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FINANCIALIZATION AND CRISIS IN SEMI-PERIPHERAL COUNTRIES AFTER 2008 ECONOMIC CRISIS; A COMPARATIVE STUDY OF TURKEY AND BRAZIL

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ÖZ

2008 KRİZİ SONRASI YARI ÇEVRE ÜLKELERDE FİNANSALLAŞMA VE KRİZ TÜRKİYE VE BREZİLYA KARŞILAŞTIRMALI ÇALIŞMASI

Merve Arslan

Bu çalışmada, 2008 yılında Amerika Birleşik Devletleri'nin konut piyasasında başlayan, ardından ülkenin finansal piyasalarına etki eden en sonunda ise Avrupa ve gelişmekte olan ülkelere yayılan kapitalizmin küresel krizi 2008 Krizi'nin, gelişmekte olan yarı çevre ülkeler Türkiye ve Brezilya'yı neden ve nasıl etkilediği incelenmiştir. İlk olarak, 2008 Krizi'nin ortaya çıkış dinamiklerini ve gelişmekte olan ülkeleri nasıl etkilediğini anlayabilmek için; 1980'li yıllarda oluşturulmaya başlayan neoliberal ekonomik sistemin getirdiği yeni düzeni ve yarı çevre ülkelerin bu yeni düzene nasıl eklemlendirildikleri konusu ele alınmıştır. 2008 Krizinin temelinde yer alan finansallaşma kavramı ve finansallaşmanın küresel hale getirilerek yarı çevre ülkelerin ekonomilerinin sıcak para akışına, uluslararası piyasalara ve yabancı sermayeye bağımlı hale getirilmesi detaylı bir şekilde anlatılmıştır. Ardından, 2008 Krizi'nin ortaya çıkışında rol oynayan yapısal ve kurumsal aktörler incelenmiştir. Son olarak; yarı çevre ülkeler Türkiye ve Brezilya ekonomilerinin neoliberalleşme süreçleri ile 2008 yılına kadar olan ekonomik yapıları açıklanarak, 2008 Krizi'nin finansal ve finansal olmayan reel sektör piyasalarına olan etkileri incelenmiştir. Sonuç itibariyle; bu çalışma, neoliberal kapitalizmi, finansallaşmayı, küreselleşmeyi, kapitalist sistemin ürettiği son büyük krizin oluşum sürecini anlamamıza ve onun küresel ekonomiyi, özellikle de gelişmekte olan geç kapitalist ülkeleri nasıl etkilediğine dair bir fikir edinmemize yardımcı olacaktır.

Anahtar Sözcükler: Neoliberalizm, Finansallaşma, Kriz, Yarı Çevre Ülkeler, Türkiye, Brezilya

ABSTRACT

FINANCIALIZATION AND CRISIS IN SEMI-PERIPHERAL COUNTRIES AFTER 2008 ECONOMIC CRISIS; A COMPARATIVE STUDY OF TURKEY AND BRAZIL

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In this study, why and how the 2008 Crisis, which is the global crisis of capitalism that started in the housing market of the United States in 2008, then affected the financial markets of the country and finally spread to Europe and developing countries, affected the developing semi-peripheral countries Turkey and Brazil is examined. Firstly, to understand the emergence dynamics of the 2008 Crisis and how it affected other countries, the new order brought about by the neo-liberal economic system that started to be formed in the 1980s and how the semi-peripheral countries were integrated into this new order were discussed. The concept of financialization, which is at the root of the 2008 Crisis, and the globalization of financialization and making the economies of semi-peripheral countries dependent on hot money flow, international markets and foreign capital are explained in detail. Then, the structural and institutional actors that played a role in the emergence of the 2008 Crisis were examined. Finally, the neo-liberalization processes of semi-peripheral countries Turkey and Brazil's economies and their economic structures until 2008 have been explained, and the effects of the 2008 Crisis on financial and non-financial real sector markets have been examined. Consequently, this study will help us to understand neoliberal capitalism, financialization, globalization, the process of formation of the last major crisis produced by the capitalist system, and to gain an insight into how it affected the global economy, especially the developing late capitalist countries.

Key Words: Neoliberalism, Financialization, Crisis, Semi-Peripheral Countries, Turkey, Brazil

PREFACE

Examining the 2008 Economic Crisis, the last major crisis created by capitalism, and its effects on developing countries is a good way to understand the systemic dilemmas in the neo-liberal economic order. With this thesis prepared for this purpose, it is aimed to examine and understand the emergence of the 2008 Crisis starting from its origins and its effects on Brazil and Turkey, which are members of the developing semi-peripheral countries. In doing so, we will examine the turning points, structural reflections, and transformations of economic history between 1980 and 2008 and from 2008 to the present in a period of approximately forty years. In this respect, our study will also shed light on the recent past of the capitalist system. Lastly, I would like to thank my supervisor, my family, and my friends for supporting me all this time.

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İSTANBUL, 2022

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LIST OF ABBREVIATIONS

BRL: Brazilian Real

CDS: Credit Default Swap

G7: Group of Seven

GDP: Gross Domestic Product

FED: Federal Reserve

IMF: International Monetary Fund

OECD: Organization for Economic Co-operation and Development

OPEC: Organization of Petroleum Exporting Countries

USA: The United States of America

USD: United States Dollar

TRY: Turkish Lira

TÜİK: Türkiye İstatistik Kurumu

INTRODUCTION

The 2008 economic crisis, whose roots are based on the new financial structure and instruments shaped once money markets were deregulated in line with the neo-liberal economic policies that emerged in the 1980s, started in the United States of America and first spread to developed countries such as Europe, Japan, and China, and afterwards to developing young capitalist countries such as Turkey, Brazil, and Argentina. It caused significant impacts followed by radical changes in the economic and financial systems of these countries.

Capitalism has produced four great crises throughout its history. These crises are the Long Depression between 1873 and 1896, the Great Depression between 1929 and 1935, the 1973 Petroleum Crisis, and the 2008 Economic Crisis. These economic crises produced by the capitalist system are crises caused by the economic order that is reshaped after the preceding economic crisis.

The 2008 Economic Crisis is regarded as the systemic crisis of neoliberal capitalism. In fact, the neoliberal structure shaped both the reasons for this crisis and its outcomes. Once we examine how the reasons for the crisis were shaped, we see that the two basic factors effective in the outbreak of the crisis were the corporate restructuring applied in the neoliberal period and financial innovations that made the commodification of debt and risk possible.

On the other hand, once we examine how the outcomes of the crisis were shaped, the crisis started in the USA and quickly spread to the whole world due to the integrated global economic system that emerged together with the free market economy, deregulation, free trade, privatization, multinational companies, global financialization, and globalization that started with the neoliberal economy.

We can summarize it in a concrete way as follows: the reason for the biggest financial crisis in economic history, which could bring down such a large financial institution as Lehman Brothers in the USA, a central country, due to the commodification of subprime mortgage credits that the low-income working class could not pay, securitization, and risks, and which directly affected and transformed the economic structure in Turkey, positioned as a semi-peripheral country, is based on the same reason. This reason is the neoliberal economic system. While the neoliberal system is seen as a way of improving and developing the economies of semi-peripheral countries that are currently developing, the same system has caused these countries to come further to an economic deadlock due to the crisis it has produced by itself. Within this framework, we can call the 2008 Financial Crisis the global crisis of capitalism, unlike other crises in the past.

By means of these characteristics, while the 2008 Economic Crisis assists us in understanding the capitalist structure that precedes it and the crises that resulted from this structure, it will also enable us to get to the root of the emergence of the radical changes in the economic and financial structures of all central, semi-peripheral, and peripheral countries from 2008 to the present day by means of its consequences.

We will seek answers to the following basic questions with "Financialization and Crisis in Semi-Peripheral Countries After the 2008 Economic Crisis: A Comparative Study of Turkey and Brazil," which is the subject of my thesis:

1) How was the economic and financial structure reshaped on the way to the 2008 Economic Crisis, that is, in the neo-liberal period?
2) What are the main factors that distinguish the 2008 Crisis from other crises of capitalism? (Through the concept of financialization) How did these differences shape the effects of the crisis on a global scale, especially in semi-peripheral countries?
3) How did the crisis affect young capitalist countries economically in a semi-peripheral country position, such as Turkey and Brazil?
4) What is the impact of the credit crunch starting with the crisis on the non-financial sectors?
5) How were the increases in inflation, interest rates, and exchange rates reflected in the real sector as economic stagnation and unemployment in the long term?

In line with the questions, we will mainly focus on the examination of the pre-2008 crisis neo-liberal period and the changes that semi-peripheral countries underwent after the crisis. This study will assist us in understanding neo-liberal capitalism, financialization, globalization, the formation process of the recent major crisis produced by the capitalist system, and in forming an opinion regarding how this major crisis affects the global economy, particularly developing young capitalist countries. While conducting the study, we will examine the milestones, structural reflections, and transformations in approximately forty years of economic history between 1980 and 2008 and from 2008 to the present day.

The thesis consists of three main parts:

In the first part, we will focus on understanding the international economic structure behind the 2008 Crisis, the milestones in the formation of this structure, and the process leading to the crisis. It is critical to understand the dynamics of the periods before the crisis to understand the reasons for the emergence of the 2008 Crisis and its global consequences.
We will examine the deregulation of monetary markets in the neo-liberal economic period, the globalization process of capitalism, neo-liberal economic policies imposed on semi-peripheral countries, notably Latin America, together with the Washington Consensus process initiated by the IMF, World Bank, and US Treasury for the purpose of creating a free market order globally, the integration of these countries into the global capitalist order, financialization at the international level and the accompanying structural innovations (Shadow Banking, commodification of debt and risk, securitization), and new financial instruments (derivative products, derivative credits, CDS).

The first of the building blocks that make up the neo-liberal economic system is the deregulation of money markets. To create a freer economic system, it is aimed at minimizing the effect of the state on the economy, liberalizing the markets, increasing privatization, and enabling the private sector to play a more active role in the economy through deregulation steps. The globalization process of capitalism started with the idea that all kinds of social, administrative, and legal restrictions on achieving capital profitability in liberalized markets should be removed. In summary, the most important motivation in the globalization process is the idea that all kinds of collective structures that hinder market logic should be destroyed.

As a result of the deregulation and globalization processes, beginning with the Washington Consensus, policies aimed at integrating developing semi-peripheral countries into the new economic order, which would continue for many years, were implemented by authoritative actors who designed the system, such as the IMF, World Bank, and the US Treasury. As the economies of developed and developing countries became increasingly integrated as a result of these policies, the 2008 Crisis caused semi-peripheral countries to enter a cycle of crises that they could not escape, and it also caused rapid declines in the growth rates of semi-peripheral economies, excessive increases in unemployment rates, and widespread poverty.

Finally, in this section, in order to overcome the crisis of excessive capital accumulation in industry, which is the last and most important building block on the road to the 2008 Crisis, we will consider the accelerated financialization process since the 1990s. Various financial instruments were introduced to prevent this decline in profit rates, which had not been able to recover since the 1960s. These are CDOs, CDSs, and other derivatives traded through banks, insurance companies, and hedge funds. It would not be wrong to state that these products, which were given to lower-income groups, were concrete tools of the 2008 Crisis, as they were used to create a huge financial bubble. However, there is an important phenomenon that distinguishes the 2008 Crisis from other crises in the past. We can explain this phenomenon as follows: “The current global crisis has coincided with a financialization process in the history of humanity, where fictitious values prevail and where money does not depend on the standard of any gold or precious metal.”

The causes of the 2008 Crisis and its effects on a global scale are directly related to the concept of financialization. With financialization, there is no fixed standard that determines the value of money. In the dollar-gold standard introduced after 1950 under the Bretton Woods system, other national currencies were tied to the U.S. dollar at constant rates. With this standardization, foreign exchange speculation, risk, and uncertainty were kept under control. This situation could be maintained until the stagnation period of capitalism in the 1970s. However, two main situations that emerged in the 1970s created the uniqueness of the 2008 Crisis among other crises of capitalism, namely the crisis of financialization. We can briefly summarize these two situations as follows: the inability to maintain the gold-standard control of the US dollar any longer and, therefore, the increasing hegemony of financial capital and the global expansion of the volume of financial assets. The years between 1950 and 1974 are described as the "golden age." The reason for this definition is that the capitalist economic system experienced very rapid growth rates in this period. The growth rate of the world economy during these years reached 2.9%. However, while such high growth rates led to capital accumulation over time, they also caused serious decreases in profit rates. On the other hand, since the financial system could not generate sufficient income from the fixed exchange rate regime and controlled capital markets, regulatory policies fell into a repressive and obstructive position for financial capital. As a result, capitalism entered a serious period of obstruction in the 1970s. As a result of the United States trying to overcome the high budget deficits that it experienced due to the costs of the Vietnam War through monetary expansion, the U.S. economy entered inflationary pressure. In international markets, the uncontrollable rise of the dollar made the value of the dollar, which was fixed against gold by the Bretton Woods agreement, unsustainable. As a result, in 1971, the decision was announced that the fixed gold-standard value of the U.S. dollar would be removed and that the price of the dollar would be freely determined by foreign exchange markets. Thus, a new era in the history of capitalism began. After that, the value of one currency against other currencies began to be determined by the expectations and speculative movements of the market. As a matter of fact, after this decision, the volume of daily trading transactions in financial markets increased rapidly, exceeding the amount of money sufficient for the production and trade of goods, and developed an imaginary value system of its own.

In conclusion, under the leadership of the United States, the capitalist world destroyed the balance between trade and financial flows in the global economy while trying to maintain its production process with false financial values. Therefore, we have reached a stage where we are dragged into a virtual world value system dominated by speculation and uncertainty, and for this reason, uncertainty and speculative anarchy in capitalist markets cannot be avoided. The beginning of the financialization process and the creation of fictitious financial bubbles, which was one of the most important causes of the 2008 Crisis, were triggered by this period. Again, in the same period, because of the global oil crisis and increasing oil prices, oil-exporting countries were transferring their revenues to banks in Western countries. These funds flowing into Western banks had to be converted into loans and reintroduced into the system. However, the restrictive and regulatory policies of the Keynesian understanding did not meet these expectations of the financial world. It was thought that new financial products such as hedge funds and mortgage credits should be developed through deregulation to manage this increasing financial volume. Thus, in the 1980s, many pro-capitalist neoliberal interventions were made in the global economic system, and with the financial liberalization that was initiated, the process leading to the economic crisis to be experienced in 2008 began.

This part will enable us to form an opinion regarding how the capitalist system has created its last major crisis step by step by itself and to understand its impact on the global economy by spreading quickly to other countries due to the dynamics created by the system itself. Understanding the differences between the 2008 Crisis and previous crises of capitalism in terms of their causes and effects will help us to understand how developing semi-peripheral countries such as Turkey and Brazil became dependent on the flow of hot money and how they constantly entered a crisis-cycle deadlock as one of the long-term effects of the crisis.

In the second part, we will focus on the economic impact of the crisis in the two countries that we will examine comparatively. I can explain the main reasons why the two countries that I have discussed in this study are Turkey and Brazil as follows: firstly, both countries have similar economic experiences in many areas, such as systemic changes, economic crises, and liberalization processes. Secondly, the turbulent political structure of both countries directly affects the dynamics of the economy, and because of this interaction, similar results are experienced in both countries. Lastly, the 2008 economic crisis and the developments experienced first in the financial markets and then in the real sector of the two countries in the post-crisis period have a very similar structure. Comparing the economies of these two countries, which have many common features, in the context of financialization and crisis plays an important role in proving the correctness of our hypothesis.

Initially, we will explain how the economic structures of these semi-peripheral countries were before 2008 to form an opinion regarding the economic structures of Turkey and Brazil prior to the crisis, and then we will examine the impacts of the crisis on these countries comparatively. This part will help us understand how the USA, which was the epicenter of the crisis, affected the economic structures of the two developing countries called semi-peripheral countries in the pre- and post-crisis periods.

We will examine in detail the impacts that interdependent countries, like the wheels of any gear due to the globalizing economic and financial structure in the twenty-first century, are confronted with in the event of any crisis, and the reshaping of all economic and financial systems by the reactions given to these impacts.

As a result of the liberalization movements in the world economic structure, the Turkish economy entered a period of rapid liberalization in the 1980s.
The import substitution policy, which had been implemented for nearly 20 years, was abandoned, and an export-based liberal model was adopted. The stabilization package announced with the 24 January 1980 Decisions was liberalization oriented. Liberalization movements in this period were also effective in the financial system, and there were three basic processes that affected the development of the Turkish financial system. These are as follows: first, the majority of the instruments developed within the framework of financial liberalization were securities created to finance the public sector deficit; second, the threat posed by the substitution of the TL with foreign currencies (dollarization); and third, the instability created by speculative short-term capital movements in national financial markets and increasingly in the real economy.
In the 1990s, the Turkish economy turned into an economy open to international capital movements, and its foreign trade was largely liberalized. With this transformation, economic growth became dependent on foreign capital movements and international financial markets.

This dependent growth model, on the other hand, has led to the formation of an increasingly fragile and unstable economic structure, since exchange rates and interest rates are fundamentally linked. The crisis cycles of April 1994, November 2000, and February 2001, which the Turkish economy entered, clearly show this instability. The 2008 global economic crisis had serious adverse effects on the fragile and unstable Turkish economy, which was dependent on foreign capital and hot money flows. The decrease in the flow of funds obtained from international markets after the crisis, the fact that foreign capital inflows came to a standstill, and the economic stagnation experienced by Turkey's largest trading partner, European countries, due to the crisis caused Turkey's exports to shrink.

