

THE INTERPLAY OF THE GLOBAL AND THE LOCAL:  
THE SOCIO-ECONOMIC DEVELOPMENT OF THE TOWEL  
AND BATHROBE CLUSTER OF DENİZLİ

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Title: The Interplay of the Global and the Local: The Socio-Economic Development  
of the Towel and Bathrobe Cluster of Denizli

This study scrutinizes the main socio-economic factors that facilitated the development of the towel and bathrobe sector in the western Anatolian city Denizli. The city experienced a great volume of economic development in accordance with the global trends after 1980. Since then, its efforts to adapt to the changes in the international market through export-orientation have resulted in success. In facilitating this adaptation, the city has drawn upon its local historical and social characteristics, and a certain pool of production know-how that has come to accumulated in the region for more than two thousand years. In that sense, it emerges as a successful example of a region which industrialized rapidly and strongly around its indigenous textile industry, and by specializing in a certain branch, with the help of the cluster model of economic development. To this end, the city developed its textile sector around a local capital aiming at industrialization for export through a production motivated by buyer-driven networks. The city achieved this success through an effective strategy by clustering, in addition to adopting strong measures of local competitiveness in the global economy. This analysis of the cultural and socio-economic factors of Denizli from a political economy perspective helps to achieve several objectives with respect to the social science literature: first of all, it conducts an investigation into the contemporary political economy of Turkey. Second, it clarifies some of the manifestations of the intersections between local and global economic processes in the context of modern global capitalism.

Boğaziçi Üniversitesi Atatürk İlkeleri ve İnkılâp Tarihi Enstitüsü'nde Yüksek Lisans derecesi için Gizem Kezban Çakmak tarafından Aralık 2010'da sunulan tezin özeti

Başlık: Küresel ve Yerelin Etkileşimi: Denizli Havlu ve Bornoz Kümelenmesinin Sosyo-Ekonomik Gelişimi

Bu çalışmada Batı Anadolu şehirlerinden Denizli'nin havlu ve bornoz sektörünün gelişimine olanak sağlayan sosyo-ekonomik faktörler incelenmektedir. Şehir 1980 sonrasında, küresel trendlerle ilişkili olarak büyük bir ekonomik gelişim hacmi göstermiştir. O zamandan beri, uluslararası marketlerdeki değişimlere ihracata odaklanmak üzerinden uyum sağlama çabaları da başarıyla sonuçlanmıştır. Bu uyumu mümkün kılmak için, şehir bünyesinde iki bin seneden fazladır birikmekte olan bir bilgi havuzu ve yöresel tarihsel ve sosyal yaslanmıştır. Bu anlamda, kümelenme ekonomik modelinin yardımıyla, geleneksel tekstil sektörünün bir dalında uzmanlaşarak hızlı ve güçlü bir şekilde sanayileşmenin başarılı bir örneği olan bir bölge olarak karşımıza çıkar. Bu amaçla, Denizli tekstil sektörünü alıcı ağlara odaklı olarak üretim yapan ve ihracat yapmak üzerinden endüstrileşen bir yerel sermaye üzerinden gerçekleştirmiştir. Şehir bu başarıyı küresel ekonomi içinde güçlü yerel rekabet tedbirleri uygulamanın yanı sıra, etkin bir kümelenme stratejisi doğrultusunda elde etmiştir. Denizli'nin kültürel ve sosyo-ekonomik faktörlerinin siyasi ekonomi perspektifi üzerinden analizi sosyal bilimler kapsamında birkaç amacı gerçekleştiriyor: her şeyden önce, Türkiye'nin çağdaş siyasi ekonomisine dair bir soruşturma yapıyor. İkinci olarak, modern küresel kapitalizm bağlamında yerel ve küresel ekonomik süreçler arasındaki kesişimlerin birtakım belirtilerine dair açıklamalar yapıyor.

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## CHAPTER 1

### INTRODUCTION

Paradoxically, the enduring competitive advantages in a global economy lie increasingly in local things – knowledge, relationships, and motivation that distant rivals cannot match (Porter, 1998: 77).

