006).

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<sup>14</sup> Sönmez (1999) illustrates that while share of the industrial sector in the total public investment was 20.7 % in 1978, it decreased to 18.7 % in 1984, 4.5% in 1990 and 2.9 % in 1999. It was accessed by Özaslan. The original source of Sönmez (1999) was not accesable.

**Table 1. Manufacturing and Industry Production in Turkey, 1980- 2002**

Year	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Annual average of total industry production	24.4	27	27.9	28.6	31.6	32.5	33.6	35.8	33.6	36.4	38.5	41.9	42.7	41.3	43.9	40.2
Manu- Facturing Production	25.2	28	29	29.3	32.4	33.2	34.1	36.5	33.2	36.1	38.0	41.4	41.5	39.8	42.4	38.3

Source: TURKSTAT

**Table 2. Main Economic Indicators of Turkey (1980- 2001)**

	GDP (BILLION \$)	GROWTH RATE			GROWTH INVESTMENT (IN BILLION TL)		FIXED (IN TRADE (MILLION \$)	
		AGRICULTURE	INDUSTRY	SERVICES	PUBLIC SECTOR	PRIVATE SECTOR	EXPORT	IMPORT
1980	68.785	1.1	-3.3	-3.7	462	694	2.910	7.909
1985	67.235	-0.5	6.2	5.1	3.236	3.897	7.958	11.343
1990	150.676	6.8	8.6	10.3	27.684	62.208	12.959	22.302
1995	169.486	2	12.1	6.3	328.577	1.553.648	21.636	35.709
2000	272.976	3.9	6.0	8.9	8.602.103	19.971.790	27.775	54.503
2001	200.252	-6.5	-7.5	-7.7	11.300.047	22.170.344	31.334	41.399
2002	238.428	6.9	9.4	7.5	17.335.397	30.146.896	36.059	51.554
2003	311.823	-2.5	7.8	6.7	17.588.271	39.834.913	47.253	69.340
2004	404.78	2	9.4	10.2	19.314.124	59.467.619	63.121	97.540

Source: Özaslan (2006), State Planning Organization (2002). GDP (Current USD)

### **3.1.2 Industrial Policies in the Economic Recovery Period of Post 2001 Economic Crisis**

Justice and Development Party (AKP) gained 363 out of 541 seats in the unicameral Grand National Assembly and left other parties shut out except for the Republican People's Party CHP (Öniş and Keyman, 2003). After the crisis, AKP government inherited Turkey's 2001 economic program, architected by Kemal Derviş. This process was mostly understood as neoliberal restructuring (Öniş & Şenses, 2009). It was driven by the external anchors as the form of successive IMF programs, Custom Union (CU) elements and prospect of EU membership. Accordingly, we may say that Turkey followed horizontal industrial policy since its economic objectives addressed each sector in general. Due to external anchor conditionality, AKP government implemented low custom duties, prioritized privatization and investment incentives. Through its horizontal industrial policy, regional incentives and overall effective R&D developments were made possible.<sup>15</sup>

(Sak & Inan, 2015, pp.3- 4) Industrial policy strategy documents have focused on the increasing innovative capacity, productivity, sustainable economic development and sophistication of high valued production and their exports. As a consequence of the neoliberal restructuring, the banking system and debt management regime were regulated again. In addition to the reinforced independent central bank and fiscal

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<sup>15</sup> In the State Planning Report, SPO of 2007, horizontal and functional industrial policy approach which became speeded during the 1990s was presented.

balances, comprehensive reform plans in such policy areas as the agricultural sector, industrial sector and services with the help of public expenditures, subsidies. Hence, the AKP mostly committed to the inherited liberal reform drive strategies (Dorlach, 2016).

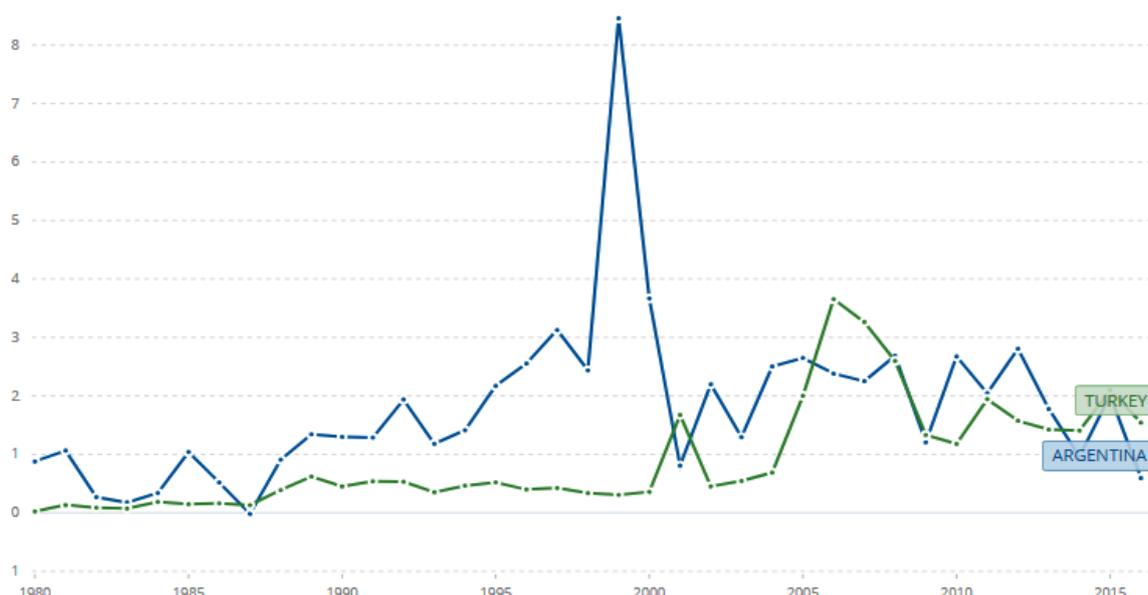
All in all, since 2000s, Turkey have pursued and adopted a new industrial policy orientation embracing such internal orientations as competitiveness of industry and EU membership. This is concretely explained in the SPO's industrial policy report (2007). It was jointly prepared by State Planning Organization (SPO) and Economic Policy Research Foundation of Turkey (TEPAV) in 2007.<sup>16</sup> Consequently, it is also understood that internal and external factors can be regarded to recognize need of industrial policies in Turkey. In external factors, re –orientation to industrial policy firstly emerged in an industrial policy text under the framework of the EU negotiations (SPO, 2003). It was then enhanced by the Industrial Strategy Document bearing the phrase “Towards EU Membership” by SPO in 2007 (İyidoğan, 2012).

Compared to Argentina, Turkey did not embrace completely liberal period including the mass privatization of state owned liberalization, convertibility plan and great market flexibility. Hence, both countries followed neoliberal policies at different level. Turkish economy and society were not negatively affected by the outcome of the neoliberal economy as much as Argentina in 2001 (Ozdemir, 2009). To explain it more, as we look at the capital account position, Turkey and Argentina show several differences before and after the crises in terms of foreign direct investment (FDI). As it is explained better in figure 1, Turkey was less significant recipient for the amount of the FDI than Argentina. However, the amount of the FDI in Argentina dropped after the crisis from 10 billion \$ to 2 billion \$ between 2000 and 2001. In Turkey,

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<sup>16</sup> İyidoğan, 2012.

FDI has become one of the most significant parts for the economic growth in Turkey since 2005. Taking into account all of these, how the industrial policies of AKP government was shaped can be regarded. To be sure, Turkey witnessed mass privatization of state owned enterprises under the frame of neoliberal policy reforms<sup>17</sup>, implemented low custom duties due to the CU an IMF procedures.



**Figure 1. Foreign Direct Investment, Net Inflows in Argentina and Turkey (% of GDP)**

Source: World Bank

### 3.1.2.1 Foreign Trade Policy

Between 2002 and 2007, AKP government was mostly under the IMF and Custom Union (CU) conditionality. Its rhetoric was pro- EU stance. The government strategies were on the basis of pro reform and stability performances with the existing of IMF sponsored stabilization program. This program involves fiscal

<sup>17</sup> By Kemal Derviş, the new technocratic Minister of Economic Affairs, The Turkish parliament passed the fifteen priority new legislation, including the legislation to privatize Türk Telekom and to facilitate bank mergers, liquidation of weak institutions (Ozdemir, 2009).

discipline, flexible exchange rates, and implicit inflation targeting and less trade protectionism by lowered tariff rates. Thus, AKP government did not prefer implementing new policy innovation. The main factors influencing the trade system of Turkey were the WTO agreement and EU commitments (Uğur, 2008). Consequently, we may say that Turkish foreign trade policy was mostly driven by internal economic and political developments having global anchors in its regulatory neo liberal foreign trade policy (Kaptanoğlu & Kirişçi, 2011). Hence, it lowered tariff protection, quantitative restrictions and duty rate.

When the influence of the foreign trade policy instruments on the industrial production and trade are regarded, table 3 shows that the share of industrial goods export rapidly increased compare to the other sectors. When it was 36.6 % in 1980, it became 95 percent in 2008. Turkey pursued export oriented policies throughout this period. However this success was not macroeconomic policy driven in essence since policy makers did not attempt to depreciate TL in order to boost export. Instead, increasing of the export rate occurred due to the import of the intermediate, investment goods and export of the imported goods. As a consequence, export oriented firms suffered from loss of price competitiveness. However, firm driven factors such as technological process, R&D policies in industrial sector lead those firms integration to the export market and led to increasing export performance (Karagöz, 2016). On the other hand, there was a reduction on the domestic demand due to the 2001 economic crisis and reduced labor force costs, thus, it pushed producers to export more. As a result, Turkey was ranked as 24<sup>th</sup> in the world's export volume (Genç, 2009, p.26). Besides the export performance, as Table 4 shows, Turkey manufacturing production showed stability except from the 2001 and

2008, there has been almost stable process. While it reached all the time high of 31 percent in 2005, it recorded lowest – 24.50 percent in 2009.

**Table 3. Sectoral composition of Turkey’s export Volume between 1980 and 2014 (in thousands)**

<b>Sector</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>	<b>2010</b>	<b>2014</b>
<b>Agricultural Products</b>	1881	3300	3828	12370	18430
<b>Food</b>	1486	2906	3521	11978	17759
<b>Fuel and Mining products</b>	246	876	1005	9331	12241
<b>Fuel</b>		296	294	4405	5900
<b>Manufacturing</b>	782	8778	22311	88451	120984
<b>Iron and steel</b>	28	1490	1842	10225	10752
<b>Chemical</b>		747	1063	6101	9161
<b>Automotive productions</b>	55	153	1517	13755	17997
<b>Textile</b>	343	1440	3672	8964	12522
<b>Clothing</b>	131	3331	6533	12760	16680

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Source: World Trade Organization WTO. Trade Policy Review Turkey, 2016.

**Table 4. Industrial and manufacturing production index (2015=100), seasonally and calendar adjusted indices, post 2001 economic crises**

<b>Year</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Total Industry Production</b>	43.8	47.7	52	59.6	64.1	69.5	68.8	61.5	69.6	80.3	83.5	89.3	94.6
<b>Manufacture Production</b>	42.4	46.5	51.1	59.1	60.4	68.6	67.2	58.6	67.9	78.7	82	88.4	94.1

SOURCE: TURKSTAT

Tariff protection is one of the main tools applied by foreign trade policies. Although Custom Union was accepted in 1996 in Turkey, not until 2003, the beginning of the AKP period, Turkish governments had not embraced instruments related to removing

<sup>18</sup> Sak (2014) Between 2002 and 2012, although Turkey’s export grew rapidly, there were not any quality and technological sophistication in export.

technical barriers to trade that could allow Turkish industrial sector products to be involved in the free circulation in the EU. However, in order to harmonize technical legislation for the industrial products, market surveillance structure was applied. Therefore, Turkey lowered or removed tariff and non tariff barriers. In addition, the custom duties, quantitative restrictions and similar measures have been removed. Figure 3 illustrates decreasing percent of tariff rate on the manufacturing productions. While it was 6 % in 2000, it decreased to 1 % in 2006 and then remained stable. Its consequences can be seen in the changes on the manufacturing export (Yülek, 2014, pp.162- 164). In table 3, we may see the increasing export share of manufacture products.