This process progressed similarly for Brazil. Semi result of the economic and financial liberalization that started in the 1980s and continued in the 1990s, semi-peripheral countries were connected to international financial markets. Brazil, whose economy is dependent on international markets, foreign capital inflows, and hot money inflows, also dealt with recurring economic stalemates in the 1990s and seriously experienced the effects of the 2008 global economic crisis both in financial markets and in the real sector.

In the third part, we will focus on the credit crunch that started with the crisis; the impact of the credit crunch on non-financial sectors such as the construction sector; increases in inflation, interest rates, and exchange rates; and the economic stagnation and unemployment created by the aforementioned reasons as reflected in the real sector in the long term. We will comparatively examine the transformation that Turkey and Brazil underwent after the crisis.

The two sectors we chose to compare the effects of the crisis on the real sector are the construction and automotive sectors. We can explain the main reason for this within the framework of the main argument of my thesis as follows: semi-peripheral countries have been joined to the neoliberal economic structure, and their economic growth and development have been made dependent on foreign capital inflow, that is, hot money flow, rather than production. The construction and automotive sectors were the two sectors where the effects of the increase in employment rates in the real sector and sectoral growth were felt most intensely during these growth periods.

This part is where we will examine the impacts that we described in the second part comparatively by concretizing them with figures and graphics. It will present us with a concrete idea through figures regarding financialization and crisis cases in semi-peripheral countries (Turkey and Brazil) after the 2008 Economic Crisis.

Changes in the economic system are valid to the extent that they can be expressed scientifically in figures. For this reason, the third part will be a section in which the case of Financialization and Crisis in Semi-Peripheral Countries after the 2008 Crisis, which is the main subject of my assignment, will be examined extensively and in depth through figures.

In conclusion, this study was conducted for the purpose of presenting new perspectives regarding important milestones that are interconnected and directly affect each other in three main timeframes. These three timeframes cover approximately 30 years of the pre-2008 Crisis neo-liberal economic system, the 2008 Crisis, and the period of changes experienced after the crisis.

A detailed examination of the stages starting from the economic crisis, which has an important place in world economic history, to the change in the phenomenon of financialization and crisis in young capitalist countries will offer us new perspectives for predicting new structural crises to be experienced in the future, new economic and financial structural changes, and expressing an idea regarding the direction in which the capitalist economic system has progressed.

In our study, the 2008 Crisis, which is the global crisis of capitalism and which we deal with through financialization, has been handled from various perspectives by different theoretical movements, such as mainstream economics (orthodox-neoclassical economics), institutionalists, monetarists, and Marxist economics, in terms of its emergence dynamics and consequences. I think that briefly mentioning these different perspectives on the crisis is important for a better understanding of why the study is carried out through financialization.

The emergence dynamics of the 2008 Crisis have been explained at three main levels of analysis. The first approach argues that the crisis arose due to errors in policymaking. This form of explanation is generally put forward and supported by mainstream economic circles today. According to this approach, it is argued that the human factor played a role in the process leading to the crisis rather than structural problems. This argument focuses on the decisions and personal effects of monetary policy practitioners, such as the Fed chairman. Regarding the emergence of the 2008 Crisis, Fed Chairman Alan Greenspan's belief in the self-regulatory structure of financial markets, the arrangement of monetary policy according to this approach, and the deregulation steps taken in this direction are among the factors that contributed to the emergence of the crisis. According to this argument, the financial system was deregulated because those who implemented economic market policies believed in the self-regulating power of the market. Interest rates were also used as a neutral tool that would not distort market decisions, not for non-market purposes such as preventing unemployment. As a result of these deregulation policies and loose monetary policy, asset prices swelled, and the 2008 Crisis emerged. This approach has no analytical power to explain the 2008 Crisis. Greenspan was a liberal who advocated a free market economy. However, reducing the 2008 Crisis to this reason is a very restrictive and problematic perspective. The second approach, which is more comprehensive than the first approach, focuses on the institutional roots of the crisis from an institutionalist perspective. According to this approach, it is argued that institutional regulations or the lack of regulation caused the crisis and that the crisis would never have arisen if the necessary regulations had been made. Although the arguments defended by the institutionalist approach played a role in the emergence of the 2008 Crisis, they are not the only dominant reason in the process leading to the crisis. For this reason, evaluating the 2008 Crisis from a purely institutional point of view will be an evaluation in which many points cannot be explained or are incompletely explained. In the process leading up to the 2008 Crisis, the changes made in the institutional system (investment banks and shadow banking) and new economic instruments, such as derivative products introduced through these institutions, played an important role, but this perspective gains its real meaning when read through the financialization process. The third approach, called Marxist crisis discussions, reveals the view that the crisis arose because of the capitalist-based organization of the economy and capital accumulation rather than the human element or institutional structure advocated by the first two views. This approach, which is the starting point of financialization theory, has been an important reference in the emergence of Costas Lapavitsas's financialization theory while explaining the 2008 Crisis and the crisis of neoliberalism put forward by Gerard Dumenil and Dominique Levy.

As a result, it is not possible to analyze and explain the 2008 Crisis, which is quite complex and dynamic, with a single theory. Financialization theory analyzes the 2008 Crisis by considering all its structural, institutional, and systemic aspects while making use of movements such as institutionalism and Marxism. On the other hand, the fact that mainstream economics plays a role in the emergence of factors that cause economic crises such as the 2008 Crisis to be reproduced repeatedly is an indicator of how inaccurate the mainstream assessments of the 2008 Crisis are. For this reason, we focused on the financialization process and the crisis in our study, as we think that analyzing the 2008 Crisis through financialization theory provides a meaningful evaluation.

CHAPTER ONE

1.THE BEGINNING OF EVERYTHING – FOUNDATION OF THE PROCESS LEADING TO THE 2008 CRISIS: NEOLIBERALISM

Once the bipolar structure created by the Western Bloc under the leadership of the United States of America on the one hand and the Eastern Bloc under the leadership of the Soviet Union on the other hand, which continued for a long time ideologically, politically, and economically, came to an end in the late 1980s, the global system entered a new stage in ideological, political, economic, and social terms. At the end of this period, called the Cold War, between 1947 and 1991, the period of change and transformation that started with the dissolution of the Union of Soviet Socialist Republics and the termination of the socialist regime in the countries of the Eastern Bloc led many radical and deep-rooted changes to be experienced in the international system in a short time.

From this period onward, the international system entered a rapid progression process toward a capitalist liberal system axis whose policies were guided by the United States of America and adopted by the countries of the Western Bloc. This transformation process was realized concurrently in political, economic, and social structures and in an interdependent way, like the wheels of a gear. However, the transformation of the international economic structure into a single model in particular gained acceleration at a great pace.

The section that we will examine in this part is the system called "Neoliberalism" in the literature, in which the global economic structure leading the 2008 Crisis to be defined as the global crisis of capitalism and financialization, and the economies of semi-peripheral countries, notably Latin American countries, were rapidly integrated with the argument of preventing economic crises and providing market stabilization starting from the mid-1970s and the 1980s. This process was finally transformed into a global hegemony in the international system from the beginning of the 1990s, once the Cold War came to an end. The main subjects that we will address are as follows:

- Deregulation of monetary markets in the neoliberal economic period,
- Integration of these countries into the global capitalist order through neo-liberal economic policies imposed on semi-peripheral countries, notably Latin America, together with the Washington Consensus process initiated by the IMF, World Bank, and US Treasury for the purpose of creating a free market order globally,
- The phenomenon of globalization and the globalization of capitalism,
- Financialization at the international level and the accompanying structural innovations (shadow banking, commodification of debt and risk, securitization), and new financial instruments (derivative products, derivative credits, CDS).

1.1. Deregulation of Monetary Markets in the Neoliberal Period

The most common and general definition used to describe the characteristics of the neoliberal economic period that distinguish it from preceding periods is the absence of price control and planning in the economy, contrary to Keynesian economic policies, minimal state intervention, the provision of a free market order, and economies being open to the world and integrated with each other as much as possible.

The structure desired to be created in the new order, with arguments such as economic liberalization, privatization, reducing the weight of the public sector in the economy, reducing public expenditures, paving the way for the private sector, and free trade, is basically based on a single principle: deregulation.

The emergence of the concept of deregulation, on which the neoliberal economic system is built, gained acceleration with the studies of Milton Friedman, George Stigler, Alfred Kahn, and other economists from the Chicago School of Economics in the 1970s. This concept, which was initially seen as a movement of thought opposed to the existing order, started to strengthen by trying to impose economic theories that offered different solutions, since the impacts of the 1979 Petroleum Crisis could not be overcome through the Keynesian economic approach, and it gained absolute dominance in the new order that emerged once the Cold War came to an end at the end of the 1980s.

Once we look at it from a historical perspective, the idea of deregulation, which was suggested as the exact opposite of the understanding of regulation, meaning the necessity of state intervention in the economy that had dominated the order for a long time, became the most important key concept in this process while radically reshaping the world economic order.

Deregulation may be summarized, in a definitional sense, as minimizing state intervention and regulations in the economic field and leaving economic activities to the private sector and capital. How, then, did regulation, which is the basic argument of Keynesian economic thought that dominated the economic structure for about half a century, give way to deregulation for the sustainability and development of the economic structure?

From the early 1970s onward, a series of quite extensive deregulation steps were taken in the financial markets of the United States of America. To give examples of some of these steps:

The commission rates of the New York Stock Exchange were first fixed by strong cartels from 1792 onward, and then they were protected by the Securities and Exchange Commission from 1934 onward. This minimum rate structure was removed between 1968 and 1975. The second important step was that controls over the maximum interest rates to be paid by commercial banks and thrift institutions between 1978 and 1986 were almost completely removed in a gradual manner.

Another deregulation step taken in the same period was that controls prohibiting banks from expanding geographically and across state borders were reduced by new regional state banking compacts. In this period, institutions called non-banks, which did not engage in deposit-taking or commercial credit activities, were owned by intermediaries and insurance companies, and were not subject to statutory audit, emerged. We can evaluate these institutions as the initial phase of the shadow banking system leading to the 2008 Crisis. Another example we can give here is the gradual reduction of obstacles and restrictions regarding the privatization of financial institutions. This means that while commercial bankers were acting as stockbrokers, stockbrokers started to act as banks with money market accounts.

There are very strong connections between these basic steps initiating the transition process to the neoliberal economic system and the reasons for the outbreak of the 2008 economic crisis. The elimination of restrictions on commission and interest rates, the emergence of new intermediary institutions in the form of non-banks that were not subject to statutory audits applied to banks, and the gradual reduction of restrictions regarding the privatization of financial institutions constitute the foundation of the reasons for the 2008 Economic Crisis. When we look at it from this point of view, it is possible to argue that, in fact, the neoliberal economic structure started to create the global crisis of capitalism even in its emergence phase.

A new period started in the operating mechanisms of financial markets with these deregulation steps. Together with the phenomenon of globalization brought about by the existing political conjuncture, the deregulation process, which first started in the USA, a central country, systematically included semi-peripheral countries in a short time and turned into a large deregulated economic structure that was interconnected and in continuous mutual interaction. Once this large, deregulated structure reached uncontrollable levels, it could not prevent the whole world from experiencing a global crisis that started in the United States of America in 2008 and affected the entire world.

Deregulation practices were put forward with the perception that the problems in economic and financial markets could not be overcome through state intervention in the 1970s and that the remedy would be a shift to a free-market economy and the minimization of state intervention in the economy. For about thirty years, these practices were thought to support continuous growth, expansion, and stability globally in all economic markets, particularly in the economic and financial markets of developing semi-peripheral countries. However, the emergence of the global crisis in 2008 proved that it was too early to reach such a judgment.

1.2. Washington Consensus Process and the Integration of Semi-Peripheral Countries into the Global Capitalist Order

The integration of developing semi-peripheral countries, notably Latin American countries, into the neoliberal economic order is among the leading movements that enabled the diffusion of the neoliberal economic structure on a global scale. With this development, the political and economic regulations presented by the central country, the United States of America, capitalism and everything it brought with it became globalized, and all countries in the world entered a more interdependent system than ever before.

The outstanding approach among the solutions proposed in order to understand and overcome the reasons for severe crises and economic instability resulting from the simultaneous experience of high inflation and economic stagnation in Latin American countries in the 1980s is the ten economic policies explained by economist John Williamson in his article titled “What Washington Means by Policy Reform” in 1990, which is called the Washington Consensus.

It is a consensus created through the structural adjustment programs that emerged as a result of the implementation of the policies presented in the article, primarily in Latin American countries and then in other developing countries over time, with the support and guidance of international bodies such as the U.S. Department of the Treasury, the IMF, and the World Bank.

The policies presented in the article are as follows:

1) Fiscal Discipline: Since large and continuous budget deficits are among the most important causes of crises, inflation, and economic instability in

developing countries, government expenditures should be controlled, and a balanced-budget approach should be adopted through fiscal discipline.

2) Public Expenditure Priorities: Areas of public expenditure should be redefined, and the state should turn toward expenditures such as health, education, and infrastructure, which will support economic growth in the long term.
3) Tax Reform: The tax base should be expanded, and low tax rates should be adopted through tax reform.
4) Interest Rates: Interest rates should be determined by the market, and financial liberalization should be adopted in financial movements.
5) Exchange Rate: Competitive exchange rates should be adopted.
6) Trade Policy: Trade liberalization should be adopted, and customs tariffs should be removed.
7) Foreign Direct Investment: Foreign direct investment should be encouraged.
8) Privatization: Public economic enterprises should be privatized.
9) Deregulation: State controls and restrictions on the economy should be removed.
10) Property Rights: Strict policies should be implemented to secure private property rights.

When we examine the ten policies of the Washington Consensus, we see that they originated from the basic concepts identified with the neoliberal economy. These are privatization, the free market economy, and liberalization. In this context, the Consensus is a neoliberal manifesto paving the way for the rapid propagation of neoliberal economic policies in both theoretical and practical terms on a global scale.

Table 1.1. The Decalogue of Washington Consensus Policies (1989)

1.Fiscal Discipline	Budget deficits—properly measured to include local governments, state enterprises, and the central bank—should be small enough to be financed without recourse to the inflation tax.
2.Public Expenditure Re-Prioritization	Public spending should move away from politically popular but economically unwarranted projects (bloated bureaucracies, indiscriminate subsidies, white elephants) and towards neglected fields with high economic returns and the potential to improve income distribution (primary health and education, infrastructure).
3. Tax Reform	To improve incentives and horizontal equity, the tax base should be broad and marginal tax rates moderate. Taxing interest on assets held abroad ("flight capital") should become a priority in the medium term.
4. Positive Real Interest Rates	Ultimately, interest rates should be market determined. As this could be destabilizing in an environment of weak confidence, policy should have more modest objectives for the transition, mainly to abolish preferential interest rates for privileged borrowers and achieve a moderately positive real interest rate.

5.Competitive Exchange Rates	Countries need a unified (at least for trade transactions) exchange rate set at a level sufficiently competitive to induce a rapid growth in non-traditional exports, and managed so as to assure exporters that this competitiveness will be maintained in the future.
6.Trade Liberalization	Quantitative trade restrictions should be replaced by tariffs, and these should be progressively reduced until a uniform low tariff in the range of 10 percent is achieved.
7.Foreign Direct Investment	Barriers impeding foreign direct investment and the entry of foreign firms should be abolished; foreign and domestic firms should be allowed to compete on equal terms.
8. Privatization	State enterprises should be privatized.
9. Deregulation	Governments should abolish regulations that impede the entry of new firms or restrict competition, and ensure that all regulations are justified by such criteria as safety, environmental protection, or prudential supervision of financial institutions.
10.Property Rights	The legal system should provide secure property rights without excessive costs, and make these available to the informal sector.

Source: "The Washington Consensus Assessing a Damaged Brand (Research Paper)"
http://documents1.worldbank.org/curated/en/848411468156560921/pdf/WPS5316.pdf
Feb 1,2021 (available)

These policies presented in the Washington Consensus were first proposed by the U.S. Department of the Treasury, the IMF, and the World Bank in Latin American countries and then in all developing semi-peripheral countries to provide economic development and stability and to prevent the experienced crises from recurring. They were implemented by many countries, including Turkey, Argentina, Mexico, and Brazil, within the framework of IMF programs. The negotiation demands of countries seeking to recover their economies by making a stand-by agreement with the IMF were accepted on the condition that economic packages including Washington Consensus policies were implemented. In this context, developing countries started to implement the prescription presented in the Consensus urgently for the purpose of recovering their economies.

Finally, it would be appropriate to examine whether the Washington Consensus, which was the most important igniter of the global propagation of the neoliberal economic understanding, attained the goal of recovering the economies of developing countries. In this regard, we can examine whether the economies of Latin American countries, destabilized by the endless crises that were the reason for the emergence of the Consensus, underwent positive change because of the policies implemented.

Once we look at the Latin American countries struggling with deep crises in the 1980s, we see that the inflation rate in the continent was at an average level of 126% between 1981 and 1989. These high inflation rates showed a sharp drop throughout the continent and on a country basis between 1990 and 2000, when the recommended economic policies were implemented.

Table 1.2. Latin American Inflation 1999-2000

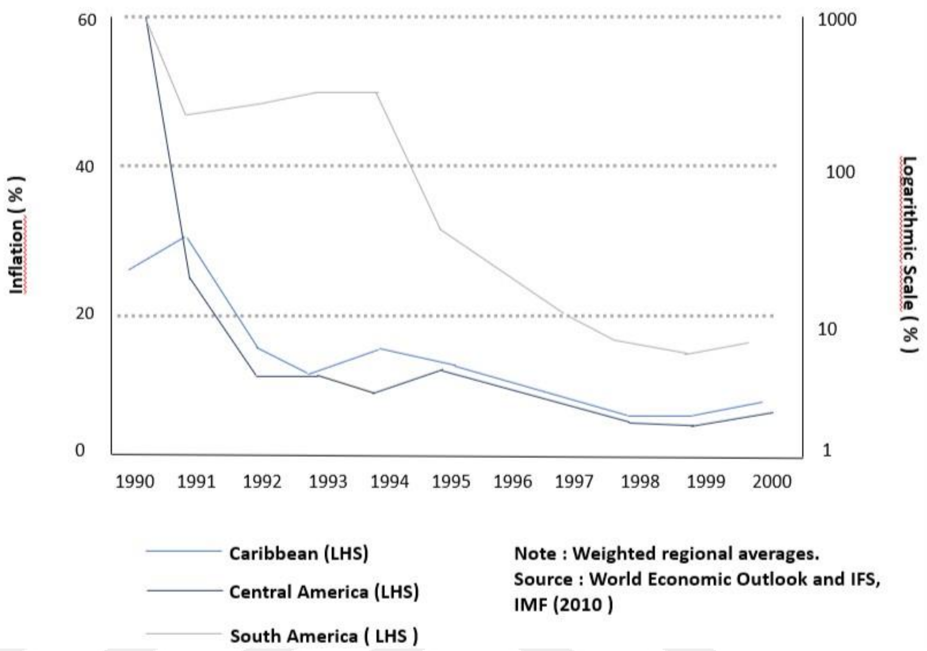
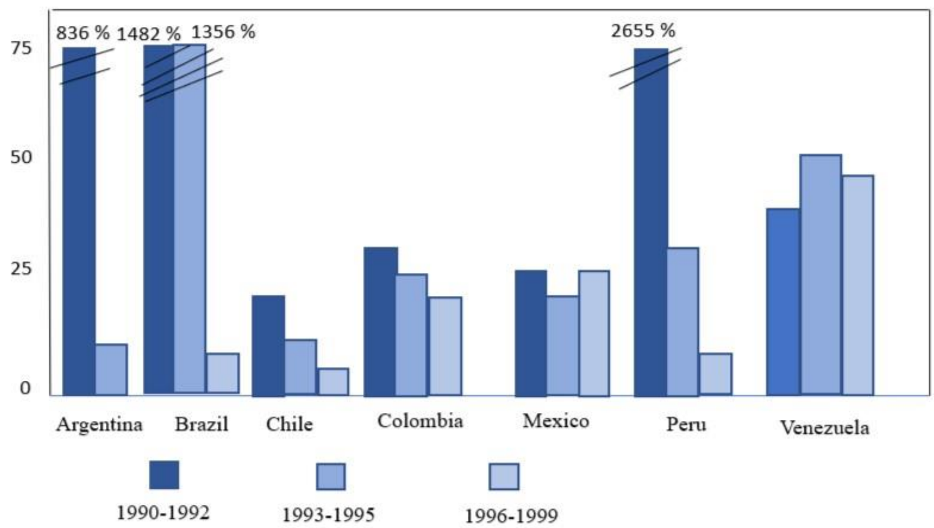


Table 1.3. Latin American Countries Inflation, Selected Countries 1990-2000



The positive developments in inflation were also reflected in the average growth rate; average growth, which was 1.2% in the 1980s, climbed to 3.2% in the 1990s. Another positive economic indicator brought about by the policies implemented is that the national currencies of Latin American countries appreciated by about 40% in real terms in the period between 1987 and 1994. However, while the import volume of the continent increased by about 80% due to the decrease in international competitiveness between 1990 and 1994, export volume climbed by 35% in the same period. Domestic interest rates were kept high to increase foreign capital inflows. Once the expected capital inflow did not occur, devaluation pressure started to increase. Since commercial banks complicated the repayment of loans due to devaluation, the financial system came to a deadlock. Because commercial banks had become externally indebted to provide these credits, they also had difficulty paying their debts due to the existing devaluation. In addition to all this, the scope of poverty expanded, dissatisfaction was created in society and attempts to recover the economies were adversely affected by political disturbances due to approaches that ignored social policies such as equality of opportunity and equality in income distribution.

Once we consider the changes, it is possible to conclude that although the implementation of the Washington Consensus policies created positive impacts for Latin American countries in the short term, they could not provide effective and permanent stability in the long term.

We see the same picture once we examine the case of Turkey. Turkey's experience of the 1994 and 2001 crises and its negotiations with the IMF for the recovery of its economy prove that the policy proposals of the Consensus could not provide permanent stability in the economy. Turkey was exposed to an unstable growth and crisis mechanism process together with liberalized capital movements in line with these economic programs. In this mechanism, while capital inflows support economic growth, increases in foreign exchange deepen the foreign deficit problem; because of this, capital outflows occur and collapses are experienced. Even though Turkey seems to have solved the public economy problem to a certain extent with its fiscal discipline in line with the economic programs pursued after the 2001 Crisis, the economic contraction also led to a distortion in the balance of public finance with the 2008 Crisis.

In conclusion, the policies presented in the Washington Consensus could not provide permanent and stable improvement in the economies of developing countries in the long term. Rather, by integrating these countries into the neoliberal economy, they caused these countries to feel the impacts of crises more severely in the event of any crisis and led crises to spread globally like an epidemic. Thus, developing countries suffered more heavily from the economic crisis that occurred in the USA in 2008, and the 2008 Crisis turned into a global crisis.

1.3. Globalization Phenomenon and Globalization of Capitalism

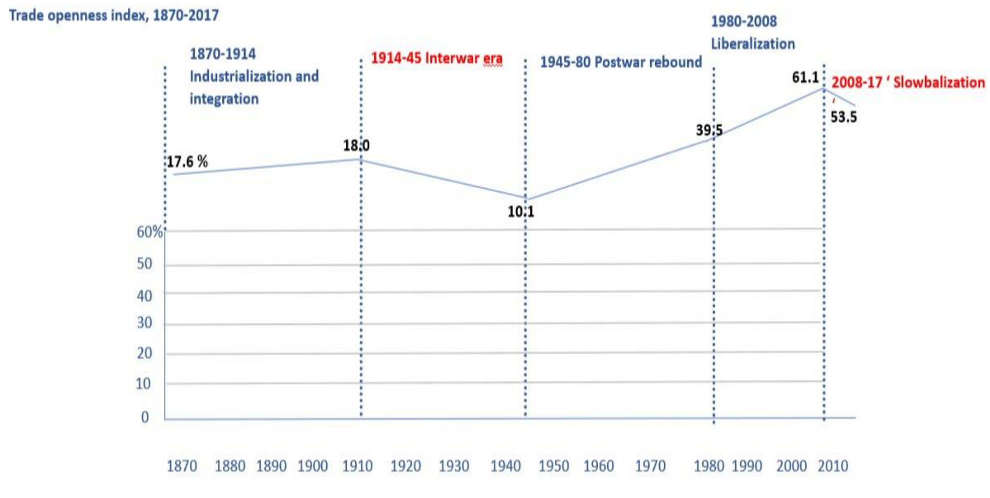
One of the most important reasons for the spread of the impacts of the 2008 economic crisis on the whole world after its outbreak in the USA and for calling this crisis the global crisis of capitalism is undoubtedly the globalizing world order.

Different definitions may be given to the phenomenon of globalization in political, economic, social, and cultural dimensions. However, globalization is generally defined as a developing process in which the interaction power of cultural and geographical systems related to the political, economic, and social environment belonging to existing international, national, regional, and local layers gradually increases as a result of their increasing awareness of one another, and in which a worldwide “awareness” and a culture of responding to adverse developments around the globe consciously or reactively have been created. Although globalization started with the emergence of historical capitalism and nation-states, we can talk about an international integration process starting in the 1990s as a result of the disappearance of the bipolar world order once the Cold War came to an end and the acceleration of technological developments in the field of transportation, which gained more speed than ever before in the early 2000s.

Costs in the fields of communication and transportation have gradually decreased over the years because of technological developments in these fields. These decreases in costs have significantly facilitated the process of removing borders in commercial relations and rapidly increasing global export and import volumes. While the Trade Openness Index, which is one of the indicators of commercial globalization, was at a level of 39.5% in 1980, it climbed to 61.1% in 2008 together with commercial activities that were gradually liberalized from the 1980s onward through commercial liberalization.

In the following graphic, the change in the Trade Openness Index in the five periods of globalization between 1870 and 2017 can be seen respectively.

Table 1.4. Change In Trade Openness Index In The Five Periods Of The Globalization Between 1870-2017



Note : The trade openness index is defined as the sum of World exports and imports divided by World GDP , 1870 to 1949 data are from Klasing and Millionis (2014) ; 1950 to 2017 data are from Penn World Tables (9.0)

Source : Our World in Data , https: //ourworldindata.org/grapher/globalization-over-5-centuries.

The Openness Index is measured as the sum of a country's exports and imports as a share of that country's GDP (in %) [1]

Globalization, which effectively paved the way for the rapid spread of the neoliberal economic system at the international level, gained considerable speed at the very time when the neoliberal economic order began to be created. Together with the existing political transformation and technological revolutions that the world underwent compared with previous years, globalization facilitated the proliferation of the newly emerging structure both at the level of states and at the level of non-state institutions, companies, and non-governmental organizations.

On the other hand, arguments such as deregulation, the free market economy, free trade, and the removal of borders, which were put forward by neoliberalism, initiated the globalization process of capitalism not only on the basis of nation-states but also through international institutions and organizations such as the IMF, World Bank, World Trade Organization, G7, United Nations, OECD, and European Union, as well as supranational political formations. Once we look at it from this perspective, we can argue that neoliberalism and economic globalization mutually feed and develop each other.

We have underlined in the previous sections that the 2008 Crisis broke out as a direct result of the re-financialization and global financialization processes that emerged after 1950–1974, which is called the golden age of capitalism. Many different opinions have been expressed on the definition of the concept of financialization. Baker, Epstein, and Pollin stated that financialization is a concept that describes the increasing role of financial markets, financial actors, and institutions in national and international economic activities. Krippner, on the other hand, states that financialization is a pattern of capital accumulation in which profit is increasingly obtained

[1] Our World In Data, **Trade Openness 2017**, https://ourworldindata.org/grapher/trade-openness ,Feb 2021, (available)

through financial channels rather than through trade or commodity production.

Another definition describes financialization as the process by which money movements, securities management, asset securitization, derivatives trading, and other financial packaging supersede the act of producing, developing, and transporting goods. Since the 1980s, with financialization in the United States, the shift of bank deposits to mutual funds, the focus on financial instruments, the growth of the financial industry, and companies' focus on stocks rather than production have created economic polarization in the USA.

On the other hand, Dumenil and Levy define financialization as "the growth of financial enterprises, the faster entry of non-financial companies into financial activities, the increasing tendency of households toward stocks and securities, and the structural change experienced after 1980." Dodd refers to the problems caused by the increase in the use of derivative instruments, which played a triggering role in financialization in the 2008 Crisis. According to Dodd, the main problems caused by derivatives are as follows: derivatives can be used to evade laws and regulations, they can also be used to manipulate accounting rules, they can mislead the price formation process, and derivatives make it possible to take risks while making risk-taking easier and cheaper.

When we look at the main definitions of financialization, we can characterize financialization as the creation of a global financial volume through the widespread use of newly issued derivative instruments and the inclusion of low-income segments of society, rather than through profit production as in the periods before the 1980s. This financial volume grows uncontrollably due to its own internal structure and creates a huge financial bubble, as it did before the 2008 Crisis. At this point, we can say that financialization increases financial instability, slows down economic growth, and retards development; as a result, as in the 2008 Crisis, a certain segment becomes richer while other segments become increasingly poor. As a matter of fact, the 2008 Crisis shows that these negative comments about financialization are correct.

As a result of all these developments, by the early 2000s, the economic activities and financial markets of developing countries in particular had become more integrated with global markets under the leadership of developed countries than ever before. Although this integration led to recoveries and positive movements in the economies of developing countries, it also made these economies more susceptible and vulnerable to the adverse impacts of external factors. Thus, as we stated at the beginning of this part, the subprime mortgage credits that could not be paid by the low-income working class in the USA, the epicenter of the 2008 Crisis, first led to a financial crisis in the USA due to securitization and the commodification of risks, which we will discuss under the next heading, and then created serious impacts on the economies of semi-peripheral countries integrated into the neoliberal economic structure after the crisis spread to these countries as a result of the globalized economic order.

1.4. Structural Innovations in International Financial Markets

The examination and discussions regarding the roots of the 2008 Crisis are conducted at three main levels of analysis: incorrect economic policies, the institutional roots of the crisis, and the structural roots of the crisis. Of these elements, since the institutional roots approach provides explanations regarding the mechanism behind the outbreak of the 2008 Crisis, we will focus on the institutional roots of the crisis in this part and examine the development of derivative products, such as securitization as the commodification of debt and the commodification of risk, which became prominent in the financialization process. In addition, we will address what kind of international structure financialization turned into.

In the process leading to the crisis until 2008, the corporate structure of the financial system in the USA and the changes that financial transactions underwent had an important effect. There are two important elements in the changes in the corporate structure of the financial system: the development of investment banks and the shadow banking system that developed outside state control. The two important factors in the changes that financial transactions underwent are the development of derivative instruments, such as securitization, the commodification of debt and the commodification of risk.

1.4.1. Investment Banks and Shadow Banking System

The 1929 Great Depression had a significant impact on the financial system and investment banking in the USA. The Glass-Steagall Act, issued in 1933, is the leading regulation among those introduced to repair and reconstruct the financial system damaged after the crisis. Pursuant to this law, the activities of investment banking and deposit banking were separated from each other. In deposit banking, while lending activities were conducted based on individual deposits, securitization and financial intermediation activities started to be carried out in investment banking. The six basic objectives of this differentiation performed pursuant to the Glass-Steagall Act can be explained as follows:

1) Deposit insurance should be available to provide stability in the banking system.
2) Insured deposits should not be used for trading in the securities market.
3) Leverage ratios should be limited to provide stability in the securities market.
4) Housing finance should mainly have long-term and fixed interest rates.
5) Public savings should be directed to deposit banks instead of investment banks.
6) Securities markets should be transparent and fair for small investors.

As can be understood from the articles, the law enabled a deposit guarantee to be provided for financial institutions and prevented those engaging in deposit banking from turning to risky investments. Also, pursuant to the law, it was agreed that the risky activities of financial institutions would be subject to strict state supervision for preventive purposes.

In 1999, the Glass-Steagall Act, which clearly separated investment banking and deposit banking activities from each other, was repealed. Thus, the clear distinction between investment banking and deposit banking was eliminated, and the "shadow banking" system, which appeared in parallel with the existing banking order in the newly formed order, started to emerge.

What is this parallel structure, the shadow banking system, which played an important role in the process leading to the 2008 Crisis, and how does it operate?

Shadow banking engages in credit, futures, and cash-cycle activities, as in the traditional banking system. The important infrastructure of the credit system consists of the securitization of debt and the creation of imaginary values. However, these institutions lack the credit liquidity support and deposit insurance guarantees provided by the central bank (the Fed). When assessed within this scope, the shadow banking system, which started to form after 1999, gradually reached such a large volume that it became like a bomb ready to explode at any time, with the potential to cause great destruction for the U.S. economy. Indeed, when we examine data from June 2007, while the total debt of traditional banks in the USA was USD 14 trillion, the total debt of shadow banking was USD 22 trillion. Also, while the size of shadow banking was USD 26 trillion in 2002, it increased to USD 62 trillion in 2007. These data show that parallel financial institutions called shadow banks, which were not subject to any audit or restrictive regulation, had reached a very strong position within the financial system just before the 2008 Crisis.

1.4.2. Securitization (Commodification of Debt)

Changes in the financial markets of the USA in the early 2000s were observed not only in corporate structures but also in financial transactions. The most important of these changes was securitization, which means the commodification of individual and corporate debts and enabling them to be repurchased and resold. These securitization activities were conducted by shadow banks. The mechanism of securitization is carried out as follows: first, debts of different types are divided and collected in a pool; then, the debts in this pool are packaged and sold, and a new element is added to the credit mechanism in traditional banking. Through securitization, a transaction called liquidation is performed. Accordingly, the potential purchasing power of any immovable property is capitalized; in other words, real estate is securitized. Through securitization, different actors in the financial structure, such as traditional banks, shadow banks, credit rating agencies, and insurance enterprises, and different channels were combined and became integrated. The most important reason for this integration was to distribute probable risks; however, such an integrated structure became more vulnerable to any risk and crisis. Once the 2008 Crisis collapsed the whole financial system, it was proved that this vulnerability was highly tangible.