Turkey's weighted simple average tariff rates on industrial imports are several times lower than those of other EU candidates. Hence, they are tied to EU tariffs and commitments under the WTO agreements. As a result of these developments, Turkish industrial goods producers are exposed to competition from importer and operate in one of the largest free trade in the world (Öniş, 2009). Its difference and comparison with Argentina and its association with MERCOSUR will be addressed in the comparative analysis chapter.

Turkey adopted the EU's common external tariff (CET) for the most industrial products and industrial components of agricultural products. EU and Turkey decided to eliminate all custom duties, quantitative restrictions and charged their bilateral trade. As a consequence, import duties from third countries including U.S were lowered. Moreover, the Custom Union (CU) implements zero duty rates and non quotas for the non agricultural goods of EU and European Free Trade Associations (EFTA) origin countries. On the other hand, Average duty rate for imports from EU and EFTA countries dropped from almost 10 percent to zero. However, Turkey

applied some exempted categories for sensitive products with tariffs on these goods which are generally higher than the Common Customs Tariff (CCT). As the import tariff in Turkey is emphasized more, Turkey 's the Customs Union Common External Tariff (CET) to industrial goods and its Most Favored Nation (MFN) tariffs for non agricultural products are approximately 5 percent.<sup>19</sup> However Turkey's WTO commitments have been about 66 percent of its non agricultural tariff lines unbound while Turkey has binding the 17.4 % simple average on tariff line. Hence, Turkey's relative openness with CET is not reflected in the commitment of WTO. It shows that CU is a stronger external actor than WTO as applying economy policy in Turkey. On the other hand, import regime for industrial products in Turkey is even more open than the CET's indications, when, the CU and free trade agreements offer duty free access for Turkey's most important trading partners, EU countries<sup>20</sup>. Moreover, Turkey could open tariff rate quotas for non agricultural goods. Investment encouragement plan offers duty and tax concessions on imports; thus, exporters benefit from an inward processing program. Suspension list led manufacturing industrialist to import certain raw materials and intermediate goods at low or duty exempt rates. However, its consequences brought various results.<sup>21</sup> As it is mentioned in previous paragraphs, foreign capital inflow raised after 2002. It caused increase in import. While it was 40 billion \$ in 2000 accounting for the 15 percent of national income, it reached 242 billion \$ in 2014 accounting for the 30 percent of national income. Import of industrial product and energy was 136 billion \$

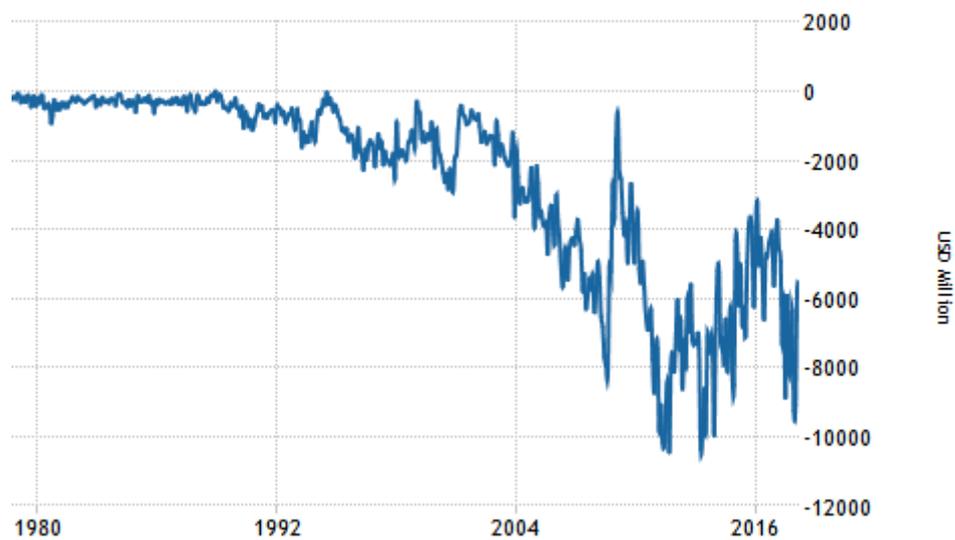
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<sup>19</sup> Export.gov. Turkey- Trade Barriers, 2017.

<sup>20</sup> The EU countries are still Turkey's most important trading partner and investor. The EU accounted for nearly 70% of total FDI inflows into Turkey between 2005 and 2010. Nearly 40% of its imports come from the EU, and just over 50% of exports go to the EU. However, the dominance of the EU in Turkey's foreign trade has declined markedly over the last five years, reflecting a notable shift in Turkish exports towards growth markets in its neighborhood, in North Africa, certain CIS countries, and in Asia. For more information, the link is below.

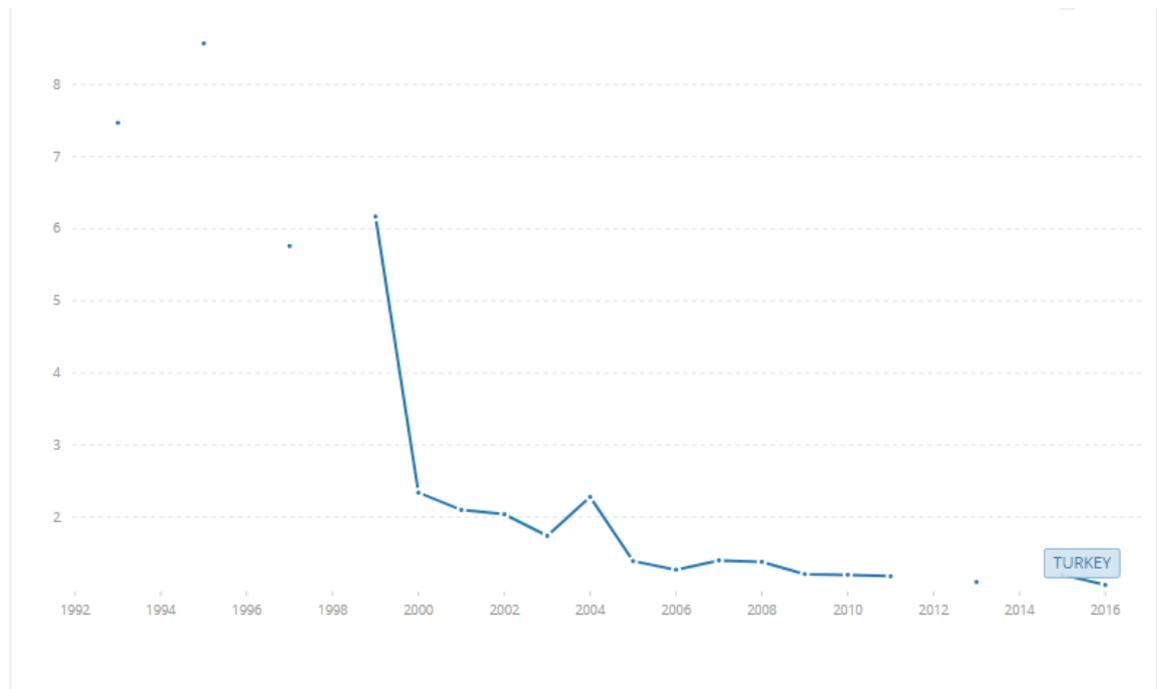
<sup>21</sup> <http://www.intracen.org/BB-2012-02-24-WTO-Trade-Policy-Review-Turkey/>. International Trade Center. WTO Trade Policy Review, 2012.

in 2010, while it was 233 billion \$ in 2014. However, industry export increased from 109 billion \$ to 152 \$ billion from 2010 to 2014 (Sönmez, 2015). As a consequence, it caused decrease in the balance of trade value in manufacturing industry (Figure 2). All in all, we may say that the increase in the overall import penetration rate within five years was mostly a result of the CU itself.



**Figure 2. Balance of Trade in Manufacturing Industry of Turkey in USD Million (1980- 2016)**

Source: tradingeconomics, 2017.



**Figure 3. Tariff Rate on Manufactured Products in Turkey between 1996 and 2016 (%)**

Source: Worldbank, 2017.

### 3.1.2.2. Privatization and Investment Incentives

Privatization and investment incentives have been in the policy agenda of Turkey since 1980s. However, it gained momentum with AKP government. Parallel with the content of the major strategy documents and horizontal industrial policy instruments, there have been government backed initiatives to increase the investments by means of incentive packages. Major strategy documents also involved the suggestions for regional imbalances in the industrial improvement and strength industry by R&D, human capital etc (Sak, 2014). Hence, after 2001 global economic crisis, large scale privatization was accomplished in Turkey like many emerging countries to improve the domestic private sector due to the role of international transmission.

In Turkey, government applied regional investment incentive programs to deal with the development inequality among regions. On the other hand, government prioritizes high technology and high value added productions through R&D projects to increase competitiveness. According to the Ministry of Development Reports (2007), industrial policies depended on two key elements. These were firstly integration of manufacturing industry to the global market and increasing the competitiveness (Türel, 2007). The first one could be achieved through investment incentives and FDI. The latter aimed to construct strategic coordination with external actors, flexible foreign trade policies and more technological improvement via the R&D.

Subsidies are one of the most significant tools of the investment incentive policy. In Turkey, it was shaped as an ultimate form as a result of the decision dated and numbered 2006/10921. Hence, custom duty exemption and VAT (value added tax) exemption on imported machines and equipments were implemented. In addition to that, the decisions dated and numbered 2006/10921 and 2007/12142 changed it on a limited scale. Those depended on the principles that investment incentives regardless of sub sector of the industry or services, SME's subsidies being taken under the investment incentive frames (Türel, 2007).

Throughout 2000s, AKP government prioritized the FDI in order to competitively integrate Turkish manufacturing industry to global market. Privatization, as a major establisher of FDI was mostly felt by the Turkish government's inability to sell Turkish Telecom (TT), the fixed line state monopoly. After this initiation and following actions, to secure stable macroeconomic conditions and handle current account deficit under IMF frame, Turkey aimed to attract FDI and portfolio investors. The prospect of EU membership legitimized strategic investors in Turkey

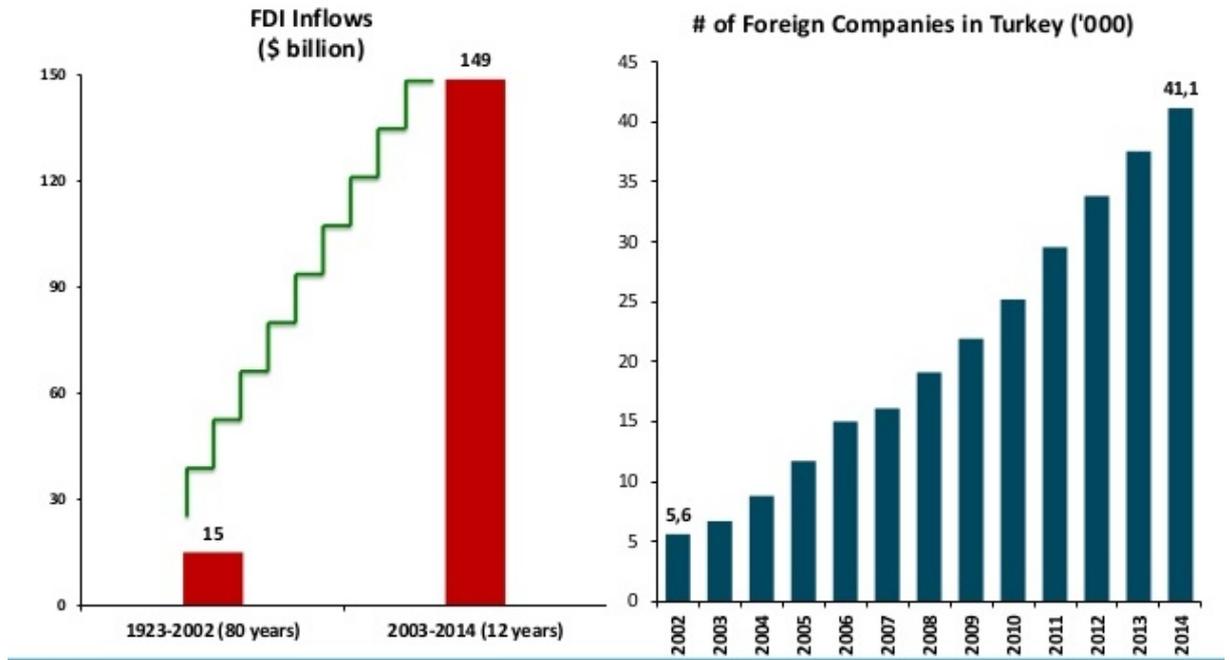
from EU countries and IMF direction on economic policy (Grigoriadis & Kamaras, 2008). As a result, industry with firstly protected home market transformed into a competitive and export oriented industry with FDI inflows.

As a consequence, in 2003, Turkish government implemented Foreign Direct Investment Law. Its objective was to regulate the principles in order to encourage foreign direct investment, protect their laws and define them and their investment in line with international standards. This rule was build on the freedom of investment and national treatment, thus, provides some advantages to its investors. These were the protection from directly nationalization, facilities for the employment of foreign core personnel, international arbitration<sup>22</sup>. Furthermore, we may say that removing restrictions on FDI and large scale privatization justified elites and business allied of government. Table 5 represents the result of the FDI supportive laws.

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<sup>22</sup> Foreign Direct Investment Law, 2003.

**Table 5. Increasing the FDI in Turkey**



Source: Central Bank of Republic of Turkey Ministry of Economy.

### 3.1.2.3. Regional Incentives

Horizontal approach for industry policies even applies selective ways for local advantages by regional authorities and government in order to decrease regional imbalances (Rodrik, 2014). Hence, Turkey divided the country into seven different zones. It provided benefit for investors with corporate tax privilege, custom tax exemption, VAT exception, allocation of investment location (Türel, 2007). Hence, more than to be specific to sectors, many subsidies and incentives were for regional development and research and development. It made a Turkey case having more horizontal mechanism. It can be supported by the law 5084<sup>23</sup> which was

<sup>23</sup> Law No. 5084 on the Encouragement of Investments and Employment and Amendment of Certain Acts, in the Official Gazette dated 06.02.2004.

implemented explicitly for regional orientation in 2004. It aimed to promote investment and employment in the specify regions without regarding sectoral selectivity. As it did not specified on the sub sectors, investments in organized industrial zones were supported strongly. For instance, in industrial areas, income taxes of firms were subsidized 100 % while it was 80 percent in others (Atiyas & Bakış, 2014). Furthermore, there were special incentive zones. Government established them; Technology Development Zones (TDZ), organized industrial zones (OIZ) and free trade zones (FTZ). They aim to increase investment, technological development, R&D activities and employment rate for researchers. Thus, government provides infrastructure, exemptions from value added tax (VAT) for land acquisition, real estate duty for five years and use of plants.<sup>24</sup>

After 2009, regional incentives aimed to increase R&D projects and FDI. The 2009 regime<sup>25</sup> reintroduced sectoral selectivity. However, it was shaped in accordance with regional potential and then demands. For example, first and second regions focused on the high technology industry while 3<sup>rd</sup> and 4<sup>th</sup> regions, less developed ones, focused on low technology industry, service and agriculture. In 2012, a new package called as strategic investment was introduced.<sup>26</sup> It aimed to attract investment for specific sectors which were dependent on the import. In terms of regional incentives, it tried to promote organized industry districts with many packages. Government introduced notion of priority investment in mining and railroad construction areas. It also reduced the minimum investment threshold for the large scale investment incentives (Atiyas & Bakış, 2014).

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<sup>24</sup> It was provided by the Law on Technological Development Zones (2001). Republic of Turkey Prime Ministry Investment Support and Promotion Agency, Invest in Turkey: Special Investment Zones.

<sup>25</sup> Decision No. 2009/15199 on state aids towards investments, Official Gazette dated 16.07.2009.

<sup>26</sup> 3 Decision No. 2012/3305 on State aids towards investments, Official Gazette dated 19.06.2012.

All in all, there was not a major sectoral selectivity till the 2009, thus it make investment incentive regime on industrial sector was neutral and horizontal. It facilitated mostly comparative advantage. However, the 2009 and 2012 plans focused on specific sectors as having the eligibility criteria for high import levels. Local and foreign investors could access to the investment incentive schemes through these plans. It involved VAT exemption and custom duty exemption. However, most of the investment incentive schemes defined sectoral incentive in accordance with regional potential and scale of local economy. Therefore, the newly shaped investment incentive scheme was designed to reduce the dependency on the imports of intermediate goods. Its objectives were to reduce the current account deficits, to promote investment support for less developed regions and support for technology transfer and R&D<sup>27</sup>.

As it is understood in line with horizontal approach, throughout 2000s, the new industrial policy included the horizontal principle and non selective incentive tools. However, in practice, selective policy elements were partially seen. It means that despite some policies were horizontal, they had selective influences. At that point, R&D incentives should be explained. For instance, the R&D incentive law<sup>28</sup> influenced technological development in Turkey. Although it was a horizontal incentive policy which was not special for specific sectors, small and medium sized companies benefited from it because it provided incentives according to the number of full time R&D employing (İyidoğan, 2012). This selectivity aimed to attract global scale companies to establish their R&D centers in Turkey. Thus, it shows the

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<sup>27</sup> <http://www.invest.gov.tr/en-US/investmentguide/investorguide/Pages/Incentives.aspx>. Investment Incentives.

<sup>28</sup> Law no. 5746. It supports research and development activities. It brought new incentives and regulations for R&D activities. 1 April 2008.

industry policy key element for increasing competitiveness by raising technological improvement.

On the other hand, according to under secretariat of foreign trade source (2009), R&D supports for enterprises in Turkey exists for Tubitak, UFT, Kosgeb and Ministry of Industry and Trade. From 2006 to 2008, however, total support decreased from 319.0 to 252 million USD. Table 6 clearly illustrates the share of GDP expenditure on R&D total, % of GDP, between 2000 and 2017.

On the other hand, regional development agendas introduced aim of increasing R&D spending, adding value for the high development technology industry. However, table 6 illustrates that after the incentive plans in 2004, 2005 and 2012, there were not any exact rises on the expenditure of R&D (Sak, 2014).

**Table 6. Gross Domestic Expenditure on R&D in Turkey. (Million USD. 2005 Constant Prices and PPPs)**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>TURKEY</b>	2739	2996	3171	3293	3184	3735	4617	4845	6314	6380	7110	7664

Source: OECD

While the sectoral breakdown of investment is reviewed (table 7), manufacturing industry support covers only one third of the supported investment of 264 billion liras at current prices between 2013 and 2015. While energy and service sector show accordance with manufacturing, table 5 illustrates that the intentions in the investment of manufacturing industry decreased from 36 billion liras to 25 billion liras. Hence, it shows the government's lack of appetite on manufacturing. However,

manufacturing industry is significant when we consider the constitutive body of export, intermediate and investment goods' dependency on industrial production. Thus, all sectors implicitly or explicitly associated with foreign trade are feed by industrial sector branches (Sönmez, 2015).

**Table 7. Sectoral breakdown of investment, supported by incentives billion TRL**

	<b>ENERGY</b>	<b>SERVICE</b>	<b>MANUFACTURIN INDUSTRY</b>	<b>MINING</b>	<b>TOTAL</b>
<b>2013</b>	32.4	20	36.2	7.7	96.3
<b>2014</b>	10.3	26.8	25.2	2	64.3
<b>2015</b>	37.7	37.9	25	2.4	103
<b>3 YEARS</b>	80.4	84.7	86.4	12.1	263.6
<b>SHARES</b>	30.5	32.1	32.8	4.6	100
<b>%</b>					

<sup>29</sup>Source: Ministry of Economy

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<sup>29</sup> <http://mustafasonmez.net/?p=5585>. Industrial investments continue to stagnate, Mustafa Sönmez. Hürriyet Daily News, 25/4/2016

### 3.1.3. Analysis

After 2001 economic crisis, economy policies of Turkey were planned in line with recovery from the inherited economic crisis. Hence, industrial policy responses were mostly created to deal with the major economic problems which were high current account deficit, unemployment rate and non competitive industrial sectors. However, instead of long term industrial development, AKP government's economy policies aimed to resolve periodic problems of post 2001 crisis. Therefore, it just aimed at achieving fast economic growth in terms of GDP growth (figure 4).



**Figure 4. Turkey GDP Annual Growth Rate between 2001 and 2016**

Source: Trading Economics, 2017

In the light of industrial policies, Turkey was not complemented with an industrial transformation strategy, however, such structural problems as difficulties in competitiveness and import dependence made the structural transformation inevitable. It mostly followed horizontal, neutral or non selective industrial policies with the

orthodox liberalism. In the SPO report, an industrial policy approach based on horizontal is mentioned it. It as follows:

“It will be appropriate to draw attention to a significant difference between the practice of industrial policy in the past and the framework proposed in this report. In Eastern Asian countries, where industrial policies are actively used for promoting growth, sectoral preferences have been made in order to enhance efficiency-driven growth. In this framework, investments in sectors predetermined by the government have been incentivized via various instruments. The approach advocated in this report proposes not a sectoral, but a functional industrial policy framework” (SPO, 2007).

Moreover, according to Metcalfe (1994, pp.932- 940) and Lall and Teubal (1998), horizontal policies involve such fiscal, monetary and competition policies to stimulate investment, market oriented infrastructure and support for R&D in a general sense. Hence, AKP government pursued market friendly industrial and economy policies under the horizontal base. As a consequence, Turkey considered internal and external conditions and actors. It followed investment oriented policies through FDI and privatization promotion, IMF and EU committed strategies. While Argentina government aimed to increase the capital of state and nationalization and traditional strength of industrial sector, Turkey mostly aimed to ensure the continuation of capital follows in order to deal with inheritance of the 2001 economic crisis. Thus, contrary to Argentina, it achieved economic growth due to the orthodox monetary, fiscal and pro capital policies. As a consequence of those, Turkey lowered tariff rate, realized growth by foreign investment inflow and boom on the intermediate products imports. On the other hand, while Turkey followed horizontal industrial policy strategies in principle, after 2009, selective policy elements were

seen in practice as well. For instance, the small and medium sized companies benefited from the incentive law. It provided facilities about corporate income taxes and additional incentives for increasing the number of R&D personnel. Hence, the law led to a selectivity incentive for the larger sized companies. However, this selectivity mostly attracted global companies to establish their R&D settlements in Turkey. It can be supported by the incentive law announced at the official gazette in 2008 in order to stimulate FDI inflow toward R&D and innovation (İyidoğan, 2012).

As it is mentioned through previous paragraphs, the CU, IMF and WTO commitments required that state aid in Turkey should be harmonized by the state aid rules of those actors. Hence, subsidies are not specific to sectors but carries horizontal objectives due to regional development, R&D and subsidy for SMEs<sup>30</sup>. Although some may claim that regional incentives and categorizations depend on the sectoral characteristics of the areas such as degree of competition, law no 5084 in 2004 having regional orientation aimed to promote investment and employment in the targeted provinces. Therefore, when AKP government applied its industrial policies, its main motivation was not selectivity in principal.

### **3.2. Argentina**

To comprehend the experience of Argentina in severe economic crisis; economy and industry policies, their indicators, the macroeconomic environment within the summary of Argentina's economic development between 1980 and 2001 were briefly explained in previous chapter. Therefore, this chapter starts addressing industrial

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<sup>30</sup> SMEs are one of the measures affecting the trade and production. It is concentrated in the industrial sector and supported by KOSGEB. SMEs constitutes a key part of industrial sector. According to Turkish Treasury figures, SMEs accounts for large part of exported manufacturing goods.

policies by dividing them during the pre and post 2001 economic crisis. Secondly, it clarifies how Argentina transferred from massive liberalized and non- industrial policy period of 1990s to new ambitious industrial policy period, after 2001 economic crisis. Thirdly, industry policies of both Kirchner governments are discussed on the basis of its key elements such as foreign trade policy, investment police, and sectoral incentives. Lastly, these findings are analyzed.