1.4.3. Derivative Products (Commodification of Risk)

The risk factor in the global economy developed increasingly once the Bretton Woods system was abolished. Inflation rates, which increased together with floating exchange rates and interest rates, led to instability in the global economy and uncertainty in prices. Derivative products developed in such an economic environment aimed to reduce the risk factor. Thus, the most important reason for the emergence of derivative instruments was protection against the increasing risk factor in progressively more complex global markets.

Derivative products, which initially aimed to minimize the risk factor in an environment where the future was fundamentally uncertain, later started to be used by the financial system for two different objectives. The first objective was the commodification of risk, that is, making risk purchasable and sellable. The commodification of risk means the trading of derivative products in secondary markets. Once derivative agreements, which served as a kind of insurance against future price volatility, started to be purchased and sold by those who had no intention of purchasing the product constituting the subject of the agreement, the commodification process of risk began. After this phase, what was important for financial institutions was to obtain earnings by selling these products as much as possible, rather than whether the risk of derivative instruments was reduced or not. The second objective in using derivative instruments was to market the risk of debts created by their own banks and affiliated holdings. Thanks to the risk transfer mechanism, the leverage ratios of financial instruments increased, and they were able to produce much more credit. This financial innovation was achieved by producing credit derivatives. Credit derivatives aimed to provide protection against credit risk or distribute risk like other derivative instruments. The most important type of credit derivative is the Credit Default Swap (CDS). CDS, in its most general definition, are as follows:

A credit default swap (CDS) is a financial swap agreement in which the seller of the CDS compensates the buyer in the event of a debt default by the debtor or another credit event.

With the emergence of credit derivatives, the elimination of the bankruptcy risk of any credit, or at least its transfer to third parties, enabled financial institutions to take much more risk. The best example of this is how rapidly the volume of subprime mortgage credits, where the 2008 Crisis broke out, increased in the early 2000s. The reason for this increase was the inclusion of poorer segments into the system by making risk transfer possible thanks to credit derivatives. The new structure resulting from this situation became an ever-growing credit bubble and finally burst in 2008.

In conclusion, we can consider the repeal of the Glass-Steagall Act in 1999 as the continuation of the deregulation process that started in the 1980s. After 1999, a new financial structure and mechanism were created in the USA. It is possible to define this new structure, created through the commodification of risk and debt, as an imaginary, bubble-like financial market. This bubble would burst at the end of an approximately eight-year process and would painfully awaken the financial system from dreams to reality.

1.5. Conclusion

In this part, we have discussed the milestones in the economic and financial structure leading to the formation of the 2008 Crisis and the transformation of capitalism into a global crisis. These milestones regarding the formation of the neoliberal economic structure—deregulation steps, the transition to a free market economy, the liberalization of trade—the integration of developing semi-peripheral countries into the newly created economic order through the Washington Consensus and the phenomenon of globalization, and finally their interdependence within a cause-and-effect relationship together with structural and systemic changes in the financial system, were discussed in order to help us identify and understand the key points underlying the outbreak of the 2008 Crisis and its serious impacts after the outbreak.

Within the scope of the points examined in this part, if we take the 1980s as a reference point and starting point, we can conclude that every new step taken in the economic and financial structure was indeed part of the march toward the global crisis of capitalism during the forty-eight-year period that elapsed until 2008.

CHAPTER TWO

2.COMPARATIVE EXAMINATION OF TURKISH AND BRAZILIAN ECONOMIES BEFORE AND AFTER THE 2008 CRISIS

In this part, we will focus on the effects of the 2008 Economic Crisis on the economic and financial structures of Turkey and Brazil, the two countries selected to examine comparatively the effects of the crisis on developing countries positioned as semi-peripheral countries. The reason why Turkey and Brazil were selected for comparison in our study is that the transformations these two countries historically underwent in their economic and financial structures primarily bear similarities.

A "twin brother" metaphor started to be drawn in the international arena for Turkey and Brazil due to the similarities in their economic and political developments from the early 2000s onward. Both countries were among those with the highest debt to the IMF through agreements signed after the economic crises they suffered consecutively in the 1990s because of weak economic policies, hyperinflation arising from budget deficits, increasing foreign debt, and economic instability. They were also shown as examples to other developing countries because of the improvements in their economies because of the IMF-assisted policies they implemented afterwards and the political stability they achieved.

Examining the similarities and differences in the economic changes experienced by Turkey and Brazil, which were mentioned with this description, just before and after the 2008 Economic Crisis will provide us with a perspective for understanding the reactions of developing semi-peripheral countries with similar experiences within the neoliberal economic system to the impacts of the global crisis of capitalism and the transformations they underwent as a result.

To better understand the effects of the crisis on Turkey and Brazil, it would first be appropriate to provide information about the current economic structures and histories of these two countries in the period preceding the 2008 Crisis.

2.1. Overview of Turkish and Brazilian Economies Pre-2008

We have already explained in the first part that the milestones paving the way for the emergence of the 2008 Economic Crisis started together with many neoliberalization steps taken from the early 1980s onward. For this reason, we will particularly focus on this period while examining the pre-crisis economic structures of the two countries.

2.1.1. Overview of the Turkish Economy Pre-2008

Turkey adopted an import substitution policy with two main arguments, aiming to reduce external dependency in the economy based on a protective industrialization approach focused on producing goods that were mainly imported from abroad, like many developing countries, between 1960 and 1980. The first of these arguments was the imposition of high tariffs on goods imported from developed central countries, while the second was the establishment of government-sponsored enterprises to produce imported goods domestically. However, economic destabilization began to be experienced due to the deterioration of macroeconomic balances in Turkey, which was also affected by the existing global economic conjuncture in the 1970s (the 1973–78 Petroleum Crises) and by political and social depressions. The import-substitution policies implemented to reduce foreign dependency caused ever-growing foreign indebtedness. Also, public sector disequilibrium, that is, the budget deficit, gradually increased within the country. The crisis in the economy became concrete and started to make its impacts heavily felt by 1978.

The first important steps toward the neoliberalization of the Turkish economy were taken with the announcement of the 24 January Decisions, which included structural reforms in the economy, on 24 January 1980 to overcome the economic instability that was gradually becoming a major problem. Through these decisions, it was aimed to provide price stability in the domestic economy and economic balance in the foreign economy by solving the foreign currency dilemma through an increase in exports. The major elements of the 24 January Decisions announced for the liberalization of the economy are as follows:

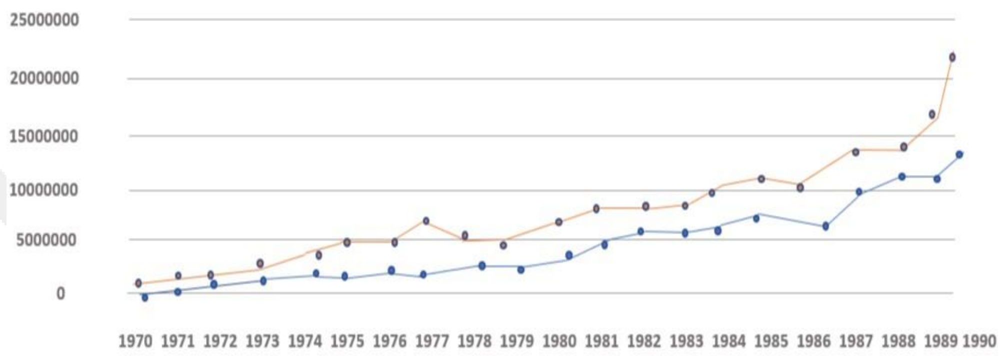
1) Supporting the private sector by minimizing the impact of the state on the economy
2) Shifting to a flexible exchange rate instead of a fixed exchange rate
3) Promoting exports
4) Adopting a low-wage policy in real terms to reduce domestic demand and lower the cost of export goods
5) Promoting foreign capital inflows
6) Applying liberalization in imports to a certain extent
7) Implementing a real interest rate policy

Once we look at the foregoing articles, we can explain the basic principles underlying the 24 January Decisions as follows: the market mechanism and the promotion of competition, together with deregulation and privatization; international economic and financial integration; increasing the volume of foreign trade; balancing foreign debts; and providing economic stability by slowing down the rate of inflation increase.

It is clearly seen that the steps taken within the scope of the deregulation attempts that started in the USA in the transition process to the neoliberal economic system show parallelism with the ten economic policies set out in the Washington Consensus in 1989 at many points. For this reason, Turkey was not late in the transition to the neoliberal economic system; rather, it progressed together with the current global trend in the transformation led by the USA.

Turkey sustained the economic transformation that it started with the 24 January Decisions in 1980 without slowing down during the 1980s. Liberalization and deregulation steps were taken in foreign trade in 1980, in interest rates in 1987, and in foreign capital movements in 1989. With the liberalization of capital movements in 1989, foreign capital inflows into the country increased; as a result, economic growth occurred. The following table shows the change in Turkey’s import and export figures together with the liberalization of trade between 1970 and 1990. In particular, the rapid increase in exports after 1980 demonstrates the positive effects of the new period that started with the 24 January Decisions on exports.

Table 2.1. Import and Export Volumes Between 1970 and 1990



Orange Line : Import, Blue Line : Export, Source : TÜİK

Although a series of liberalization movements and the rapid inflow of foreign capital into Turkey created growth and economic recovery in the short term, they led to fluctuations in economic growth and economic instability because of the failure to create balance in the implementation of macroeconomic policies in the long term. Consequently, Turkey also entered a process of unstable growth and a crisis mechanism, like other developing countries experiencing this process. To sum up this unstable growth and crisis mechanism, even though capital inflows supported economic growth, capital outflows and, consequently, economic collapse were experienced as the foreign debt burden became heavier because of the increasing exchange rate.

When we look at the last thirty years of the Turkish economy, we see that many severe economic crises were experienced. The root cause of these crises is this unstable growth and crisis mechanism. Although the shrinkage experienced in the Turkish economy in 2009 after the economic crises of 1994, 1999, 2001, and the 2008 Crisis was affected by different dynamics, the biggest factor in its emergence as a crisis was the increase in foreign dependency with the uncontrolled liberalization of capital movements, the failure to provide permanent macroeconomic stability, and collapses arising from the rapid increase in internal and external borrowing.

In the following table, GDP, GDP per capita, real GDP growth, inflation, and unemployment rates of Turkey in the period from 1980 to 2008 are given by year.

Table 2.2. GDP, GDP per capita, Real GDP Growth, Inflation and Unemployment rates of Turkey 1980, 2008

Years	**GDP**	**GDP Per Capita**	**GDP Constant Prices**	**Inflation Rate Percent Change**	**Unemployment Rate**
1980	96.6	2,133.7	-0,8 %	110.6 %	7.2 %
1981	97.9	2,133.7	4.4 %	36.4 %	7.2 %
1982	88.9	1,876.6	3.4 %	31.1 %	7.6 %
1983	85.0	1,753.3	4.8 %	31.3 %	7.5 %
1984	82.6	1,668.5	6.8 %	48.4 %	7.4 %
1985	92.8	1,835.2	4.3 %	44.5 %	6.9 %
1986	102.3	1,983.1	6.9 %	34.6 %	7.7 %
1987	118.9	2,260.7	10.0 %	38.9 %	8.1 %
1988	125.0	2,333.2	2.1 %	73.7 %	8.7 %
1989	147.7	2,707.9	0.3 %	63.3 %	8.6 %
1990	207.5	3,738.2	9.3 %	60.3 %	8.0 %
1991	208.4	3,691.4	0.9 %	66.0 %	7.7 %
1992	219.2	3,818.8	6.0 %	70.1 %	7.9 %
1993	248.6	4,261.6	8.0 %	66.1 %	8.4 %
1994	179.4	3,026.7	-5.5 %	104.5 %	8.0 %
1995	233.6	3,880.9	7.2 %	89.6 %	7.1 %
1996	250.5	4,099.2	7.0 %	80.2 %	6.1 %
1997	261.9	4,221.9	7.5 %	85.7 %	6.3 %

1998	275.8	4,384.5	3.1 %	84.7 %	6.4 %
1999	256.6	4,020.3	-3.4 %	64.9 %	7.2 %
2000	274.3	4,238.0	6.9 %	55.0 %	6.0 %
2001	202.2	3,082.9	- 5.8 %	54.2 %	7.8 %
2002	240.2	3,617.2	6.4 %	45.1 %	9.8 %
2003	314.8	4,684.7	5.8 %	25.3 %	9.9 %
2004	409.1	6,015.7	9.8 %	8.6 %	9.7 %
2005	506.2	7,350.9	9.0 %	8.2 %	9.5 %
2006	555.1	7,961.1	6.9 %	9.6 %	9.0 %
2007	680.5	9,640.6	5.0 %	8.8 %	9.2 %
2008	770.8	10,778.1	0.8 %	10.4 %	10.0 %

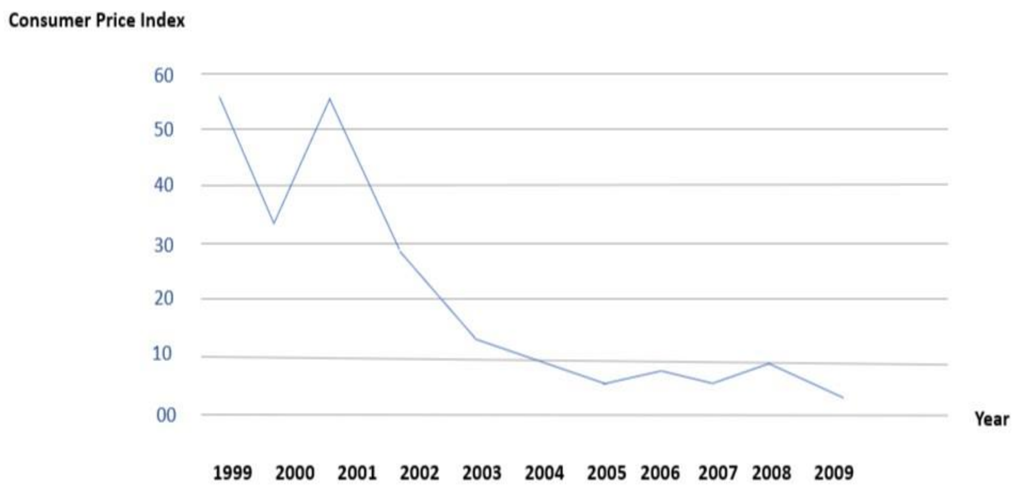
Source: "Report for Selected Countries and Subjects". www.imf.org. Retrieved October 2021.

Once we evaluate the foregoing data, we see that inflation rates decreased and growth increased with the positive developments of the first period in Turkey, which gave up implementing outward-closed, controlled import-substitution economic policies in 1980 and instead started to implement deregulated, free neoliberal economic policies. However, stability in sustaining such positive developments could not be achieved. A collapse was experienced in the economy in 1994, along with the worsening economy, high increases in public debt, and the current account deficit in the late 1980s, and this collapse turned into a crisis. Turkey encountered hyperinflation for the first time in its economic history. With this crisis, Turkey concretely entered the crisis mechanism accompanied by some economic recovery and growth, which is a cycle into which the neoliberal economic system put developing semi-peripheral countries.

From this date onward, the mechanism operated in the same manner, and severe crises were experienced after short periods of relief (the 1999–2001 crises and the 2008 economic contraction). This problem is not intrinsic only to Turkey; it is also a common problem of Latin American countries and other developing countries. It is evidence that the policies presented by the neoliberal economic order for the purpose of improving the economies of developing semi-peripheral countries and providing growth and stability do not bring a permanent solution through their long-term outcomes; on the contrary, they drag deadlocked economies into crisis.

As can be seen from the foregoing table, the economic data that progressed positively after the severe economic crises experienced in 1994, 1999, and 2001 quickly turned negative. A stand-by agreement was signed with the IMF after the 2001 Crisis, the IMF granted Turkey a substantial amount of credit, and comprehensive structural reforms were put into practice. These reforms focused on the restructuring of the banking sector and the circulation of internal debt stock, not on the fight against inflation. In the subsequent process, similar programs were implemented, and as a result, the economy entered a recovery trend again. Inflation rates dropped between 2001 and 2008, and economic growth rates increased. In the following table, the Consumer Price Index data between 1999 and 2009 show the positive impact of the economic reform programs implemented on inflation.

Table 2.3. Consumer Price Index, 12 Months Change (Percent)



Source : TÜRMOB, Ekonomik Rapor 2017, p.30.