### **3.2.1. Industry Policy and Indicators throughout Pre Crisis Period in Argentina**

Argentina's experience with autarchic, state guided economic strategy ended with a major crisis in the 1980s. Therefore, the political and economic transformation of the country occurred based on the international trade, investment inflows. In the new direction of Argentinian economy, trade and industrial policies were more horizontal and neutral. Since, trade protection was reduced due to lowering tariffs and reducing industry policy scope and ambition decreasing. As a consequence, the objective of the policies was to increase overall competitions in export oriented sectors and effectiveness in the general economy with the help of operating privatization initiatives for the state owned firms. However, some significant selective policies were implemented in textile and automobile sectors because they had competing feature, leading employment and technological competitiveness (Casaburi, 1998).

After the ISI period, in the beginning of the 1980s, When Raul Alfonsin (1983-1989) took the power, there was an indebted economy. Foreign exchange shortages, serious hyperinflation challenged the country. By then, globally prevailing Washington Consensus wave marked liberalization and pro market reforms, but those which led scarce in the productive structure in Argentina. Therefore, in 1991, Menem administration established Convertibility Plan with the aim of lower inflation

rate, trade opening, deregulation and privatization of the most state enterprises. Although, in terms of economic growth, Argentina had positive results about growth rate, alleviating capital inflows from privatization and external debt between 1991 and 1998, the manufacturing growth was below the average economy (Santarcangelo, Schteingart & Porta, 2017, p.3). We may say that main industrial policy tools of governments that comprised of import quotas, foreign exchange rationing and harder financial policies for local manufacturers were not implemented. Argentinean government exceptionally promoted strategic sector of industry such as textile, automobile. As a consequence, economic liberalization did little to promote manufacturing competitiveness (Table 8). Although industry export grew in the beginning of the 1990s; it resulted from the mature private and public investment in the manufacturing sector (Casaburi, 1998).

**Table 8. Manufacturing value added annual percent growth. 1986- 2001**

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>Manufacturing value added, annual % growth</b>	11.35	0.968	-4.5	-7.6	-3.4	10.23	11.57	4.64	4.5	-7.1	6.45	9.15	1.85	-7.9	-3.8	-7.3	-11
<b>Industry value added, annual % growth</b>	11	3.6	-3.7	-10	-5.2	11	12	6.3	5.7	-5.7	-5.7	9	3.3	-6.7	-3.3	-6.5	

Source: World Bank<sup>31</sup>

Furthermore, throughout 1990 and 1993, more than 20 publicly owned firms were privatized. 1992 was a peak year for the privatization when the value of sales was 8.4 billion USD, 4% of the GDP. FDI and investment had the most significant role in this process. While investment was 14 percent of GDP in 1990, it reached 23 % of

<sup>31</sup> Exclude of the crisis times of 1980, 1987 and 2000- 2001, service sector value added, annual % growth gradually raising compare to the manufacturing.

GDP in 1994. As the foreign investment inflow became 30 billion USD, FDI share was half of it. The increase of the FDI occurred throughout three phases. It was firstly privatization of the state owned enterprises. Secondly, it was investment for the government protected industries such as automobile. Lastly, investment in the more competitive export oriented sectors such as agribusiness, oil, gas, construction and mining (Casaburi, 1998).

Decreasing the tariff barriers and eliminating the non tariff barriers were also experienced during the Menem administration (Table 9). However, as a response to the deteriorating trade deficit, tariff and ad hoc non tariff barriers on automobile increased from 3 percent to 10 percent. This reaction was towards sudden trade liberalization and exchange rate appreciation on key import competition manufacturing sectors such as food, textile.

**Table 9. Argentina Import Tariff (1987- 1995)**

	<b>1987</b>	<b>1989</b>	<b>1991</b>	<b>1992</b>	<b>1994</b>	<b>1995</b>	<b>CET<sup>32</sup></b>
<b>Average Tariff</b>	39.4	23.5	14.0	11.0	9.4	11.0	11.0

Source: (Casaburi, 1998)

After the success of the automative regime in 1992, Menem government introduced Régimen de Especialización y Reversión Industrial (REI) involving import tariff exemptions to companies which agreed to export to the same amount of their import. Thus, it did not only aim to provide balance in trade but also to increase the specialization of a group of the production. However, it was ended in 1996.

As the relation between Custom Union and Turkey, and its influence on the industrial policies observed, we may say that MERCOSUR had an external anchor

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<sup>32</sup> In 1995, Mercosur Common External Tariff (CET) was introduced, thus, Argentine anchored its existing tariff rate.

effect during the pre 2001 crisis period. Additionally, compared to the EU and Turkey relations, Argentina was one of the founders of MERCOSUR in 1991 with the aim of free movement of goods, services and factors of the production among Latin American countries. Argentina, Brazil, Paraguay and Uruguay signed the treaty and eliminated custom duties and implemented a common external tariff (CET) of 35 % on imports from outside the bloc (Felter & Renwick, 2017).

When Menem government moved away from industrialization, it approached privatization. Thus, it proposed two laws which were approved by congress. They were the reform of the state and the economic emergency. Both laws led to the legal framework for the privatization of public enterprises, liberalized trade and market and renegotiation of the external debt. Similar to the many newly liberalized economies, it focused on the service sector and its improvement that is the production of non tradable goods. Hence, local production was undermined. Then, many firms began to integrate products with imported materials. Menem government mostly aimed to create an image of Argentina to attract external investors by granting concessions to foreign firms, investors and creditors. As a consequence, in the beginning of the 1990s, the massive privatization process began. It included television stations, petrochemicals firms, the national airlines and Telecommunication Company, national road infrastructure, oil infrastructures and settlements. After that, a steel company, firms generating and distributing energy, the national water company and gas company were added. This process continued till the 1998 when the economic crisis started to show its indications. In 1993, the state oil company, yacimientos Petroliferos Fiscales (YPF), hydroelectric dams and railway networks, nuclear sites and mail services also were given to private hands. As a consequence of the privatization, new actors such as international and national banks,

international funders and traders emerged. They had monopoly over market. Furthermore, unsurprisingly, Menem implemented hyper- liberalized plans during his term. He chose the most credibility enhancing strategies which were available for the countries in the dire situation. It was currency board mentioned in previous paragraphs as convertibility plan. Thus, Argentina peso was pegged to US dollar. Consequently, revenues from privatized state run companies served the convertibility plan. This strategy was regarded as fiscal and anti- inflationary strategy. Selling off state companies reduced budgetary expenses of the government and provided fresh capital in order to ensure the viability of convertibility plan (Vilas, 2007). Furthermore, Menem government implemented full liberalization of domestic financial markets, decentralized fiscal structure, and fractioning reserve banking system. However, in reaction to the highly liberalization activities, Argentina experienced collapse in output, incomes and employment, extreme devaluation, freeze on bank deposit, default on public and private debt and lastly collapse of public finances (Epstein, 2005, p.293). Thus, it made people aware that neo liberalism had failed to realize the stable and equitable growth. Hence, Argentina pursued political- institutional collapse. The search for stable governance carried more dynamic role to pursue again social stability and growth. This strategy has called as *neodesarollismo* involving nationalist economic policies pursued in Latin America (Wylde, 2014).

### **3.2.2. Industry Policies and Indicators throughout Post 2001 Economic Crisis in Argentina**

In the May of 2003, the interim administration made way for the elected Nestor Kirchner government who is the Peronist, ex governor of the province of Santa Cruz.

Kirchner retained Roberto Lavagna<sup>33</sup>. As the chief architect of the recovery period of the Argentina's post crisis economy till 2007. At first place, government policies focused on the rebuilding of the industrial base, public works and its services, hence, government mostly reversed from Menemismo<sup>34</sup> (Wiley, 2007). His wife, Cristina Fernández de Kirchner, succeeded him between 2007 and 2015. During the *Kirchnerismo* period<sup>35</sup>, Argentina followed selective/ targeting industrial policies. It targeted highly competitive, specific sectors such as soybean and soy related productions, manufacturing and automotive, when government applied foreign trade policy, investment incentive and renationalization approach. In terms of trade policy for industrial sector, government increased tariff rate, import barriers to be self-reliant. With regard to investment incentives, government focused on those specific sectors to decrease import dependence, increase local production and revenue. Furthermore, Argentina government addressed newly macroeconomic policies which are integrated with industrial policies and industrial production. Those were stable and competitive real exchange rate (SCRER) and competitive exchange rate (CER) aiming to increase competitive exchange rate, devalue peso to increase export of the specific sector productions.

Kirchner administration's policies have become closed to the aggressive policies to promote industrial and agricultural exports, finance domestic consumption, thus, import substitution industries (Gallo, 2012, p.55). Kirchnerismo was in the power

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<sup>33</sup> Roberto Lavagna is an Argentine economist. He was the Minister of Economy and Production between 2002 and 2005 under the presidency terms of Eduardo Duhalde and Nestor Kirchner. He was mostly known by prioritized plan of the corralito (withdrawal restrictions on the local bank account) on the stabilization of the peso and Argentine debt restructuring.

<sup>34</sup> Menemismo is the doctrines of Carlos Menem in 1990s. Although Menem was elected on a peronist platform, it is different from the Peronismo since its programme of 'neo liberalism by surprise' (Stokes, 2001). Menemismo also distinct from the Kirchnerismo because of the separation state from society. However, it included both populist elements and distinctively neoliberal elements (Wylde, 2011).

<sup>35</sup> In Argentina, leaders who stay in power long enough time are called and immortalized with -ismo. Hence, Kirchnerismo is the legacy period of Nestor Kirchner and Christina Fernandez de Kirchner. It was the contemporary sprit of the Peronismo of Juan and Eva Peron.

between 2003 and 2015, in political terms, regarded as re born of Peronism. In 2003, the Kirchner government faced a difficult situation since the economy was in trouble. The peso was extremely devalued. The poverty and unemployment rates reached the peak. Capital was flying from the country; thus, banks could not provide new loans. Therefore, public lost trust toward the government. Despite of this negative situation in Argentina's economy, Argentina had a strong rural sector. Hence, it had comparative advantages in agricultural production. The country was accord with the export of specify agricultural products for a century. However, in 2002, two issues pushed the Kirchner government to give more priority to rural exports. First, commodity prices started to rise as a result of the global economic expansion in such countries as India and China which needed various commodities to enhance their economy. The second one is the devaluation of peso which made export more preferable and facilitated foreign exchange for the Argentina. As a consequence, the Kirchner government regarded this development as an opportunity to build its recovery plan on the economy in rural sector and to spread it across other sectors. However, government preferred using this sector as a main source of revenue to finance its recovery policy through income transfer, social policies and industrial policy rather than using rural sector as a tool to attract foreign investment and create job. As a consequence, the Kirchner administration structured its macroeconomic and foreign trade policies around the resources from rural and industrial sector exports (Gallo, 2012, pp.57- 59).

The economic initiatives of Argentinean governments during the recovery period of post 2001 crisis illustrate the priority of economic growth. It was achieved on the basis of two main themes: the macroeconomic policy and industrial policy. In terms of macroeconomic policy, preservation of a stable and competitive real exchange rate

(SCRER) has become a key element defining the rapid economic growth. Underlining motivation of the SCRER policy can be traced to infant industry argument (Wylde, 2011). However, this policy did not only contribute to the economic growth across various sectors in Argentina, but also led to the accumulation of foreign exchange reserves and large tax revenues. As a consequence, it expanded the level of government funds<sup>36</sup>. After the 2001 crisis, it helped to stabilize the Argentina peso, decreased the national debt and stabilized the macroeconomic environment where public policy and social programs actively applied. Argentinean local business could operate and offer revenue for the government to redistribute in the infrastructural spending of government and providing an active industrial policy which was in favor of export industries. Thus, those points which were directly or indirectly created by the SCRER regime resulted in a growth and revenue circle (Wylde, 2011).