It is useful to add the following here: the neoliberalization process of the Turkish economy is remembered through the Turgut Özal era in the 1980s. However, it would be an incomplete assessment to reduce neoliberalization only to this period. Although Turkey first started to implement neoliberal economic policies in this period, the Özal era was the beginning of a long neoliberalization process that would be completed by the AKP government in the early 2000s. The second important break in the process of incorporation into the liberal economic system, whose foundation was laid with Özal, was the arrangements brought by the IMF- and World Bank-supported "Transition to a Strong Economy Program," which was put forward under the leadership of Kemal Derviş after the 2001 Crisis and accelerated the integration of the Turkish economy into the neoliberal system. The main regulations implemented in this program are as follows:

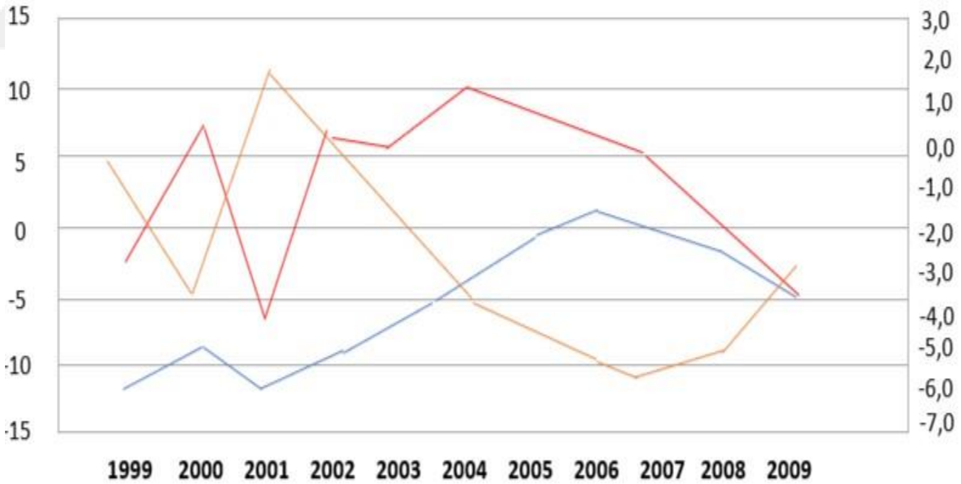
- Structural reforms: A law was enacted to ensure the autonomy of the Central Bank.
- Banking system reforms: The Banking Law was enacted to strengthen the banking system, and the Banking Regulation and Supervision Board was established.
- Interest and foreign exchange policies: A floating exchange rate system was introduced to provide a medium-term perspective for investors.
- Economic growth strategies: A management approach based on tight fiscal policy, an anti-inflationary stance, and a stable economic growth model was established.
- The State Procurement Law was amended, and laws on tobacco, sugar, civil aviation, and telecommunications were enacted.

The AK Party government, which came to power in 2002, fully implemented this economic program until 2007. In this period, employment increased, and economic growth was experienced through many privatizations, foreign capital inflows, expansion in the construction sector, and relaxation and expansion in international markets. However, since this growth was not based on production, was foreign-dependent, and was realized through hot money flows, it was not stable; after the 2008 Crisis, the Turkish economy started to return to its former troubled days and became increasingly fragile.

The Turkish economy re-experienced a short-term period of growth and stability in the mechanism until the effects of the global crisis, which started in the U.S. housing markets in 2008, caused severe collapses in financial markets, gradually turned into a global epidemic, and led to a deep recession in the economies of other countries. Compared with the economic scene in the 1990s, a more stable and growing period was experienced in the Turkish economy, particularly in the period between the 2001 Crisis and the 2008–2009 Crisis. In this period, inflation rates dropped, public debt-to-GDP ratios decreased, and foreign capital inflows and investments increased.

The graphic showing primary economic data such as GDP growth, the current account balance, and the public sector borrowing requirement is given in the following figure:

Table 2.4. The Main Economic Indicators of Turkey Between 1999 and 2009 [2]



Red Line: GDP Growth (Percentage) Orange Line: Current Account Balance (Rate to GDP, Percentage, right axis) Blue Line: Public Sector borrowing requirement (Rate to GDP, Percentage)

Source: Data of Turkish Statistical Institute, Under secretariat of Treasury, Ministry of Development and Turkish Republic Central Bank

[2] TÜRMOB, **Ekonomik Rapor 2017**, p. 31.

Before examining the effects of the 2008 Crisis on the Turkish economy, we will examine the pre-2008 economic structure and history of Brazil, the other country used for comparison within the scope of our study.

2.1.2. Overview of the Brazilian Economy Pre-2008

Brazil is also included in the group of developing semi-peripheral countries, just like Turkey. For this reason, the Brazilian economy has always been in search of permanent stability, like the Turkish economy. It is seen particularly in the process of articulation with the neoliberal system after the 1980s and in the programs implemented to overcome the economic crises of the 1990s and recover the economy that Brazil bears similar dynamics to Turkey. Also, Brazil sustained the import-substitution industrialization policy that it started to implement in the 1950s during the period between 1960 and 1980, like Turkey.

The history of Brazil's development efforts intended to provide economic stability dates to the 1960s. Like Turkey, it is seen that the current political conjuncture was effective in the emergence of development efforts in the 1960s. Brazil, whose political history was full of coups, remained under military government until 1985 because of the coup experienced in 1964. Through the development plans announced in this period, it was aimed to control inflation, increase the economic growth rate, reduce poverty by increasing the welfare levels of society (Union of Chambers of Turkish Engineers and Architects). Annual economic growth rates of 5.9% between 1960 and 1970 and 8.6% between 1970 and 1980 were achieved through the economic development programs implemented.

Economic plans were brought into force to make comprehensive corporate and financial reforms to maintain economic growth once the military government ended and the civilian government came to power in

1985. The Cruzado Plan, Bresser Plan, Cruzado Novo Plan, and Collor Plan were applied respectively for the purpose of bringing down the rising inflation rate in the period between 1985 and 1990; however, inflation could not be lowered, and foreign trade deficits also continued above 10%. Consequently, economic growth was not achieved in this period, and the problem of financing sources could not be solved in the economy due to foreign debt payments and capital outflows despite the increase in exports and growth in foreign trade. Inflation climbed to levels of 1,500% in 1989, 3,000% in 1990, and 1,900% in 1994. The Real Plan, which took its name from the country's new currency, was put into practice in 1994 for the purpose of bringing down inflation quickly. Brazil also put into practice the reforms required by the neoliberal economic system, as well as the stability plan based on the foreign exchange rate implemented until 1999. State intervention in prices and wages was removed, foreign capital inflows into the country were promoted, tariffs and obstacles in foreign trade were lowered, and privatization policies were implemented intensively. The inflation rate gradually dropped along with these reforms and regressed to 3.2% in 1998.

In the following table, GDP, GDP per capita, real GDP growth, inflation, and unemployment rates of Brazil in the period from 1980 to 2008 are given by year.

Table 2.5. GDP, GDP per capita, Real GDP Growth, Inflation and Unemployment rates of Brazil from 1980 to 2008

Years	GDP	GDP Per Capita	GDP Growth	Inflation Rate Percent Change	Unemployment Rate
1980	145.8	1,229.9	9.2 %	90.2%	n/a
1981	167.6	1,382.5	-4.4 %	101.7%	n/a

1982	179.2	1,446.2	0.6 %	100.6%	n/a
1983	143.7	1,134.9	-3.4 %	135.0%	n/a
1984	143.0	1,105.9	5.3%	192.1%	n/a
1985	226.9	1,719.5	7.9%	226.0%	n/a
1986	263.3	1,955.1	7.5%	147.1%	n/a
1987	286.5	2,087.4	3.6 %	228.3%	n/a
1988	320.1	2,289.4	0.3 %	629.1%	n/a
1989	439.4	3,087.9	3.2%	1,430.7%	n/a
1990	455.3	3,106.1	−4.2%	2,947.7%	n/a
1991	399.2	2,677.8	1.0 %	432.8%	10.1%
1992	382.5	2,523.7	−0.5 %	952.0%	11.6 %
1993	429.2	2,787.2	4.7 %	1,927.4%	11.0%
1994	546.8	3,495.2	5.3%	2,075.8%	10.5%
1995	770.9	4,852.0	4.4%	66.0%	9.9%
1996	851.1	5,204.6	2.2%	15.8%	11.2%
1997	883.9	5,321.1	3.4%	6.9%	11.6%
1998	864.3	5,123.5	0.3%	3.2%	14.7%
1999	599.6	3,501.4	0.5%	4.9%	14.7%
2000	655.5	3,772.1	4.4%	7.0%	13.9%
2001	560.0	3,177.9	1.4%	6.8%	12.5%
2002	509.8	2,856.0	3.1%	8.5%	13.0%
2003	558.2	3,089.1	1.1%	14.7%	13.7%
2004	669.3	3,660.0	5.8%	6.6%	12.9%
2005	891.6	4,819.9	3.2%	6.9%	11.4%
2006	1,107.6	5,921.2	4.0%	4.2%	11.5%
2007	1,397.1	7,380.7	6.1%	3.6%	10.9%
2008	1,695.9	8,878.4	5.1%	5.7%	9.4%

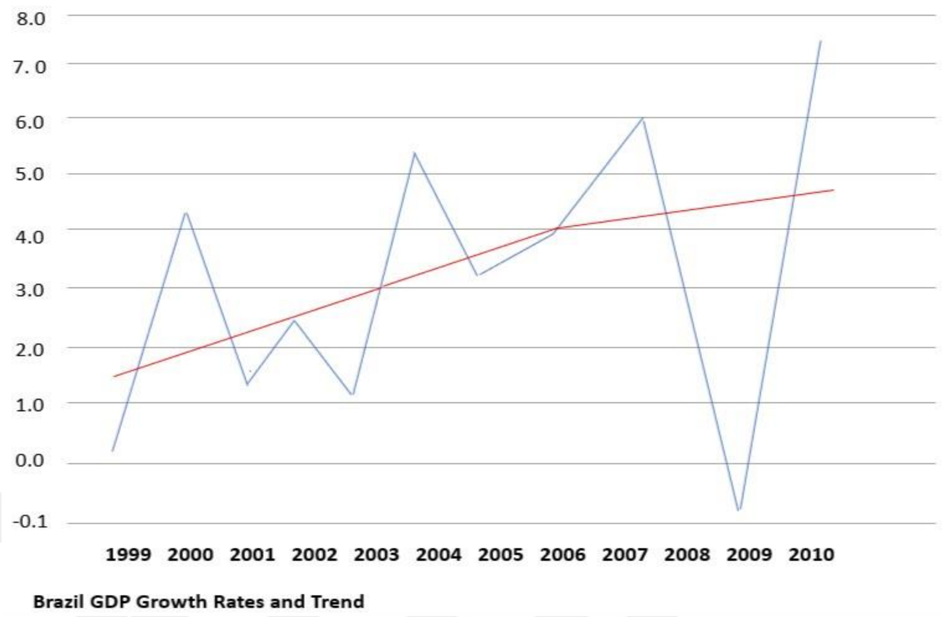
Source: "Report for Selected Countries and Subjects". www.imf.org. Retrieved October 2021.

Once we evaluate the foregoing data, inflation, which could not be controlled even though it was brought down from time to time in the 1980s and reached thousands of percent in 1989, completely got out of control and became an ever-growing problem. Some economic recovery and stability were provided through a series of neoliberal reforms, such as deregulation, liberalization, foreign trade liberalization, and privatization, which were implemented to fight against inflation in 1994. Inflation was lowered from thousands of percent to 3.2% in 1998, and afterwards, single-digit rates could be maintained, with some exceptions.

Although inflation was brought down and kept under control, economic stability could not be achieved. The macroeconomic structure deteriorated, and foreign borrowing increased. The 1998 Russian Crisis deeply affected Brazil; however, economic growth continued in 1999 and 2000, even if at a lower level. However, Brazil also faced an economic crisis in 2001, as Turkey did. It entered negotiations with the IMF, like Turkey, and a stand-by agreement was signed within the framework of the economic stability program. As a result of the strict financial and monetary policies implemented within the framework of this agreement, the Brazilian economy entered a rapid recovery trend again from 2003 until the 2008 economic crisis. The Brazilian economy grew at an average rate of 4% over the five-year period between 2003 and 2008, and outward foreign investments increased by 10%.

This positively progressing picture would be negatively affected by the 2008 Crisis, as in other countries. In the following graphic, Brazil’s GDP growth rate and trend between 1999 and 2010 are shown.

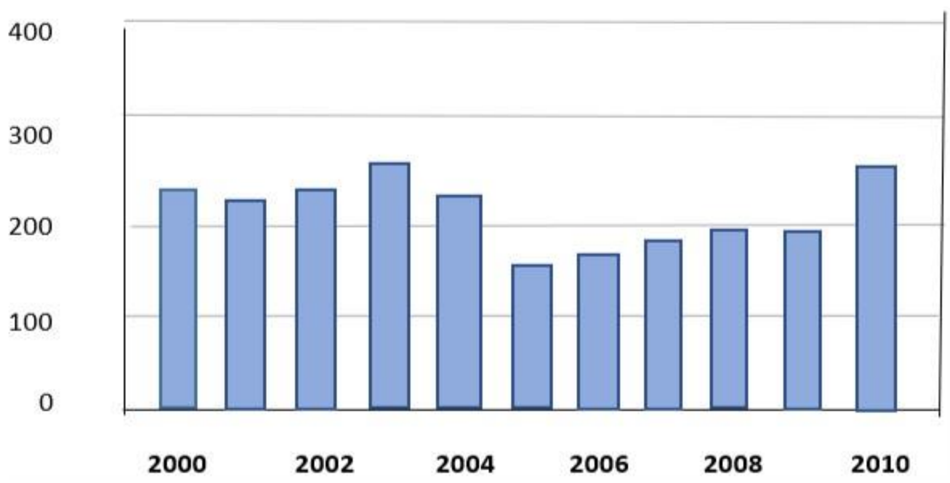
Table 2.6. Brazil's GDP Growth Rate and Trend Between 1999 And 2010



Source: https://www.researchgate.net/figure/Brazil-GDP-Growth-Rates-and-Trend, Feb 2021 (available)

In the following graphic, Brazil's foreign borrowing rates between 2000 and 2010 are shown.

Table 2.7. Brazil's Borrowing Rates 2000-2010



Source: Central Bank of Brazil and Focus Economics calculations.

2.1.3. Conclusion

Once all these are considered, it is seen that the economic problems, crises, and reforms that Turkey and Brazil experienced between 1980 and 2008 largely bear parallelism. Both developing countries were included in the crisis cycle arising from collapses following short-term growth periods by being integrated into the neoliberal economic system for the purpose of fighting inflation and providing economic growth and economic stability, and they were exposed to the operation of the same mechanism during this process.

Due to this mechanism operating in a vicious cycle, both countries were caught in a highly fragile, unstable, and vulnerable position within the existing neoliberal system integrated with globalization against the crisis that would break out in the USA in 2008, and they experienced the outcomes of all these developments in their economies with deep impacts.

In the next heading, we will examine the changes that occurred in the economies of both countries before and after the 2008 Crisis.

2.2. Turkish and Brazilian Economies After the 2008 Crisis

2.2.1. Outbreak of the 2008 Crisis

The last major crisis of capitalism emerged in the housing market in the USA in 2007, then spread to financial markets, turned into a general economic depression, and moved to other countries. Unlike other major crises generated by capitalism, it is also defined as the global crisis of capitalism.

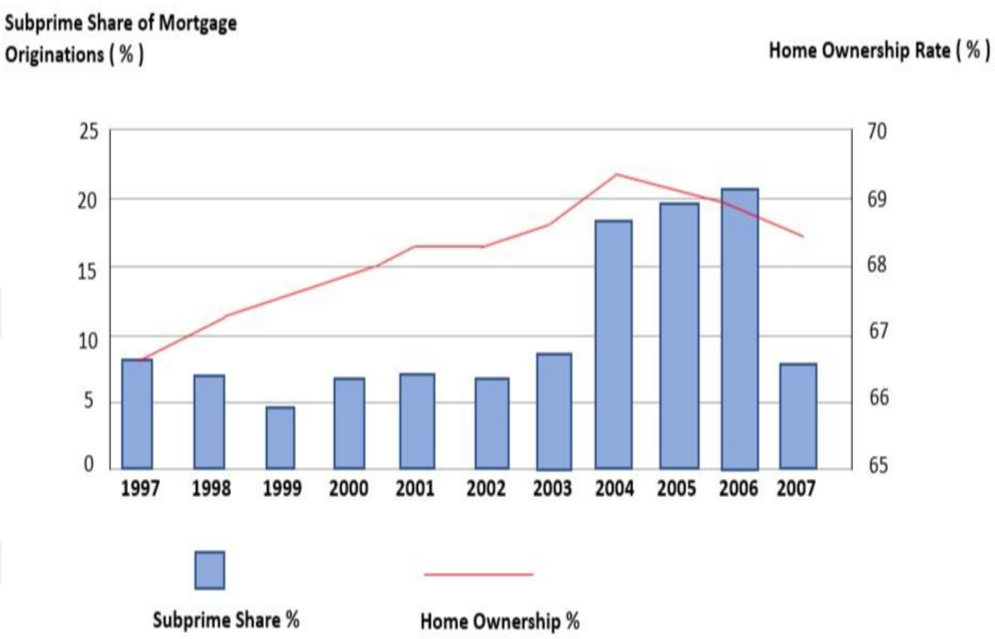
As we explained in the first part, the two main reasons why the crisis spread rapidly to other countries are the liberalized economic and financial markets integrated with one another within the dynamics of the neoliberal economic system and the interaction that increased with the removal of borders in the fields of economy and trade as a result of globalization, as in every field.

This crisis, which emerged in the housing markets in the USA in 2008 and then spread to financial markets, is also called the Mortgage Crisis. In a study jointly conducted by economist Costas Lapavitsas and the SOAS-centered working group Research on Money and Finance (RMF), it was argued that the reason for this crisis was financialization. According to Lapavitsas, two main interrelated dynamics lie at the heart of the 2007–2008 crisis. The first is the financialization of worker incomes in the USA, and the second is changes in the banking system. Lapavitsas defined these two emerging developments as financialization.

According to Lapavitsas, to understand the mechanism behind the outbreak of the crisis, the relationships among the U.S. housing market, the working class, and the financial system should be examined. With the opening of subprime product markets in the 2000s, housing credits started to be granted to the poorest segments of the country, and these groups were burdened with debt. The crisis, which started with the failure to pay these debts, spread throughout the world through securitization, a new practice developed in the financial system. In fact, the subprime market was not large enough on its own to affect U.S. markets. Here, the problem started when debts based on mortgage loans were divided into fragments and new securities were produced by mixing these fragments with debts in different compositions. As a result, debts based on mortgage credit were purchased by financial institutions across the world and generally included in the financial system. This bubble created in the housing sector burst with the decline in housing prices, dragging those who had become indebted with adjustable-rate interest into bankruptcy due to the increase in interest rates. The crisis, which started in this manner, rapidly spread to investment banks and then to the normal banking system once liquidity in the interbank monetary market ran out.

In the following graphic, the development of the subprime market can be seen. It indicates that subprime debt began to grow significantly from 2004 onward.

Table 2.8. Development of The Subprime Market in USA



Source: U.S Census Bureau; Harvard University – State of Nation's Housing Report

2.2.2. Effects of the 2008 Crisis on Turkish and Brazilian Economies

The 2008 Crisis also seriously affected the economies of developing semi-peripheral countries by rapidly spreading from its epicenter, the USA, to other countries, just as it produced deep impacts on the economic and financial markets of the USA. There are many different reasons why the crisis affected developing countries. The leading reason is that hot money in developing countries started to withdraw with the crisis. Hot money started to leave developing countries due to the fear that money outflows could create problems for the increasing financial needs of the economies that were the source of hot money and the idea that the crisis would affect developing countries. Also, the decline in economic growth in developed countries reduced demand, and because of this, imports from developing countries started to decline. The trade income of countries whose import rates declined fell, and thus their growth rates slowed down.

In the following tables, the pre- and post-2008 crisis world economy, production growth rates, and foreign trade volume rates in developed and developing countries are shown, respectively.

As can be seen in the foregoing tables, serious shrinkages were experienced in production and trade in the world economy with the 2008 economic crisis. These data demonstrate once again that the crisis was a global crisis affecting both developed and developing countries.

Table 2.9. Increase Rate Production in the World Economy (%)

	2005	2006	2007	2008	2009
World Economy	4,4	5,1	5,0	3,0	3,0
Developed Countries	2,6	3,0	2,6	0,6	0,5
Developing Countries	7,1	7,9	8,0	6,0	6,1

Source: IMF, World Economic Outlook, April 2008; World Economic Outlook, October 2008

Table 2.10. Trade Volume in Developed and Developing Countries (%)

	2005	2006	2007	2008	2009
World Trade Volume	7,6	9,3	7,2	2,6	4,1
Developed Countries Export	6,0	8,4	5,9	-0,1	2,5
Developing Countries Export	11,1	11,0	9,5	5,6	7,4
Developed Countries Import	6,3	7,5	4,5	-2,2	1,1
Developing Countries Import	12,0	14,7	14,2	7,2	10,5

Source: IMF, World Economic Outlook, April 2008; World Economic Outlook, October 2008, World Economic Outlook, June 2009

To sum up, since the economies and financial markets of developing countries directly depend on external markets, that is, developed countries, in the neoliberal economic order, any problem experienced in developed countries extends to developing countries and results in mutual contraction. In this part, we will examine how the two semi-peripheral countries that we compare in our study, Turkey and Brazil, were affected by the 2008 Crisis.

2.2.3. Effects of the 2008 Crisis on Turkey's Economy and Afterwards

After the 2001 Crisis, by which Turkey was deeply affected, the Turkish economy experienced a period of rapid growth and recovery until 2008 as a result of excess liquidity and the generally positive conjuncture in world financial markets, as well as the impact of the political stability process that started in the country in 2002. Inflation rates dropped, hot money inflows into the country increased, and the economic recovery accompanied by the abundance of foreign capital brought through short-term investment channels, the privatization of public economic enterprises, and direct investments was concretely felt.

However, this abundance of liquidity disappeared after the 2008 Crisis, and net capital inflows into Turkey fell to zero between December 2008 and March 2009. In the same period, while portfolio investments were leaving the country, foreign direct investment inflows declined seriously. Thus, the period of abundance experienced in the general economy through long-lasting hot money inflows ended sharply. Also, Turkey's export figures dropped, and its economy experienced a contraction because European countries, which had a large share in Turkey's trade network, suffered an economic contraction with the crisis. With increasing uncertainty in the crisis environment, investment and consumption expenditures in the country decreased, the propensity to save increased, and thus shrinkages were experienced in domestic demand. As a result of all these developments, growth

rates started to drop in the second quarter of 2008, and an economic contraction was experienced.

Turkey started to feel the impacts of the crisis more heavily in 2009. The Turkish economy experienced a contraction of 4% in 2009, the export growth rate declined by more than 20%, and the import growth rate declined by 30%. The unemployment rate, which had remained at single-digit levels in the preceding years, rose above 10% in 2008 and 2009. Likewise, the inflation rate climbed from single-digit figures to two-digit figures. Inflation, which was 8.8% in 2007, reached 10.4% in 2008.

In the following table, GDP, GDP per capita, real GDP growth, inflation, and unemployment rates of Turkey in the period between 2008 and 2020 are given by year.

Table 2.11. GDP, GDP per capita, Real GDP Growth, Inflation and Unemployment rates of Turkey in 2008-2021

Years	GDP	GDP Per Capita	GDP Growth	Inflation Rate Percent Change	Unemployment Rate
2008	770.8	10,778.1	0,8 %	10.4 %	10.0 %
2009	648.8	8,941.4	−4.7 %	6.2 %	13.1 %
2010	776.6	10,533.5	8.5 %	8.6 %	11.1 %
2011	838.5	11,221.4	11.1 %	6.5 %	9.1 %
2012	880.1	11,637.9	4.8 %	8.9 %	8.4 %
2013	957.5	12,489.0	8.5 %	7.5 %	9.0 %

2014	938.5	12.079,3	4.9 %	8.9 %	9.9 %
2015	864.1	10,973.6	6.1 %	7.7 %	10.3 %
2016	869.3	10,891.2	3.3 %	7.8 %	10.9 %
2017	858.9	10,628.9	7.5 %	11.1 %	10.9 %
2018	779.7	9,508.0	3 %	16.3 %	10.9 %
2019	760.5	9,145.8	0.9%	15.2%	13.7%
2020	719.9	8,610.0	1.8%	12.3%	13.1%
2021	796.0	9,406.6	9.0%	17.0%	12.2%

Source: "Report for Selected Countries and Subjects". www.imf.org. Retrieved October 2021.

Turkey recovering from the first shock wave of the crisis entered a recovery process in 2010 because of the monetary policy practices applied in central countries. The central countries wishing to reactivate the credit market and the practices of the central banks wishing to pull the interests to historically low levels caused the capital requiring high return to flow into the developing countries, Turkey also got its share from the current wave. As a result of these hot money inflows, the interests showed a decline in Turkey, it was returned to the pre-2008 crisis economic recovery period. Turkish economy growing at 9,2% in 2010 and 8,8% in 2011 was ranked among the fastest-growing economies of the world. However, the current deficit started to increase in the same manner because of the import increasing once TRY raised in value in this period. On the other hand, TRY gaining in value paved the way for the private sector to borrow, thus, the currency risk was spreading to the whole economy. In 2012, the growth rate of Turkish economy also experienced a sharp decline and realized at 2,2% because of the shrinkage in the world economy globally, the economic recession in Europe and taking measures against the current deficit by limiting the credit expansion. In 2013, after FED announced to apply a modification in stock purchasing program and cease the monetary expansion program, the hot money inflow to the developing countries started to decrease. Also, a new negative-way breakage process was experienced in Turkish economy because of the social (Gezi Park Resistance) and political (corruption and bribery operations) movements in the country at the same period. In this process, Turkish Lira started to lose in value, the loss in value of Turkish Lira was at 25% at the end of January 2014. The loss in value in the rate continued in the following years and caused the Turkish economy to experience a rate crisis. The borrowing of the private sector in foreign currency in the economic growth period led the rate risk to spread to the whole economy. Once TRY started to lose in value, the burden of the foreign currency debt gradually increased.[3]

We can see the depreciation of TRY versus US Dollar between 2014-2022 in the following table;

Table 2.12. USD To TRY Historical Rates

Source: https://tradingeconomics.com/turkey/currency, Feb 2022, (available)

The limited growth of Turkish economy and depreciation of Turkish Lira continued in 2014 and 2015 years. As a result of the political (coup attempt, increasing terrorism incidents) and social problems experienced

[3] Akçay, Güngen, **op.cit.**, pp. 223-225.

domestically in 2016, the expectations for the economy deteriorated and the growth could reach 3.2%. The unemployment rates and inflation increased in Turkish economy undergoing difficult times between 2016-2019, the economic growth decreased. In August 2018, the exchange rate climbed to 7.22 and reached a record high. Also, as from the fourth quarter of 2018, Turkish economy started to shrink. The growth passed in the positive direction again only in the third quarter of 2019. In the economy wearing due to the rate crisis in 2018 and 2019, the inflation and unemployment rates also increased. The unemployment rate that was 10,9% in 2017 realized at 11% in 2018 and 13.7% in 2019. The inflation realized at 11,92% in 2017, 20.30% in 2018 and 11,84% in 2019.

Turkish economy was also heavily influenced by the Covid-19 global pandemic exercising control over the whole world in 2020, like the whole world. The Great Lockdown was described as the worst economic bottleneck experienced as from 1929 Great Depression made heavier negative impact on the global economy, compared with 2008 Crisis. With the global pandemic, the stock market across the world experienced a decline, the unemployment rates increased, the tourism and service sectors that were mostly influenced by the pandemic came to a halt, the production and employment rates dropped, the world economy entered a shrinkage process.

Turkey did not feel the impacts of the pandemic so much in the first quarter and grew at 4.5%, however, the economy experienced a shrinkage at 9.9% along with the shrinkages experienced in the industry and service sectors since the impacts of the pandemic were heavily felt in the second quarter. In the third quarter, it showed a higher performance than expected and experienced growth at 6.7%. The inflation rate realized at 14,6% and unemployment at 12.9% as of December 2020.[4] The 2020 pandemic crisis

[4] "Türkiye Ekonomisinde 2020 Bilançosu", https://www.bloomberght.com/turkiye-ekonomisinde-2020-bilancosu-2271758, (31 December 2020)

whose global impacts were heavier than 2008 Crisis left too heavy impacts on Turkey whose economy was fragile and unstable. Thus, 2020 was ranked among the years going difficult for Turkish economy.

2.2.4. Effects Of 2008 Crisis on Brazil's Economy and Afterwards

Brazil that is another developing semi-periphery country also felt the adverse effects of 2008 economic crisis deeply. The pre-crisis economic history of Brazil shows significant similarity with Turkey. Like Turkey which entered an economic recovery after 2001 Crisis, Brazil also experienced a positive-way process economically in the same period. In the Brazilian economy whose recent past passed in crises and fight against economic instability, the growth rate realized at 4% in average between 2003-2008, the hot money inflow into the country showed an increase at a rate of 10% due to the liquidity abundancy experienced in the world financial markets. As a result of the increasing foreign investments and import volumes, the Brazilian economy revived and grew in a stable manner. With 2008 Crisis, this positive scene in the economy started to deteriorate gradually and to change in a negative way. The increasing export volume shrank, a recession process was entered into in the industrial field, the unemployment rate started to increase, and the economic growth declined. The effects of the crisis became heavier in 2009, and these effects reflected on the economic indicators concretely. While the unemployment rate was 7.9% in 2008, it climbed to 8.1% in 2009. Particularly, sharp falls were standing out in the increase rates of export and import volumes. The export increase rate experienced a decline at 22.71% and the import increase rate declined to 26.71% in 2009.[5]

[5] Ali Fidan, Emine Fırat, "2008 Küresel Finans Krizinin Gelişmekte Olan Ülke Ekonomilerine Etkisi: BRIC Ülkeleri – Türkiye Karşılaştırması ", **Sosyal Ekonomik Araştırmalar Dergisi**, Vol. 20., No. 39., pp. 96-97.

In 2010, the Brazilian economy entered a recovery process because of the monetary policy practices implemented in the central countries, like Turkey. The central countries wishing to reactivate the credit market and the practices of the central banks wishing to pull the interests to historically low levels caused the capital requiring high return to flow into the developing countries, Brazil also got its share from the current wave. In 2010, the economic growth realized at 7.5% and the increase in the industrial production realized at 10.1%. In 2011, the growth rate of the Brazilian economy exhibiting a shrinking structure compared with the previous year was 2.9%. In this period just after the global economic crisis, another reason for the growth-way movements of the Brazilian economy is the existences of the political stability in Brazil. The political stability in the country led the investors to see Brazil as an attractive country and the foreign capital inflow increased. Thus, while the rate of total investments to the national product was at 15% in 2003, it climbed to the levels of 19% in 2012. Brazil became the country directly taking the highest foreign investment with 65 billion of USD in 2012.[6]

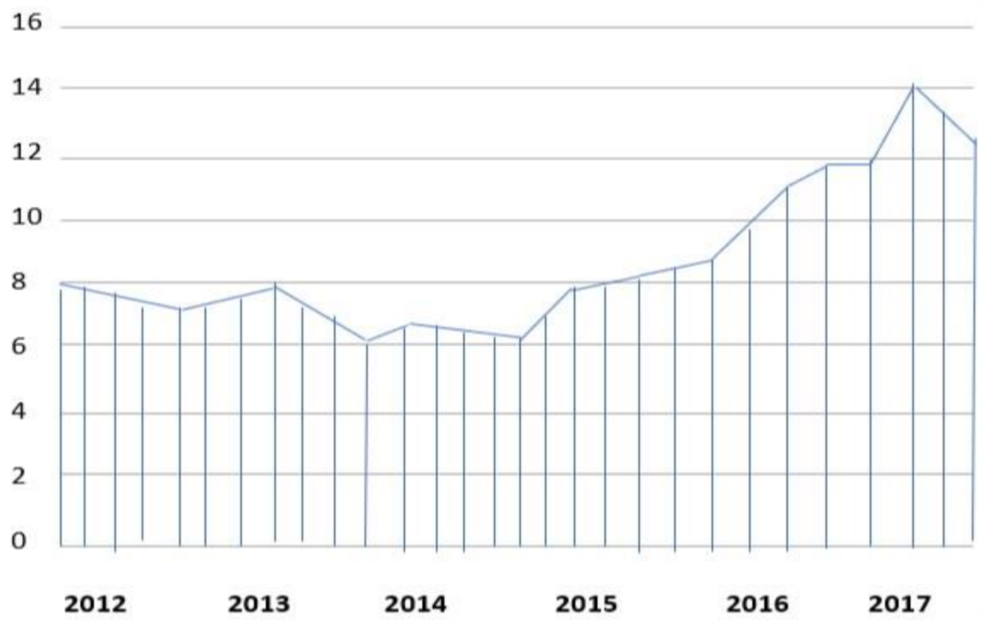
However, suffering from a shrinkage in the global economy in 2013 and the announcement of FED regarding the termination of the expansionary policies impaired the short recovery period balance of the Brazilian economy after the 2008 Crisis, in just the same way in Turkish economy. The economic growth came to a standstill in 2014 and realized at 0,1%. In the same period, once the demand for commodity and industrial raw materials that are the biggest items in the export of Brazil with a rate of about 50% decreased as a result of the global recession, the Brazilian economy suffered a more negative-way impact from the existing shrinking global economy compared with the other developing countries. As a result of the increase in

[6] Türkiye Cumhuriyeti Ekonomi Bakanlığı Sao Paulo Ticaret Ataşeliği, **Brezilya'daki Yatırım İmkânları Hakkında Not,** February 2013, pp. 1-3.

the inflation and unemployment rates and with a shrinkage of 3.8% in 2015 and 3.6% in 2016, the Brazilian economy continued to shrink. Also, the political instability starting after the corruptions which the state in the country made in this period deciphered was a factor in the deterioration of the course of the economy.