The SCRER regime was achieved by preserving external and fiscal accounts sustainability. It also reflects corner stone of vertical industrial policies because involves incentives for the tradable sectors, additionally, the expansion of productivity, employment and investment and lastly control and intervention to the foreign exchange market. Therefore, monetary and exchange rate policies of the Argentinean government aimed to preserve SCRER contest with the conventional wisdom of the open economy (Frenkel & Rapetti, 2008).

The significance and contribution of SCRER policy in the rapid economic growth have supported that exchange rate was a critical instrument for the government policy during the post crisis period. In contrast to many developing countries, the

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<sup>36</sup> It is explained in more detail : Tussie, D. & Heidrich, P. (2007) 'Post-neoliberalism and the New Left in the Americas: The pathways of economic and trade policies', Paper presented at ISA conference, Chicago, February 2007

central bank mostly intervened in the foreign exchange market (FX) to prevent peso from appreciation in the value. In addition to that, Kirchner government exercised control on the capital account in 2005, thus, compared to the other currencies of the developing countries, Argentina currency, peso did not appreciate against US dollar (Aytaç & Öniş, 2014). On the other hand, the SCRER affected economic activity, employment, investment and external and fiscal accounts in a positive manner. Therefore, the SCRER encouraged industrial productivity and competitiveness in domestic market with the help of effective subsidies. All in all, the SCRER and its return expanded trade surplus, thereby easing the balance of payment problem. Thus, when it facilitated the accumulation of international reserves, it raised the local confidence to the economy (Erdem & Öniş, 2014). Argentinean government announced 7.6 billion USD surplus in 2006, while, it was 14.5 billion USD deficit in the end of the 1990s (Riggiorozzi & Grugel, 2008) and (Wylde, 2011)

On the other hand, due to the SCRER policy, Argentinean economy combined with monetary policy. This policy illustrated growing alliance between labor and Kirchner government. It was realized through not only by the encouragement for the collective bargaining and supports for labor unions but also intervention to minimum wage and wage policy in favor the labors. Moreover, labor intensive sectors benefited from the SCRER policy since competitiveness mostly favors of labor intensive activities and promotes the substitution of expensive inputs for the benefit of labors (Erdem & Öniş, 2014). Therefore, the SCRER policy implemented mutual benefits for the Kirchner government and labors. Kirchner was demanding the support of social groups that would share attention for the opposite of the neo liberal activities. Thus, Kirchner took the pro labor side in labor conflicts and collective bargaining (Etchemendy & Collier, 2007). Therefore, the economy policies of Kirchner did not

only illustrate left wing populist action, the Kirchner administration's labor policy but also represented the left wing populist features of the Argentinean government. The scope of Kirchner nationalist/ statist development will be addressed by industry policy preferences of them.

### **3.2.2.1. Foreign Trade Policy**

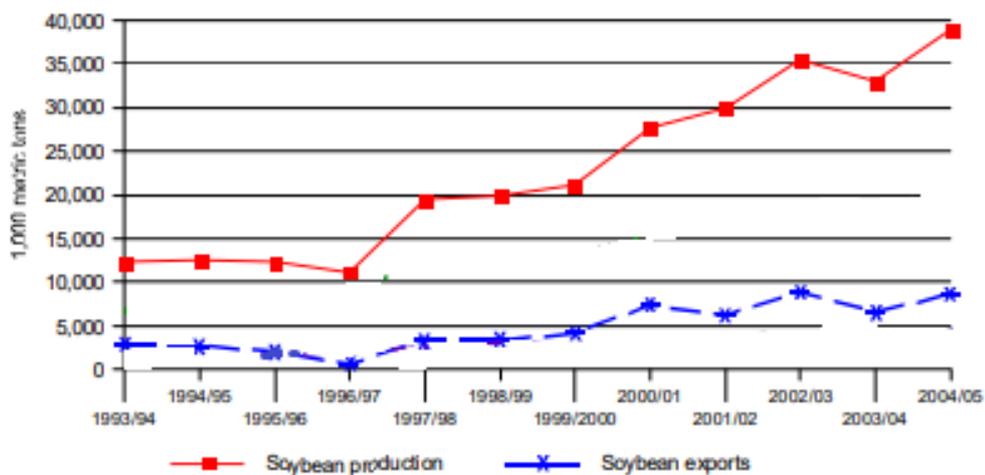
Argentina pursued protectionist trade policies. It aimed to become self reliant on domestic production by controlling the export and import of the goods. It was especially in the soy production, manufacturing industry and automotive sector. Thus, it implemented raising tariff rate, tax on export. MERCOSUR was a significant external anchor for industrial policies and foreign trade policy of Argentina. However, compared to Turkey, Argentina abstained from entirely application of its conditionality. As a consequence, non automatic licensing system was implemented to protect more its industry. Therefore, we may say that both Kirchner governments applied selective industrial policies.

Argentinean economy is based on the abundance of natural resource and export oriented agricultural sector. Argentine is an industrialized country, thus, export of industry productions has grown in recent years; however, soybeans have become the main commodity of the country. Beef and wheat had been the main export and primary good of Argentina workers, but it caused rural- urban conflict. Consequently, it changed agricultural production and soybean replaced wheat and beef. Therefore, soybean cultivation, production and export boomed. Soybeans were not preferred for the domestic consumption; its export did not directly affect purchasing power of the urban workers. Consequently, Kirchner government benefited from it. Kirchner government did not only aim to increase government

revenue, restrict import to protect domestic industry and enhance the downstream industries' competitiveness, but also aimed to exploit its political benefits (Richardson, 2008). We may say that there were two significant benefits. Firstly, export taxes on soybeans were more politically applicable than other complex taxes since it taxes international commerce instead of citizens of its country, business actors, and lobbies. Second benefit was that soybeans were not consumed by working class, thus, government could freely tax on its export. Hence, supporters could enjoy its revenues. As a consequence, politically and economically, the revenues for Kirchner's populist program were generated.

Kirchner raised export tax on soybeans to 27.5 percent, while 15 percent to the wheat industry. It was also used for energy subsidy (Richardson, 2008). Argentinean soybean production increased almost 41 million metric tons (MMT) from 1995 to 2007. In 2007, additional \$ 400 million was generated by the new tax (Richardson, 2008). Figure 5 details the changes on the soybean, soybean oil and their production and exports after the export tax policies of the Kirchner government and switching to the soy industry. The figure 5 illustrates that domestic production raises parallel with the soybean export. This balance occurred due to the devaluation of exchange rate and rising of export rate by Kirchner economic policy. On the other hand, the state aimed to start taking role in the stimulating economic growth. The exchange rate played a critical role for the government policies, thus, export taxes have been increased in order to increase revenue. In addition to that, devaluation of the peso resulted in the expansion of export; consequently, export performance has been supported by internationally high prices for export of such sectoral goods as agro industrial goods, soybeans, wheat and oil (Wiley, 2007). Consequently, nationalism in Argentina is now illustrating different appearance from the period between the

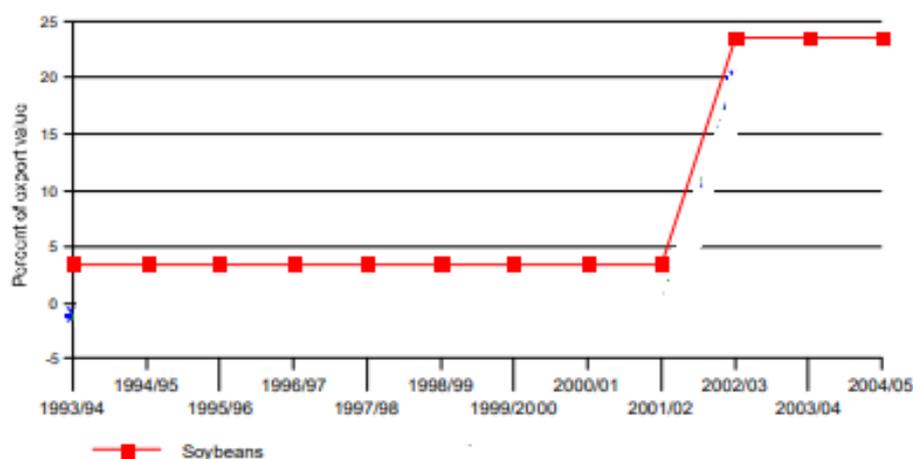
1940s and the 1960s. Although state intervention meant a less control over the commanding heights in the economy, it was shaped as a combination of selective protectionism and targeted/ selective state intervention in Kirchner's Argentina.



**Figure 5. Soybeans. Argentine production and exports, 1993/94 to 2004/05**

Source: (Deese and Reeder, 2008)

Kirchner implemented diverse export taxes to agro industry productions, besides soybeans. Great part of the export taxes were used to support domestic social programs. However, it was mostly felt in soybean products. Figure 6 details it more. It illustrates that percent of soybean export value raised from 5 percent to 25 between 2001 and 2005.



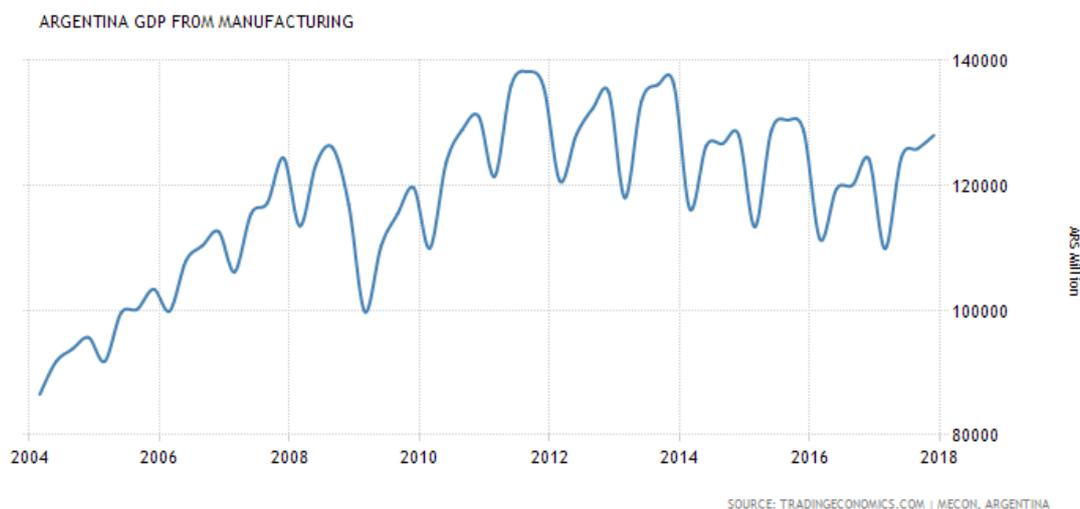
**Figure 6. Soybeans. Argentina production and exports, percent of export value**

Source: *ibid*

On the other hand, the policies on the soybeans under the agro- industry directly influenced other branches of industrial sector. Lee, Tran, Hansen and Ash (2016) in the study of major factors affecting global soybean and products trade projections explain it more. The new export tax system and dominance of export permit system on agricultural products did not only prioritize the dominance of the soybean meal but also oil export markets. It was aimed to catch the half of the world export market for both. It was realized by a higher use of soybean oil to produce biodiesel. As a consequence, in 2007, Argentina exported 300.000 ton biodiesel and the number of opened plants and exporting biodiesel companies increased. Thus, difference in export taxes between soy oil and biodiesel pushed producers to convert soybean to biodiesel in Argentina. In 2008, the biodiesel production capacity was almost 1.2 millions of tons (Donato, 2008). Furthermore, in 2011, Argentina reached the top level for the biodiesel in the world and it was produced from soybeans. (Chisari, Romero & Timilsina, 2012, p.2). Besides the conjectural effect on the positive results, it shows the sectoral or vertical approach of the Kirchner government on the industrial, agriculture and agro- industry sectors which will be evaluated and theorized more in the analyzing chapter. Consequently, it can be interpreted that redistributive policies based on the increased revenue from exports of various products offered subsidies for other sectors.