In the following graphic, the unemployment rates of Brazil between 2012-2017 were shown. Once we look at the graphic, it is clearly seen that the unemployment rate started to increase rapidly as from 2015;

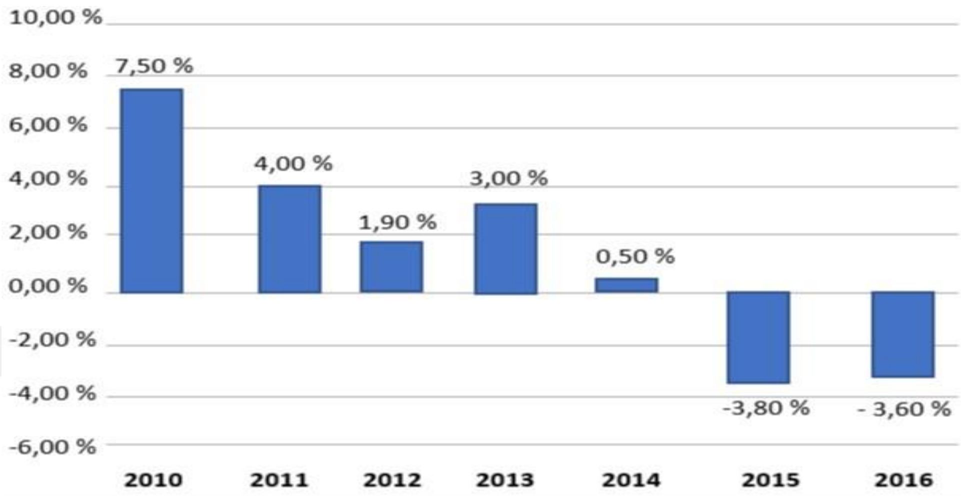
Table 2.13. Unemployment Rate in Brazil (2012-2017)



Source: ***"Desemprego | Pnad | IBGE"*****. 2017-11-06. Archived from *****the original***** on 2017-11-06. Retrieved 2017-11-26.**

In the following graphic, Brazil GDP rates between 2010-2016 were shown; the economic shrinkage between 2015 and 2016 years with the recession and crisis starting in 2014 is clearly seen.

Table 2.14. Change in GDP from 2010 to 2016 in Brazil



Source: **"Economia encolhe 3,6% em 2016 e país tem pior recessão da história"**, Retrieved 6 June 2017

Also, BRL started to lose in value in this period, just as in Turkey. The depreciation of Real, currency of Brazil, starting in the third quarter of 2014 continued until the early 2016.

Once we also look at the graphic of USD BRL Exchange rate between 1996-2020, we clearly see the depreciation of BRL versus USD in a sharp way as from 2014;

Table 2.15. USD- BRL Exchange Rate Between 2014-2022

Source : Brazilian Real Data, https://tradingeconomics.com/brazil/currency, Feb 2022 (available)

The economic recession in Brazil starting with the decrease in inflow of foreign capital and export along with the commodity price shock as from the mid of 2014 entered a recovery process again in the first quarter of 2017, although it was a small recovery. The growth rate going negatively for the last two years realized at 1.1% in 2017 and showed a positive-way change. After this period, the Brazilian economy displayed a quite slow and small expansion and continued to grow until the global pandemic. The Brazilian economy generally taking its share from the economic shrinkage in the world with the global pandemic Covid-19, also started to shrink. Particularly, the trade with China having a share of 30% in total export deteriorating and coming to standstill in 2019 dealt a big blow to Brazil. Likewise, Covid-19 reduced the global demand for the raw material export of Brazil and caused a decline in the commodity prices. The internal and external demand decreased, and the value of Real currency dropped. In 2020, the Brazilian economy experienced a shrinkage of -5.8%. While unemployment was at about 12%, inflation realized at about 3%. After the economic depression in 2014, the global pandemic problem caused Brazil, one of the biggest economies of Latin America, entering a recovery process again in 2017, to face with the economic instability and crisis mechanism again.

Table 2.16. GDP (in Bil. US$ nominal), GDP Per Capita (in Bil. US$ nominal), Real GDP Growth, Inflation (%) and Unemployment Rates (%) of Brazil In 2008-2021

Years	GDP Current Prices	GDP Per Capita	GDP Constant Prices	Inflation Rate Percent Change	Unemployment Rate
2008	1,695.9	8,878.4	5.1%	5.7 %	9.4%
2009	1,669.2	8,649.6	−0.1%	4.9 %	9.7 %
2010	2,208.7	11,333.0	7.5 %	5.0 %	8.5%
2011	2,614.0	13,295.9	4.0 %	6.6 %	7.8%
2012	2,464.1	12,424.9	1.9 %	5.4 %	7.4%
2013	2,471.7	12,358.3	3.0 %	6.2%	7.2%
2014	2,456.1	12,175.7	0.5 %	6.3 %	6.8%
2015	1,800.0	8,846.5	−3.5 %	9.0%	8.3%
2016	1,796.6	8,757.3	−3.3 %	8.7%	11.3%
2017	2,063.5	9,978.1	1.3%	3.4%	12.8%
2018	1,916.9	9,194.1	1.8%	3.7%	12.3%
2019	1,877.1	8,932.4	1.4%	3.7%	11.9%
2020	1,434.1	6,783.0	-4.1%	3.2%	13.2%
2021	1,645.8	7,689.8	4.7%	4.6%	14.5%

Source : ***"Report for Selected Countries and Subjects"*****. www.imf.org. Retrieved October 2021.**

2.3. Conclusion

The economies of the developing semi-periphery countries Turkey and Brazil largely integrated into the neoliberal economy system at the early 2000’s, adopted the IMF economy policies and called as twin brother, experienced quite similar exposures due to the global crisis of the capitalism and for the same reasons afterwards.

The impacts of the global crisis were deeply felt in 2009, after the practices of the central countries wishing to reactivate the credit market in 2010 and 2011 and central banks pulling the interests down to the historical low levels caused the capital requiring high return to flow to the developing countries, Turkey and Brazil taking advantage of this positive wave experienced a relief process after the crisis.

However, this short-term recovery period ended once a shrinkage was experienced in the global economy and FED announced to terminate the expansionary policies in 2012-2013. As a result of the ever-worsening rate shock in Turkish economy after this date, a decline in the export level of the Brazilian economy, 2014 recession and a deadlocking economy emerged. In the same periods, the increasing political upheavals, instability, and social stress in both countries had an accelerating impact on the poor course of the economy. Even if Brazil started to get out of the recession in the first quarter of 2017, it displayed a recovery performance at too low levels until 2019-2020. Turkish economy started to shrink in the fourth quarter of 2018, TRY experienced a historical depreciation, the inflation and unemployment rates increased. Both countries whose economies were already vulnerable entered into a difficult process again with the global pandemic starting at the end of 2019.

As will be understood from the foregoing information; the biggest problem for the semi-periphery countries joined into the neoliberal economic order is the failure of providing economic stability. The economic growth cannot get rid of the crisis and collapse mechanism in a continuous vicious cycle. The Turkish and Brazilian economies are always highly vulnerable since their foreign-dependent economies continuously need inflow of foreign capital and hot Money into the economy of the country, they are highly vulnerable against the rate risk and the neoliberal economy is quickly and directly affected from the economic and financial conditions of the developed central countries that are policymakers. After the 2008 Crisis, no important structural changes that would weaken the impact of the neoliberal system were experienced in both countries. On contrary, it was tried to overcome the negative effects of the crisis with more neoliberalization and consequently, the financialization crisis mechanism continued.

The neoliberal economy policies recommended for providing economic stability in the developing countries have been directing the economic and financial structures of these countries for about 30 years, if we are based in the 1990's. However, according to the information we discussed in our study; we note that this argument of the neoliberal system is quite invalid, while the permanent economic stability could not be achieved, the action-reaction threshold drops in the ever-integrating global order and makes the economies of the developing countries more vulnerable. If this current order continues, the semi-periphery countries cannot get rid of the financialization and crisis cycle through more neoliberalization practices and will never achieve economic stability. Once we look from this perspective; Turkish and Brazilian economies are always open to experience new instabilities, depressions and collapses in the future periods.

CHAPTER THREE

3. EFFECTS OF THE 2008 CRISIS ON THE REAL SECTOR IN TURKEY'S AND BRAZIL'S ECONOMIES

3.1. Introduction

In the previous section, we examined how the 2008 Crisis affected Turkey and Brazil financially. In this section, we will focus on the effects of the crisis on real sectors such as construction and automotive in both countries. The real sector is the segment of the economy that consists of the commodity markets that include agriculture, industry and service sectors, where the main production is made using raw materials, intermediate goods and other production factors.[7]

The financial sector and the real sector are interconnected and in constant interaction. When we consider the finance sector as a superstructure, the real sector is the infrastructure. Production activities are carried out in the real sector with the resources created in the finance sector, therefore, negative developments in the financial sector affect the real sector in the long run and cause economic depression. Such a process was experienced during the 2008 Economic Crisis. The crisis that emerged as a mortgage crisis in the USA later turned into a liquidity crisis and spread to the financial markets and from there to the real sector. This process was also experienced in the developing semi-peripheral countries Turkey and Brazil, which were affected by the crisis. The underlying reasons for the negative effects on the real sector markets in the two countries are common. As a result of banks having difficulties in finding funds due to demand decrease in the global economy after the crisis, cutting foreign capital, that is, hot money, from the USA and Europe to developing countries, high current account deficit funding becomes difficult, depreciation of local currencies and the credit

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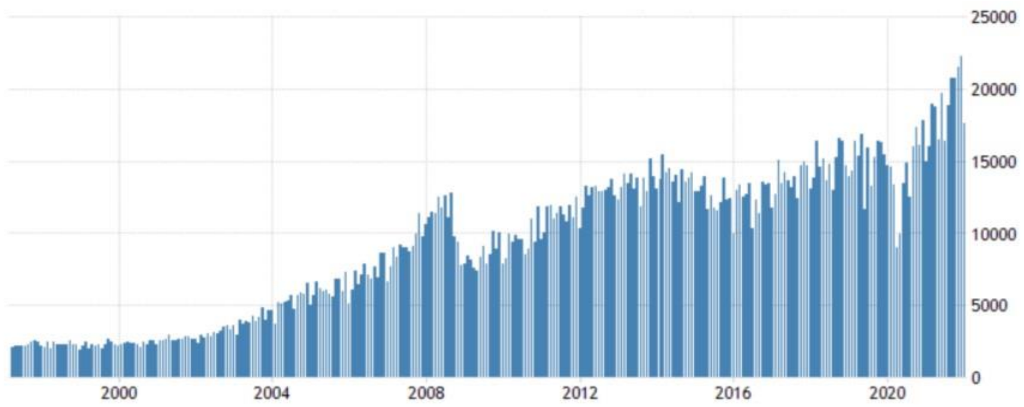
[7] **Reel Sektör Nedir? https://www.bankalar.org/bankacilik-terimleri/reel-sektor--reel-kesim-/ ,** Feb 2021 (available)

contractions that emerged consequently, the resource needs of the real sector have started to not be met, and with this, the production of goods and services started to shrink. The contraction in the real sector results in the contraction of the economy and increase in unemployment rates.

3.1.1. Turkey

In Turkey, the effects of the crisis were strongly experienced in the real sector. As a result of the decrease in domestic demand due to credit contraction that started with the crisis, foreign exchange liquidity problem arising from the decrease in portfolio investments, declining foreign trade volume and export rates due to the decrease in global demand and the perception of uncertainty created by the crisis, the decrease in consumption negatively affected the real sector, which is the segment where all kinds of goods and services are produced. As a result of all these, Turkey's export rate decreased in 2009 consequently. The chart below shows Turkey's export figures between 2000 and 2020, when we examine the chart, the sharp decline in 2009 is striking.

Table 3.1. 2000-2020 Turkey's Export Value



Unit: USD Million, Frequency: Monthly,

Source: https://tradingeconomics.com/turkey/exports

3.1.1.1 Construction Sector

The construction sector in Turkey has become one of the rapidly growing sectors since the early 2000s. As the country's economy is also in a period of growth, the construction industry has benefited from the positive atmosphere of the period. During this period, the growth in the construction sector was approximately twice the growth rate of national income. The construction sector, which has a significant share in the real sector in the Turkish economy, has also taken its share from the economic contraction that started after the 2008 crisis. During this period, construction activities and the production and export of construction materials have decreased; housing stocks have increased significantly, housing prices have decreased considerably, and employment has also decreased. 48% of the total investment amount made in Turkey in the first quarter of 2009 consists of construction investments. For this reason, one of the sectors most affected by the global crisis in Turkey was the construction sector. While the growth rate of the sector was 18.5% in 2006, with the contraction that started in 2007, the construction sector shrank by 7.6% in 2008. This shrinkage continued in 2009, and the construction sector became the fastest shrinking sector among the sectors. In terms of intensive use of labor, the construction sector ranks second after the agriculture sector in terms of employment. Therefore, dismissals made because of contractions in the construction sector directly affect employment. In the third quarter of 2009, the quarterly employment index of the construction sector decreased by 20.6% compared to the same period of the previous year. The decrease in the employment index of the construction sector has also negatively reflected on the general unemployment rates in the country. We can see this contraction in the construction sector in the housing sales rates after the crisis. According to TUIK data, house sales in the third quarter of 2009 decreased by 42.53% compared to the same period of the previous year.[8]

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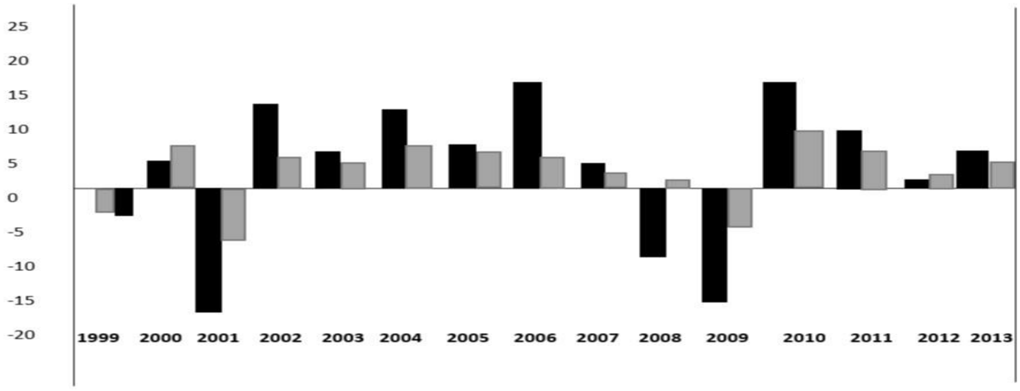
[8] Erkan Özdemir, Serkan Kılıç. “2008 Küresel Ekonomik Krizi ve İnşaat Sektörü: Pazarlama Açısından Bir Alan Araştırması”, **Anadolu Üniversitesi Yayınları**, Vol. 11. No. 2., pp.43-68.

The chart below shows the growth rates of the construction industry and GDP in Turkey between 1999 and 2013. The negative course of the 2008-2009 period can also be seen in the graphic.

3.2. Growth Rates of The Construction Industry and GDP in Turkey Between 1999 and 2013



Black: Construction Industry Growth Rate, Light Gray: GDP, Line: Share of the Construction Industry In GDP

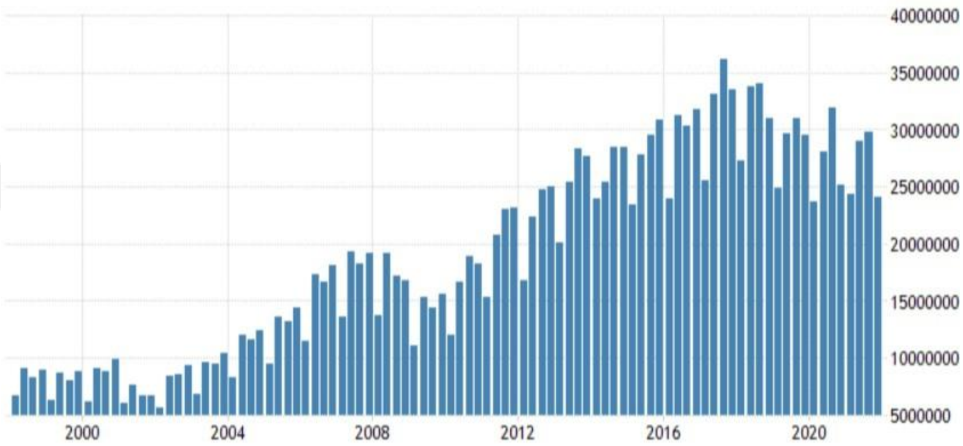
Source: İnşaat Sektöründe İstihdam, http://bildiginekonomi.net/2014/05/insaat-sektorunde-istihdam/, Feb 2021 (available)

Although the construction sector experienced the effects of the crisis heavily in 2008-2009, it started to grow rapidly in 2010. Along with the improvement effects of the positive developments in the global markets on the country's economy, the construction sector has also entered a recovery trend depending on the general economic expansion. Another reason why the sector, which grew by about 22% in the second quarter of 2010, has recovered so rapidly is that the interest rates of housing loans have fallen, as the central bank reduced the benchmark interest rates from 15.75% to 6.25%. Housing loan interest rates, which were around 1.30% in the first quarter of 2008, decreased to 0.59% in the last quarter of 2010. The total loan amount increased from 30 billion TL to 50 billion TL.

After this recovery in 2010, the growth trend in the construction sector continued until 2014. Since the economic stability period of Turkey started to deteriorate after this date, the construction sector also got its share from this contraction and entered a stagnant process. This stable process turned into negative and the sector shrank by 9% on average in the second quarter of 2018-2019. It can be predicted that this negative trend in the construction sector will continue in the short term due to the global pandemic.

The table below shows the construction sector and GDP growth rate between 2000 and 2020.

Table 3.3. Turkey GDP from Construction



Source: Turkey GDP From Construction- 2021 Data- 2022 Forecast- 1998-2020 Historical (tradingeconomics.com)

3.1.1.2 Automotive Industry

Automotive sector, another important sector in the real sector of Turkish economy developed rapidly in the 2000's, starting from the 1990's and became one of the main sectors operating within the scope of the manufacturing industry, contributing significantly to the development of the country's economy. Since 2003, the number of production and exports in the automotive sector has increased continuously. However, with the economic crisis in 2008, the automotive sector was negatively affected in 2009 and the production export capacity decreased.