In other respects, selective industrial policies of Argentina have also been experienced in the manufacturing and automotive sectors and their foreign trade policies. The post convertibility regime of the Nestor Kirchner administration was first re industrialization period. Parallel with this, it leded job creation from the beginning of the 2002 to end of his term 2007. However, following by the Christina

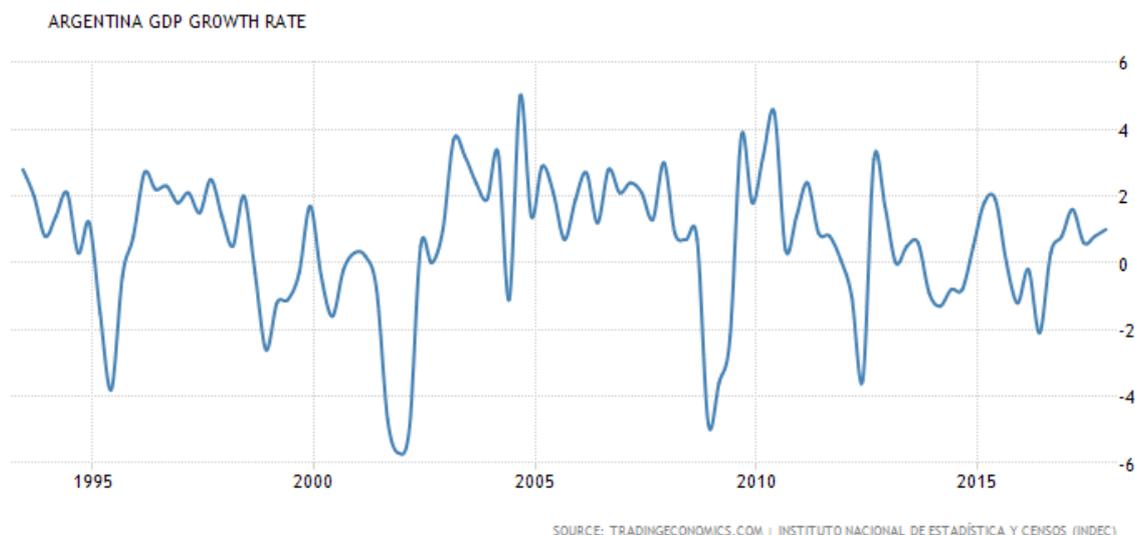
Kirchner, between 2007 and 2015, the Argentinean economy faced international crisis and aimed to recovery of the economy, thus, manufacturing industry was stagnated (Santarcangelo, Schteingart & Porta, 2018). Since 2006, the economy policy has intended to realize re industrialization of the Argentina via rise on the domestic demand. It was achieved due to the depreciated real exchange rate, export taxes and incentivized specific sectors, manufacturing, automotive and agro industry. Hence, as figure 7 shows, these raised the popularity of manufacturing (Santarcangelo, Schteingart & Porta, 2018). It may be said that manufacturing showed rapid increase between 2006 and 2011, its annual raises in the shape of GDP were 6 percent. After the losses of 2008 and 2009 global economic crisis, in 2010, industrial sector and manufacturing recovered its losses. Throughout both Kirchner periods, rapid increase in export and import of manufacturing was experienced. Its export increased by 14.3 % between 2006 and 2011. Export of manufacturing production was one of the three of total export. However, import of manufacturing increased twice between 2006 and 2011 with annual growth of 14.7 percent. It caused deficit in trade balance. At that point, the Ministry of Industry was responsible for coordinating and promoting its industrial development policies in order to increase value added in all various productions. It implemented most trade measures and supporting measures for manufacturing and automotive sectors. In terms of border measures, Kirchner government implemented tariff, non automatic



**Figure 7. Argentina GDP From Manufacturing**

Source: tradingeconomics, 2018.

<sup>37</sup> Non automatic import licensing is a non- tariff measure and means that controlling imports by compliance with specific conditions or criteria. To explain it more it is such a practice that require an import license which is not automatically granted in order to import goods (Geloso Groso, 2006). Argentina imposed it on auto parts, textile, toys and TVs (Baldwin and Evenett, 2009). It was also implemented to discourage importers with burdensome procedure, expand custom procedures, thus, it reinforced the country's economy by diminishing the dependence on the foreign goods and services. Argentina could not change the tariffs by own decision, thus, it was applied. Furthermore, since 2005, the number of goods which was required to get non automatic import licenses increased and it affected more than 600 tariff lines such as toys, electrical machinery, textile and automotive industry in 2011. Non automatic import licensing (NALs) implementation was also on selective production or sectors. As it is seen on the table 3, the protected products were mostly declined sectors which were specifically mentioned such as textile, toys, metals, motor and bicycle and automobile (Baracat et al., 2013). Anti dumping duties (Resolution 298/ 2012 in Argentina for manufactured products to U.S, China, Finland and Austria) means that as an agreement, on low priced imports, to increase their prices in importing states to protect local industries from unfair competitive environment (Business dictionary).



**Figure 8. Argentina GDP Growth Rate Between 1995 and 2015**

Source : : tradingeconomics, 2016.

Argentina also addressed selective industrial policies for enhancing automotive sectors. Under the MERCOSUR<sup>38</sup>, a number of protocol agreements have signed. Automotive industry production imports from MERCOSUR zone were subjected to 35 % tariffs which was softer than third party countries. Furthermore, under the incentive schema, many trade policy initiatives were facilitated. To increase the competitiveness of local auto products, decree no. 774 was provided in 2005. Due to it, a benefit was granted, form of payment of a cash refund on the value of purchases of automotive parts with most imported content of any origin of 30 percent. Moreover, automotive industry benefited from the in- factory customs procedure (RAF), by decree no. 688/2002<sup>39</sup>. It expands temporary admission procedure by

<sup>38</sup> MERCOSUR is a political and economic bloc. Its members are Argentina, Brazil, Uruguay, Paraguay and Venezuela. Since 1990, it has aimed to increase free trade among members.

<sup>39</sup> Argentina Republic, Secretary of International Trade and International Economic Relations, Undersecretariat of Investment Development, ProsperAr. (n.d.). *Argentina's Investment Incentives Advantages of investing today 2010*.

[http://www.clang.mrecic.gov.ar/userfiles/Argentina\\_Investment\\_Incentivesnov2010.pdf](http://www.clang.mrecic.gov.ar/userfiles/Argentina_Investment_Incentivesnov2010.pdf)

allowing eligible companies to import specific goods. It also allow them in products for export, re export them regardless of processing. It also lets importing them for consumption not paying tax till the competitions of the operation (WTO, 2013).

On the other hand, Kirchner administration's macroeconomic plan of Competitive Exchange Rate (CER) aimed to contribute of industrial growth. Despite the post convertibility experience, it still sustained the valued dollar over the peso. CER led competitive advantage for the domestic production in the local and international market via the export promotion and import substitution. Ministerio de Economia (2010) data shows that material goods production was 37.5 percent of GDP in 2009 while it was 30 percent during the convertibility period. Quinones (2014) claimed that it led refreshment of productive economy and strength of the industrial sector. It is proofed by 11 percent increase in industrial production between 2002 and 2008. However, it was 1 percent in the convertibility period. Expansion of industrial sector can also be explained by government strategy. It was the consequence of the depreciated real exchange rate which increased the price of importable and non tradable goods relative to the exportable ones as a result of protective efforts of the government. Furthermore, under the Kirchner administration, exchange rate on CER was regarded as a safeguard, thus, exports increased by 57 percent after 2002. It was the biggest rate since the beginning of the 1990s. Quinones (2014) also illustrates that Kirchnerismo administration increased exports by 97 percent from 2004 to 2009. This increase also reflected in volumes and prices. Hence, it again proves the growing dominance of the export and export taxes in the Argentina economy. By the rising of the export and local production, the idea of the national production emerged in the Kirchner administration. It aims enhancing purchasing power of the society and internal demand leads to the growth. Therefore, it is not accordance with the

neoliberal view on the social reproduction which regards labor and social spending as the costs (Cox, 1987)<sup>40</sup>. According to Kirchner administration, they need the expansion of demand, employment and public spending for the construction and enhancement of the industrial capital due to the reproducing of the labor. As a result, the minimum wage and real wages relatively increased between 2003 and 2010 (Quinones, 2014).

All in all, reallocation of prices favoring domestic market and exports of manufacturing goods and degree on the specific domestic sector's protection resulted in the Kirchner administration's implementing the selective or vertical industrial and economy policies. Former Minister of Economy Felisa Miceli supported it by saying that we increased rate of export on most profitable goods and have plenty of the competitiveness with global market. The Kirchner government's selective or vertical policy led to the diminished organizational cost of exporting firms due to such instruments as tax benefit and reduction of the tariffs (Schrank & Kurtz, 2005). Therefore, the Christina Kirchner government extended the resolution no. 256/ 2000 throughout 2004 to 2007. It implemented zero rate tariffs for the large investment projects (WTO, 2013). At this point, Argentina aimed to import new capital technological goods from the global market. However, it was conditional that using of the domestically produced capital goods equaling to the 20 percent of the imports (WTO, 2013). The Kirchner administration offered such sectoral incentives as tax breaks and tariff reductions in order to encourage the export of the mining, hydrocarbon and agricultural goods. Furthermore, in 2006, there were changes on the product specific export restriction and variations in tariffs on key export commodities. For instance Argentinean government extended the managed trade

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<sup>40</sup> It was cited by Rivera-Quinones, M. A. (2014).

regime of Argentina- Brazil. In addition to that the government promoted the implementation of private sector agreements in order to limit trade in the sensitive sectors with the MERCOSUR countries.<sup>41</sup> Despite the opposite stance of Argentina against the international capitalists, the promotion of the export commodities in the strong foreign capital was considered as nationalist productive model during the post crisis in Argentina (Gezmiş, 2018, p.77). However, as Quinones (2014) states soy case was different in Argentina since the Kirchner government established a coalition with soy exporters regardless of obvious challenge on their interests.

After 2003, the tradable exports and local production rose due to state regulation and protection. Therefore, according to the documents of the Ministry of Economy and Production (2007) the export performance facilitated the accumulation of account surplus more than 7000 million dollar in 2007. Although engineering intensive industries such as machinery, electrical equipment sector and labor intensive textile industries raised their production and exports, except for the machinery and instruments, the most dynamic industries were auto industry and natural resource related industries such as iron and steel, foods (Gezmiş, 2018). Even though the Kirchner administration prioritized diversifies from medium to high technology industry, low value commodities were still dominant in the Argentinean export. Table 10 shows it clearly (Gezmiş, 2018, p.78).

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<sup>41</sup> It is accessed by [www.export.gov](http://www.export.gov). Argentina Trade Barriers, 2016.

**Table 10. By Technical Classification, the Composition of Exports in Argentina by percentage**

	2003	2007	2012
<b>Primary Goods</b>	17	18	20
<b>Manufacturing of Natural Resources Related Goods</b>	56	49	43
<b>Low Technology Manufacturing</b>	9	9	11
<b>Medium Technology Manufacturing</b>	15	20	20
<b>High Technology Manufacturing</b>	5	5	5

42

Parallel with that, far away from market fundamentalism, new state activism to reemerge industrial policies to support its export competitiveness and job creation was experienced. This new state activism did not similar import substitution model but likely to the enabling exports to access new markets, new technologies and catch competitiveness level in the global market without straying from self reliance on the industry.

### **3.2.2.2. Nationalization and Investment Incentives**

Compared to Turkey which implemented horizontal industrial policy and its instruments as regional incentives and overall effective R&D, Argentina firstly pursued nationalization steps after the massive privatization inheritance of Carlos Menem and moved away from (foreign direct investment) FDI. It secondly followed selective incentives policies on the specific sectors of manufacturing.

A new economic nationalism emerged in Argentina due to the Kirchner administration. Hence, the moderate state intervention and re industrialization took an active role. It started with the Argentinean president Nestor Kirchner's

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<sup>42</sup> It is accessed by the article of Hilal Gezmiş, 2017, From Neo liberalism to Neo developmentalism? The political economy of post crisis Argentina (2002- 2015). The author had reached it from the government document in spanish, Mecon. (2014a), Informe Económico Trimestral (Primer Trimestre de 2014 No. 86) (Buenos Aires: Ministerio de Economía y Finanzas Públicas de la República Argentina). Available from: <http://www.mecon.gov.ar/peconomica/informe/indice.htm#>.

unilaterally cancellation of the contract with French Firm Suez Environment. This multinational firm operated in the water and sanitation since 1993 (Carré, 2016, pp. 1976- 1978). It might be said that this action is the return from neoliberal decade to the state rhetoric after the 2001 economic crisis.

Under Kirchner governments between 2003 and 2015, pressure on the private sector grew to a great extent. Hence, public service contracts with privatized utilities were renegotiated. As a result, AFJP (the private pension system), Aerolíneas Argentinas and YPF (Petroleum) were nationalized. It shows the Kirchner's government's encouragement for a resuscitation of industry, applications of anti neoliberal rhetoric. His attacks against some privatized companies can be exemplified by renationalization of public services which had been sold off in 1990s. These were the water and Sewage Company, the postal service and San Martín railway (Undurraga, 2015). Spanish owned Repsol YPF oil company's nationalization was justified by the infant industry argument since Cristina Kirchner argued that Repsol did not enough invest on new oil production, thus, it pushed the country importing more energy.<sup>43</sup>

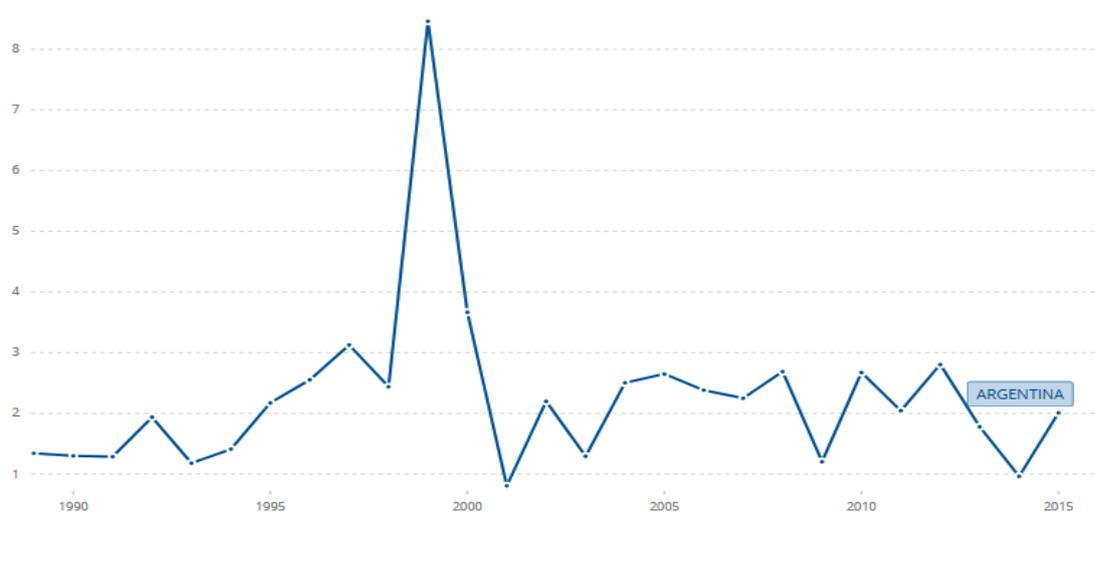
More particularly, Kirchner applied a fresh political statement to save Argentina's energy industry. He aimed at delivering cheap, reliable power and at an industry-based economic revival (Docherty, 2014). After the 2002 devaluation, privatized companies could not sustain their investment plans and served only for their established clients. Hence, deteriorated situation of privatization levels made public discontent against privatization. Besides the economic plan of the Kirchner period to reindustrialization and enhance the domestic industrial sector, it used the view of the

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<sup>43</sup> It is accessed by <https://www.ictsd.org/bridges-news/biores/news/biodiesel-trade-to-be-affected-by-argentine-oil-company-takeover>

public against the privatization and its actors, thus, Argentina government used it for social inclusion. At that point, Kirchner government pursued again selective approach. To explain it more, despite the nationalization ambitions and implementations mentioned before, Nestor Kirchner did not pursue a systematic renationalization policy and obvious nationalist economic policies including total prevention of foreign ownership of domestic companies. However, compared to Menem period, relative incentives were provided to the goods sector rather than finance and service sector in order to maintain stability and stable inflation rate (Wylde, 2012).

Foreign Direct Investment (FDI) inflow had played a major role in the 1990s based on the neoliberal 'Washington Consensus' period. It was one of the main destinations for FDI among emerging economies. However, as a result of the post 2002 economic crisis period's policies and its indicators are regarded, as stated by UNCTAD (2002), United Nations Conference on Trade and Development, FDI flows to Argentina diminished by 64 percent, from 2.2 billion USD to 0.8 billion USD in 2002. Figure 9 illustrates the differences on the share of the GDP percentage of FDI between radical liberalized Menem period and Kirchner period.



**Figure 9. Foreign Direct Investment (FDI) in Argentina, Net Inflows (% of GDP)**

Source: Worldbank, 2017.

Moreover, selective industry policy of Argentina was also felt in the investment incentives for manufacturing sector. Export promotion schemes such as free export zones, special arrangements to the production of capital goods, R&D supports, technological development and innovation facilities were offered by the Argentine Technological Fund (FONTAR). It had an incentive program including tax and credit facilities. Consequently, it granted tax credits to more than 500 companies and 2000 projects between 2006 and 2010 (WTO, 2013).

### 3.2.3. Analysis

The 2001 economic crisis was the worst economic experience since the Great Depression in Argentina. Unlike its openhandedness to Turkey, IMF pursued reverse attitude towards Argentina. It, thus, deal with its economic problems own by its own. Because of the devastating effects of Menem’s economic policy and public anger

towards these policies, Nestor Kirchner advocated “national capitalism” (Helleiner, 2005). Therefore, Kirchner government’s economic recovery plan was based on three primary goals in order to finance industrial policies. It was firstly trade surplus through an export oriented economy, secondly wealth distribution and lastly state led industrialization involving the devaluated exchange rate policy, renationalization and export taxes policies (Richardson, 2008). As a consequence, industrial policy responses strengthened to deal with inherited economic problems and turned to more self reliant country approach without IMF aids. Although abandoned by the IMF and international investors, Argentina recovery period was slower but, it then became faster (Figure, 10).



**Figure 10. Argentina GDP Annual Growth Rate**

Source: tradingeconomics, 2017.

In the light of industrial policy, Argentina followed selective or targeting industrial policy which is a kind of policy that favors particular industries over others and market signals. Under the roof of nationalistic projects, export taxes, tariffs increased in soya, manufacturing automotive and energy to achieve stability and economic

growth during the recovery period. Furthermore, government abstained from import and statist developments. The Kirchner government's favoring industrial sector and agro industrial products did not only depend their economic positions and revenues but also contributed to supports by labor and industrial leaders since it allows governments to target and exploit specific sectors for their interests and direct it. Moreover, Kirchner government applied macroeconomic policies which were interlaced with the industrial policy and promote industrial production and competitiveness. These were SCRER and CER policies. Although both were main policy instruments of macroeconomic plan, it valued US dollar over peso to increase competitiveness advantages to local productions at international and local markets.

When Kirchner applied his industry policies, he pursued progressive path from above. The selective motivation on highly competitive sectors such as soybean production, manufacturing and automotive sector pushed government to apply selective policies. It implemented export tax policy on soybean and soybean related production, investment incentive, renationalization policies and protective trade implementations for manufacturing and automotive sector. Therefore, Kirchner government gained its leftist credentials from labor and rural groups, popular support and industrialist actors owing to increasing domestic production and its revenues. At this point, selective soybean export policies can be called as export oriented populism. They met the political and economic demands of the country. Due to the replacement of the soya with beef and wheat, export revenues increased and economic needs of the labor and rural groups were better satisfied, thus, it contributed to the commitment of the circle of Kirchner government. Hence, when Kirchner government undervalued Exchange rate with wage goods subsidies emerged by soybean policy, it led to commodity exports instead of restricting it.

Thus, at the contemporary extent, Kirchner caught the global economy. All in all, these raised the local confidence of the economy after the Kirchner economic implementation. For another point, wealth distribution achieved parallel with the development of social inclusion. The relationship between Kirchner and labor groups can be exemplified at that point. Compared to the Menem period, unions gained strength due to the rise in employment and collective wage agreements of the government (Rigirozzi, 2007). Richardson (2008) called export policies of Argentina on selected sectors as populist coalition. Export oriented policies used as a mean for the ends of the Kirchner government. Thus, domestic industry and production improved in short term. It led to favorable wage agreement with labors. Government's support for the real wages due to the specific sectoral agreements, control on the domestic prices brought additional support for the labor organizations for the Kirchner government (Richardson, 2008). Therefore, income distribution of the government in order to appease their support was gained.

## **CHAPTER 4**

### **CONCLUSION**

#### **4.1. Comparative Analysis of Argentina and Turkey's Industrial Policies**

This chapter discusses the differences between the industrial policy approaches of Turkey and Argentina that are categorized as right wing populist and left wing populist, respectively after the 2001 financial crisis. Parallel with this argument, differences of industrial policies and its instruments between Turkey and Argentina are discussed.

In 2001, both Turkey and Argentina had a sharp financial crisis that had severe social and economic effects. As a consequence, the 2001 economic crisis became a critical juncture for Turkey and Argentina. And yet, both countries experienced the crisis at different intensity due to their economic model which were based on neoliberal thinking at the different level/ intensity. Their governments were from varied background, followed diverse economic and industrial policies in order to deal with the recovery period. Therefore, this study assessed that Turkey which has been regarded as right wing populist government pursued neoliberal restructuring in its industrial policies, while Argentina which has been regarded as left wing populist followed statist and heterodox path in the industrial policy and strategies in the post-2001 economic crisis period. Consequently, while Justice and Development Party (AKP) had a horizontal industrial policy approach, both Kirchner governments in

Argentina pursued selective/ targeting industrial policy approach. Second claim and finding illustrate that while Turkey made cooperation with business groups in their circle as a single class populist ally, Argentina made multi class populist alliance with labor unions and business, industrialist representatives.

In the scope of populist argument of this thesis, it might be said that post Washington Consensus period and following 2001 economic crisis generated varieties of populist responses. While Latin American was defined as leftist populist that employed softer market friendly policies under Kirchner in Argentina (Levitsky & Roberts, 2013), Turkey during the Justice and Development Party established a different case which is regarded as right wing populist (Öniş & Aytaç, 2013). Rodrik (2017) supports it due to his economic definition for populism. As it is mentioned in previous chapters, I may say that there are three factors behind the divergence of populist pattern of rule between Argentina and Turkey. These are the view towards the causes of 2001 financial crisis, such integration patterns as pro market or reindustrialization paths to the international economy and lastly relations and alliance with the labor, business and industry related groups. In Turkish cases, 2001 financial collapse was attributed to domestic political actors of coalition government. In turn, such external anchors as IMF, EU and World Bank strengthened in the policy decisions. Thus, in Turkey the perception of domestic responsibility for past economic crisis facilitated AKP government to retreat state as a regulating function. As a consequence, Turkey's growth and recovery period was financed by capital inflow, pro market solutions and attracting foreign capital to finance itself. Relation with Labor groups is the third factor explaining divergent policy paths. We may say that increasing FDI, privatization and dependence on capital inflow consolidate the place and power of the business groups which are acting accordance with government actors rather than

labor groups. In Argentina cases, the blame for the financial crisis was international financial institutions that supported the radical neoliberal reforms of Argentina in 1990s. Consequently, after the crisis, neoliberal policies of the previous decade were discussed. It's devastating results also pushed Kirchner governments to embrace inward oriented economy, leftist economic and industrial policies. Parallel with this, the second factor that focus on the integration pattern to internal economy is diverged. After those experiences, Argentina's growth and recovery period were in the absence of external constraints. Lastly, in terms of relation with labor groups, it may be said that left wing policies decreased dependence on foreign capital inflows. Thus, it consolidated domestic market. It enabled labor groups to consolidate their position. Additionally, Kirchner government's SCREER and soybean policy improved its relation with labor groups.