The table below shows the automotive production export volumes and export share between 2003 and 2009. The production export volumes in 2009 indicate the negative impact of the crisis on the automotive sector.

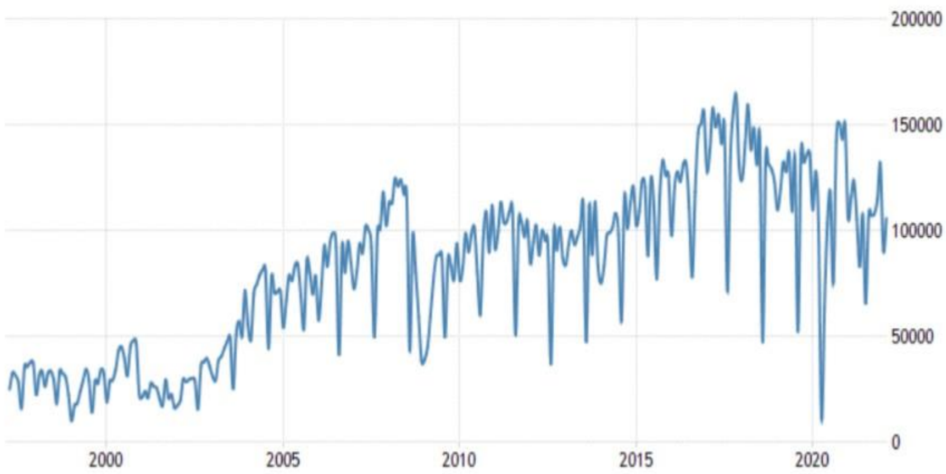
As a result of the decrease in domestic and foreign demand that emerged with the global and national economic shrinkage, the companies operating in the automotive industry shrank and some of them closed without competition. As a result, layoffs started in the sector, and these inferences in the automotive sector had a negative impact on the increasing unemployment rates. As a result of Special Consumption Tax cuts to stop this negative trend after the crisis there was a recovery in the automotive sector in 2010-2011, however the growth rate slowed down again with the global recession in 2012.

In the period between 2014-2017, the automotive sector has entered a growth trend again, but due to the currency shock, economic contraction since 2018 and the global economic recession because of the pandemic in 2019 and 2020, it has started to shrink again like in 2008 and 2012. The automotive sector shrank by 9.2% in 2018 and 9% in 2019.

In 2020, 17 out of 18 factories had to stop production in March due to the global epidemic. As a result, production decreased by 91% in April 2020. The sector started to recover with the production that started again in May predicts that the global pandemic will be kept under control in 2021 thanks to the vaccination studies developed, and this growth pace will be maintained.[9]

Table 3.4. Turkey Car Production (2000-2020)

[9] Otomotivde 2021 Planları Büyüme Odaklı, https://www.ekonomist.com.tr/otomotiv/2021 planlari-buyume-odakli.html , Feb 2021 (available)

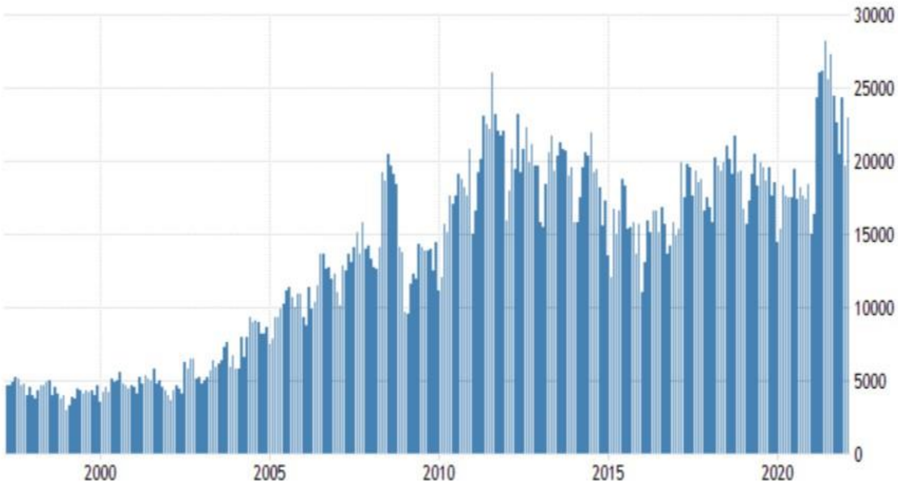


Source: Turkey Total Motor Vehicles Production - February 2022 Data - 1974-2021 Historical (tradingeconomics.com)

3.1.2. Brazil

After the negative effects of the 2008 Crisis were felt in the financial markets of the Brazilian economy, it also spread to the real sector areas in the country, as in Turkey. Production activities and export volumes in the country decreased because of the shrinkage of the global economy, the cessation of foreign capital inflows, and the decrease in domestic and foreign demand. The chart below shows Brazil's export figures between 2000-2020 and when we examine the chart, the sharp decline in 2009 is striking.

Table 3.5. Brazil's Export Value (2000-2020)



Unit: USD Million , Frequency : Monthly,

Source: https://tradingeconomics.com/brazil/exports , **Feb 2022 (available)**

3.1.2.1. Construction Sector

The construction industry in Brazil was adversely affected by the economic collapse in the 1990s. However, because of the privatization and foreign investments that started with the policies implemented in the Brazilian economy, which was integrated into the neoliberal economy system in the following years, the construction sector started to grow gradually at the end of the 1990s. The sector, which shrank after the 2008 crisis, ranked third among the first twenty sectors affected by the crisis in 2009 with a shrinkage rate of -14.2%. The main reason for the construction sector to be the third sector that shrank the most during the crisis is that it is one of the sectors with the most investments. When we look at the data for 2005, it is seen that the construction sector is the one with the highest investment with a rate of 84%.[10]

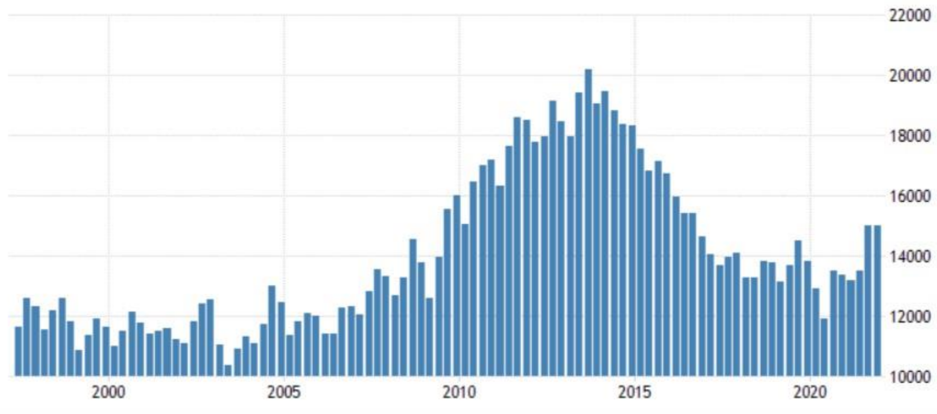
[10] Dış Ekonomik İlişkiler Kurulu, **Brezilya Ülke Bülteni**, Sept. 2013, p. 8.

In this shrinkage period after the crisis, the decrease in employment rates in the construction sector has a role in the increase in the overall unemployment rate of the country.

Preparations for international organizations, such as the 2014 World Cup in 2016, where the Olympics were held in Brazil, significantly increased the activities in the sector that started to gather rapidly after 2010. However, in spite of some measures taken, such as lowering the sector interest rates and new regulations on the sector in the Brazilian economy, which contracted as a result of the economic recession entered in 2014, we see that the growth rates of the construction industry have dropped dramatically from the beginning of 2015 to 2020 and regressed to the levels of the 2008 crisis. Finally, as in the example of Turkey, it can be predicted that this contraction in the construction sector of the Brazilian economy, which was hit by the global epidemic, will continue in the coming period.

The table below shows the Brazil's GDP from construction industry between 2000-2020.

Table 3.6. 2000-2020 Brazil's Construction Growth Rate



Unit: BRL Million, Frequency : Quarter

Source : Brazil GDP From Construction - 2021 Data - 2022 Forecast - 1996-2020 Historical (tradingeconomics.com)

3.1.2.2. Automotive Industry

Brazilian manufacturing industry ranks first among Latin American countries in terms of size and diversity. The automotive sector, as a branch of the manufacturing industry, is one of the sectors that has an impact on the country's economic activities. Just before the crisis, in 2007, Brazil was one of the top 15 countries in world automotive production. In addition, the world automotive production in 2007 was 73.1 million units with an increase of 5.4%. As a result of the 2008 crisis, world automotive demand contracted in 2008. The Total Market decreased by 3.5%, and total production fell to 70.6 million units. The Brazilian automotive industry deeply felt the effects of the shrinking market in 2009 because of decreasing demand.[11]

The chart below shows the total automotive production growth rates in Brazil between 2007 and 2020. It is clearly seen in the graph that the shrinkage in production, which started in mid-2008, peaked in 2009.

Table 3.7. 2007-2020 Brazil's Car Production Number

[11] Esma Deniz, "Otomotiv Sektör Raporu ", **Enterprise Europe Network,** İstanbul Sanayi Odası**,**2009, p.7.

Frequency: Monthly

Source: Brazil Car Production- February 2022 Data- 1957-2021 Historical- March Forecast (tradingeconomics.com)

After the contraction in 2009, the automotive sector in Brazil started to recover rapidly in 2010, due to the increase in world automotive demand and the favorable course of the general economic situation for developing countries. This year, the demand increase in the Brazilian automotive industry was 30% above the world average. In 2010, Brazil's total production in the automotive sector increased by 10% compared to the previous year.[12] This improvement in the sector, which started in 2010, continued until the contraction effects of the recession in 2014 were seen. As can be seen in the table above, starting from 2014 until 2016, the number of vehicles produced in total also decreased. Automotive production in Brazil increased by 25% in 2017 and Brazil became first in the change ranking of countries that year. While it was 10th in 2016 in the list of the world's largest automotive manufacturers, it retreated to 9th in 2017.[13]

Continuing this growth trend in 2018, the Brazilian automotive industry entered a contraction process because of the global economic recession and demand decrease brought about by the pandemic in 2019 and 2020. It is expected that the Brazilian automotive sector, which is going through a difficult process, will also feel the effects of the global recession in the coming period.

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[12] Otomotiv Sanayii Derneği, "Otomotiv Sanayii 2010 Yılı Değerlendirme Raporu ", No. 2011/5, March 2011, pp. 1-19.

[13] Otomotiv Sanayii Derneği, "Otomotiv Sanayii 2017 Yılı Küresel Değerlendirme Raporu ", May 2018, pp. 1-31.

CONCLUSION

In our study, we examined how the 2008 economic crisis affected financial and non-financial (real) sectors in the economies of developing semi-periphery countries Turkey and Brazil. Firstly, we examined the new order, dynamics and basic arguments brought about by the neoliberal understanding of economics, which emerged in the late 1970s and which I call the ‘ beginning of everything ‘ on the way to the 2008 crisis, to understand the origins of the 2008 crisis and how it quickly turned into a global crisis and led the economies of other countries, especially developing countries, to a deep collapse.

Neoliberalism, contrary to the controlling and controlling Keynesian understanding, in economy; It has transformed the capitalist system into a new order by revealing the understanding of creating a global order with liberalization, deregulation, liberalization of trade, removing all kinds of borders, integration in the political, cultural and social spheres as well as economy. These concepts introduced by the newly created order are the concepts from which the structural and institutional actors that played a role in the emergence of the 2008 Crisis originated.

For example, when we look at the emergence of the shadow banking system, one of the important actors in the process leading to the crisis in the United States;

In 1933, The Glass – Steagall Act, which provided for the guarantee of deposits for financial institutions, prevented deposit bankers from turning to risky investments and prevented risky activities in financial institutions, was repealed in 1999. In this way, the clear distinctions between investment banking and deposit banking were eliminated and the new order began to form the ‘shadow banking ‘system, which emerged in parallel with the existing banking order. Shadow banking is an institutional reflection of neoliberalism's idea of liberalization and minimization of control in the economic order. With the same understanding, newly derived financial transactions (Securitization-Debt Commodification) and products (Derivative Products-Risk Commodification) because of uncontrolled and free financialization are the main responsibility of the financial bubble that caused the 2008 Crisis.

In 1989, the Washington Consensus policies, which we can call the manifestation of neoliberalism, which paved the way for the rapid spread of neoliberal economic policies in the global arena, was presented as a prescription for ensuring stability in Latin American countries in a continuous economic crisis, and the implementation of these policies was encouraged by institutions such as the IMF and the US Treasury Department has been. Thus, Latin American countries began to articulate the neoliberal economic order, as well as other developing semi-peripheral countries. It would not be wrong to say that the deep effects left by the 2008 crisis in the economies of semi-peripheral countries were this integration, which began with the consensus process. On the other hand, as a result of the concept of globalization, which was very prominent and supported in the neoliberal period, the concept of eliminating economic, political and social borders, ties between countries gradually increased and the threshold for mutual influence and reaction decreased. Therefore, because of the Mortgage crisis that started in the United States, it is another reason why the economies of Turkey and Brazil have shrunk in a very short time.

The 2008 economic crisis, which is the global crisis of capitalism, was experienced due to the bursting of the big financial bubble in the USA, which emerged as a result of increasing financialization movements at the international level, and the economic growth that was articulated to this financial system with a series of liberal economy reform movements in a short time starting from the 1980s; It has turned into a global crisis, including hot money flow, foreign capital inflows, and developing countries dependent on foreign funds. In summary; although there have been many economic crises throughout the history of capitalism, the crisis experienced in 2008 differs from other crises at one point; the current global crisis has coincided with a period of financialization in human history where fictitious values prevail, in which money does not depend on any precious metal standards. The production process has evolved from the production of goods to the production of fake financial values. When this is the case, a situation of constant uncertainty and speculative anarchy in international capitalist markets cannot be avoided.

Developing semi-peripheral countries such as Turkey and Brazil are also affected by this anarchy situation, and they emerge with more severe damage from a possible negative situation with their economic growth structures dependent on foreign financial markets and foreign currency flows. During the liberalization period of the economy, the markets of developing countries were included in the system of fictitious financial values, along with the policies implemented to ensure stability in the economies of developing countries. For this reason, the problems experienced with the ever-increasing financialization in the global economy system result in the semi-peripheral countries falling into crisis cycles.

In the second part of our study, the economies of Turkey and Brazil before and after the 2008 crisis were examined, and in the third part, the reflections of the crisis on the real sector (construction and automotive) were examined.

These two countries, whose economic experiences are similar in the past, have quickly adapted to the neoliberal economic order since the 1990s to stabilize their economies. But ironically, these years have been years of serious crises in both countries. The crisis mechanism that followed short-term growth and recovery, which is the vicious cycle in which developing countries fall into the neoliberal economic order, began to work in those years. In the early 2000s, Turkey and Brazil, which sat at the table with the IMF for economic reforms, entered a period of economic expansion during these years, taking advantage of the overall positive global economic situation and the rapid flow of foreign capital to developing countries with privatizations. This success of Turkey and Brazil has been cited by the IMF as an example for other developing countries.

This positive period did not last very long, and with the crisis in 2008, it was understood how fragile the economies of these two semi-peripheral countries, whose economic stability was exemplified, were far from stability.

With the global depression after the 2008 crisis, the neoliberal economic order was once again disappointed and disrupted. Turkey and Brazil began to feel the effects of the crisis first in the financial sector and then in the real sector. As a result of the decline in foreign and domestic demand because of the global recession, the decline in production, rising inflation, interest rates, unemployment rates and economic contraction felt deeply, especially in 2009. Although there were short periods of relief for both countries in the next period, they were also plagued by economic crises in the 2010s. The exchange rate shock that began in Turkey in 2016, the fact that Brazil's crisis, which began in 2014, deepened in 2016 and was severely affected by the global contraction as a result of the global epidemic that began at the end of 2019, is concrete proof of how far away both countries are still from economic stability. According to all this information; in the 1990s, semi-peripheral countries Turkey and Brazil, which were articulated by financialization to the neoliberal economic system to prevent crises and ensure their economic stability, did not stabilize, but were stuck in the mechanism of financialization and crisis with the increase of external dependence. The scenario for 30 years is always the same; the crisis and collapse that followed short-term growth and expansion.

So, is it possible to get out of this vicious circle, if possible, how? Although it is not easy to answer this question, one thing we understand from the events experienced is that the neoliberal economic order itself is problematic for developing countries. The goal of growth and stability, which is tried to be realized by making the economies of these countries dependent on foreign capital and hot money through liberalization and privatization, is a dream that will never be achieved. In this order, the economies of semi-peripheral countries cannot achieve stability, but rather are in a very fragile position against negative situations in Central countries. For this reason, what happened after the 2008 crisis is not an end, but a handicap that developing countries can always face.

Finally, the fact that semi-peripheral countries such as Turkey and Brazil are the most affected by the global pandemic at the end of 2019 is proof that instability is always at the door for these countries. From this point of view, it seems possible to make an assessment as follows; trying to overcome the crises experienced with more neoliberalization means adding another new one to the crisis histories of developing countries.

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