In addition to the Rodrik's (2017) populism definition which touches on the economic root of it in order to categorize both country under the populist frame,<sup>44</sup> in terms of right and left center definitions, this study also benefits from Steven Levitsky and M. Victoria Murillo's definitions. Both regard left wing as political actors, and a central programmatic objective aiming to reduce social and economic inequalities among society. Those make effort to increase state expenditures, social programs and signify employment and generally intervene in labor market in order to extend labor groups' rights. Right wing is regarded as prioritizing economic stability and security rather than redistributive and social equality policies.

Crises in Turkey and Argentina were similar in terms of their effects and causes, but their outcomes were highly dissimilar. Initially, Argentina has embraced a wave of

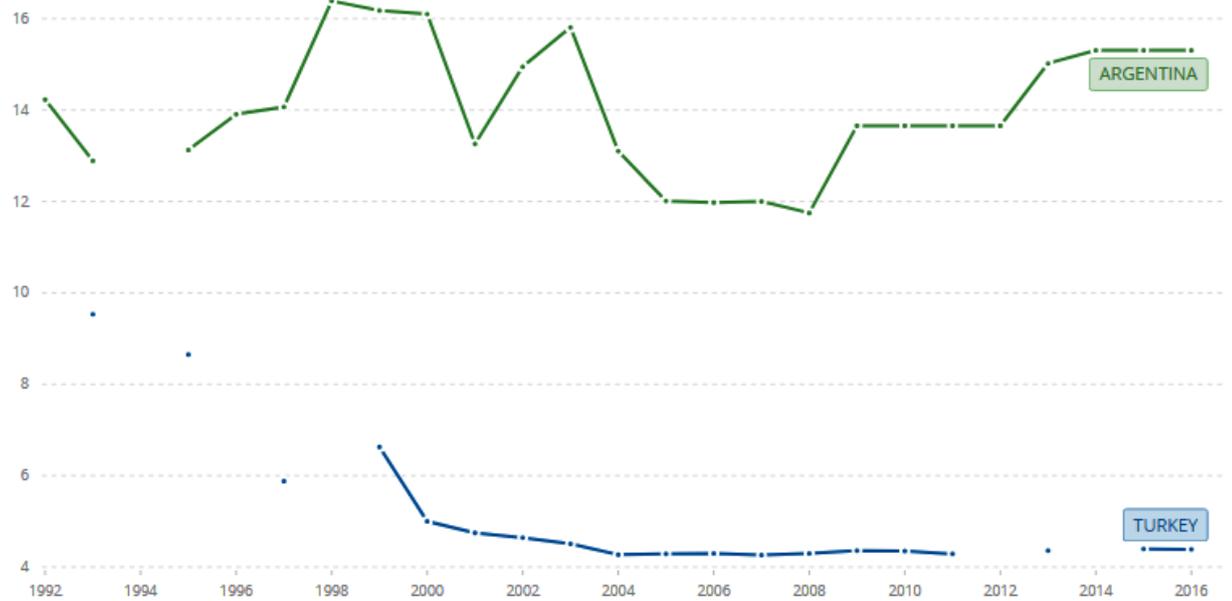
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<sup>44</sup> In addition to the definition of Rodrik (2007) which is detailed in literature review, more classical Latin American conceptualization of populism which claim urban, cross class political and economical coalition that include organized groups, multi class populism etc (Richardson, 2008 p. 230).

liberalized and pro market economy more than Turkey, thus, the crisis' intensity was worse than Turkey. Secondly, unlike Turkey, Argentina did not take help from international institutions and alone dealt with the crisis due to the previous experience with IMF. However, Turkey got into a shorter recovery period due to generous IMF aid and political stability relative to Argentina. Consequently, IMF and many international institutions' role and its intensity effected industrial policies of the both governments. For instance, while they had greater affect in Turkey, it did not have almost any in Argentina. Custom Union had greater influence on the industrial policies of Turkey rather than MERCOSUR in Argentina. Although Custom Union and MERCOSUR have similar institutional structure and partial set up of the common market. Nevertheless, in Turkish case, Custom Union diminished the radius of the government action industrial policies compare to Argentina case. MERCOSUR failed to achieve any trade alliance because of its members' political and ideological motives, thus, its conditionality was not strong as much as Custom Union. It pushed Kirchner governments to apply inward oriented industrial policies such as non automatic license, high tariffs. However, Turkey, by the political and economic pro EU motivation, it strictly depended on the EU and Custom Union conditions. Thus, it restricted industrial policy activities.

As a result, Turkey followed horizontal industrial policy. Instead of focusing on selected or targeted sectors, its policies aimed for overall economic growth. Accordingly, the government followed orthodox neoclassical theory which is based on market failure argument and supports horizontal policies to eliminate market failures. Neoclassical theory believes market failure emerges from imperfect competitiveness. It can be achieved by market like arrangements such as investment policy, monetary policy and overall R&D policies. In this respect, in terms of trade

policy of AKP government, it was pro- EU, conditional to custom union and IMF. Hence, its trade barriers mostly depended on external anchors. As a consequence, it implemented lower tariff rates than Argentina (figure 11). By sharp contrast, in Argentina, both Kirchner governments implemented selective/ targeting industrial policy. It was theoretically closed to the heterodox theories or evolutionary institutionalism. It is about systematic failure argument and breaking pat dependence in the technological and industrial catch up process in the frame of selective policies. They centered industrial policy on enhancing the production of national industrial sector of the economy, at the expense of financial sector, capital and banking markets. It was achieved due to public work programs, selective protective tariffs and subsidies for targeted industries having highly competitive advantage such as manufacturing, soybeans and automotive. Moreover, these industrial policy initiatives were combined with such macroeconomic policies as SCRER which also aimed to encourage industrial production and increase revenue. All in all, when Argentina followed state led economy policies, both Kirchner governments raised tariff rate, it was mostly felt in its selected sector manufacturing industry. However, Turkey acted in accordance with external anchors, pursued horizontal and pro market liberal policies. Consequently, its tariff rate has been relatively lower (Figure 11). On the other hand, overall effective R&D development is one of the most significant roots of horizontal industrial policy. Hence, we may say that Turkey's R&D expenditure is higher than of Argentina (Figure 12).



**Figure 11. Tariff Rate on Manufactured Products in Argentina and Turkey**

Source: Worldbank, 2017.



**Figure 12. R&D expenditure in Turkey and Argentina (% of GDP)**

Source: Worldbank, 2015

Although both Kirchner and Erdogan governments employed a populist approach, their industrial policies varied greatly due to their different ideological approaches to market economy. In Argentina, both Kirchner's industrial policies prioritized state intervention in the economy by the subsidies, regulations, nationalization forms. As

such, the state took a more active role in the economy in accordance with left wing agenda. High tariff rate on manufactured industry illustrate it much more (Figure 11). Furthermore, despite the MERCOSUR conditions on trade policies, Christina Kirchner implemented non automatic licensing to decrease import of various industrial productions and encourage domestic production in 2011.

In Argentina, export oriented policies for soybean productions did not only contribute to raising of government revenue but also led to creation of a new populist alliance. Firstly, unlike wheat and beef, working class did not consume soy and soy related oil productions. Thus, stable trade balance and rising real wages were no longer isolating policy goals and soy exports could be promoted without affecting domestic wage goods supply. Consequently, balance of payment crises had less negative influences on real wages of labors. Compared to the pre Kirchner period, now beef and wheat which are significantly consumed by agro industrial groups turned out to be very significant source of foreign exchange source. Thus, their exports could be selectively restricted or discouraged. Hence, it increased real wages and encouraged for other productions' export. At this point, Kirchner made a populist alliance by relying on undervalued exchange rate with wage good subsidies and increasing export taxes. It might be said that Kirchner governments followed export oriented populism since he provided broad benefit to mobilized labor movements, domestic industrialists and worker organizations due to export growth, sectoral agreement on the control of domestic prices.

Kirchner governments made populist alliance not only with worker groups but also with producer groups formed by the representatives from industrial sector and business environment. Therefore, compared to Turkey, it made Argentina case multi

class coalition left wing populist.<sup>45</sup> During the Kirchner period, there was a strong domestic political alliance between the government and *Grupo Productivo* (Producers' Group) which was formed by representatives of industrial and business groups. They were strong supporter of national businesses and their enhancement after 1998 recession. Therefore, they supported devaluation of currency and reactive national industry with the help of lowering the cost of production and rising export. Thus, this alliance had affect on the shape of industrial policies and it substitutes foreign imports by encouraging domestic industrial production (Riggiozzi, 2009, p.103). Therefore, the post crisis development recovery plan was engineered by reindustrialization for the domestic market and selective industry policies on the automotive, manufacturing and soybeans.

In Turkey, AKP government has regarded state as responsible for primarily regulator function but not an intervener. It is because, publicly elected bodies formed autonomy regulatory organizations and managed key sectors of regulatory economy under the neo liberal frame. Pro capital policies and less intervention to the economy and industrial sector have been felt more strongly compared to Argentina. Lesser tariff rate on the manufacturing industry explains it better. In Turkey state had less active role against the external anchors while implementing industrial policies compared to Argentina. Trade policy, high privatization strategies and industrial foreign investment incentives were mostly driven by IMF programs, CU elements and pro EU instruments. Therefore, as a left wing populist government, Kirchners regarded foreign actors as enemy in the economy, whereas AKP government did not because those external anchors are accordance with their economy and industrial

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<sup>45</sup> It is mentioned as third divergent path between Turkey and Argentina when I diverge and compare both as right wing and left wing populist governments in terms of their industrial and economy policies.

policies. However, government had less intention to meet labor market interest compare to Argentina.<sup>46</sup> In the frame of the industrial policy instruments, privatized state owned enterprises raised 20 billion USD between 2005 and 2007 in manufactured sector, telecommunication, transportation etc. As a consequence it increased unemployment rate with the aim of increasing overall investment and FDI inflows. As a populist coalition, AKP government did represent multi class populist coalition like Argentina. Business groups and industrial sector representatives favored privatization of state owned entities, incentive strategies to attract foreign investment in specific regions. In addition to that, due to the privatization of state owned enterprises (SOEs) and public goods, government transferred the private capital from less favored circles to more favored, privilege business circles. As a consequence, AKP government strengthened its bond with such sub industrial sectors as mining, energy and construction to increase loyalty of these pro government business groups (Esen & Gumuscu, 2017, pp. 6). In accordance with the pro capital aims, it neglected the labor interest and demand. Instead, it leaded up the investment, foreign investor protection, reduced corporate tax and caused the unemployment gap for the labor incentive productions. While Argentina followed the rights of labor and prioritize their strength in the public arena, Turkey followed investment oriented strategy. As Şebnem Oğuz (2011) addresses, Labor Laws were not shaped for the interest of workers. Hence, besides the earlier emerged business groups such as TUSIAD, new industrialists and business groups such as MUSIAD and Anatolian Tigers involving industrialist actors among the regions emerged. Therefore, those groups and actors have been regarded as economic allies when the economy policies and industrial policies are shaped. All in all, AKP government has also followed a

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<sup>46</sup> By AKP government, a new labor law NO: 4857 was announced in 2003.

policy that aim to meet the demands of such groups of the demands. Therefore, AKP government was more close to the business groups such as TUSIAD and MUSIAD rather than labor groups, unions while shaping and implementing industrial policies.

All in all, besides the definitions in the literature, there are a number of reasons separating governments as left/ right wings of the populism. These are firstly the view towards the destructiveness of the results of the 2001 economic crisis. Secondly, their approaches towards the economic recovery program with the help of pro market policies or reindustrialization policies. Lastly, it is the economic coalition preferences of both governments. As a consequence, we may say that after the 2001 economic crisis, both countries followed different paths on their economy and industrial policies. Argentina followed selective/ targeting industrial policy by state led industrialization policies and engineered multi class populist coalition. Turkey pursued horizontal industrial policy by applying pro market liberal policies and single class populist coalition in the industrial policy frame.

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