Since economic and business life is conducted in space, geographic organization definitely has an impact on how the economy functions. Thus, understanding the spatial components of commercial activities is without a doubt essential in comprehending development. It also has been the central topic of economic theory, where the discussions over the direction of the economic process have taken place for more than a century. For all that period, mainstream economic thought has stressed the importance of the forces that supposedly have led to convergence, normalization, and equilibrium between different economic relations in the face of change. Against this assumption of market perfection, another current of theorists has argued for a world of imperfection, disruption, and particular dynamics, rather than an adjustment to a kind of equilibrium (Storper, 1997).

With respect to this debate, the comments of the economist Alfred Marshall remain true. On the whole, he argued that the modern economy involves both perfect and imperfect competition, sameness and difference, tendencies towards mobility and towards passivity, and decreasing and increasing returns (Marshall, 1909 as quoted in Storper, 1997:5). This long discussion has proved to be essential for economic theory, one that has inspired this thesis in the first place, with the assumption that the field of economic geography and its recent arguments can be a

strong way to answer all the questions that are related to the way geographical elements influence economic development.

Historically, the field of economic geography developed around the organization of national economies, reflecting a concern for understanding the ideal and skilled spatial allocation of economic activity whether as a theoretical matter or as a set of empirical facts. The proposition for the basic structure of the world economy was simple: it was understood as the product of separate national spaces (domestic economic geographies) added up together to create the whole world. There is no doubt that this logic had a plausible claim on a theoretical basis. The context in which this cognition arose gave way to its fame: the years immediately after the Great Depression and then World War II were periods of intense political and economic activity aimed at re-establishing national economic order within a system of overlapping but actually quite weak international institutions. Economic management was thought of as a national matter, and domestic economic regulation was framed around institutions which are often inherited from the Great Depression (Clark, Feldman, and Gertler, 2000: 7).

The basic premise of Fordist national development with regard to the organization of economic activity within a nation was that it assumed an even and balanced distribution of these undertakings within national borders. Industrial arrangement was assumed to be realized primarily at the national level, articulated in and through the domestic scale. This kind of an understanding of the economic order led in turn to a division of academic labor between macroeconomics being about the patterns and determinants of national economic performance, and economic geography being about the spatial patterns and determinants of activity within those parameters (Clark, Gertler, and Whiteman, 1986). Economic geography was also very much dominated by macroeconomics for much of the post-war period.



However, with the demise of Fordism in the late 1970s and through various analyses on economic organizations on a micro scale, there emerged a growing appreciation of the idea that industries are organized in places and between sets of places, rather than being exclusively determined by national spaces (Feldman, 1999). It became apparent that contrary to Fordism's premises and its focus on national borders as the unit of economic analysis, development within a certain territory is indeed uneven and clustered, and there are spatial advantages in creating regions. It is widely recognized that local or regional agglomerations of economic activity are an important component of the contemporary economic landscape which is becoming more and more globalized (Storper, 1997). A new vision of social and economic progress, a kind of anti-Fordist model which is characterized by flexibility, diversity, and, in spatial terms, localism has risen to popularity.

In this way, one of the many paradoxes regarding the current global economic order emerged: the persistence and continued significance of regions in a world structured around international market, with the least regulation possible and flow of goods, services and people to actualize the maximization of capital. As Krugman states, in a world of imperfect competition, international trade is motivated both by increasing returns and external economies, and by comparative advantage. Furthermore, these external economies are more likely to be accomplished at the local and regional level than at the national or international levels. Thus, he argues that in order to understand international trade, it is vital to comprehend the processes leading to the local and regional concentration of production (Krugman, 1995, as quoted in Jones, Kenen, Grossman, and Rogoff, 2007).

Thus, it appears that economic processes are developing in the opposite direction of what globalization preaches: the new order seems to be promoting, rather than undermining, the importance of location in the organization of economic life

(Asheim, Cooke and Martin, 2006:1). Many scholars contend that we also have been witnessing the emergence of new local production systems of specialized industrial agglomerations as part of the revival of regions and cities as the loci of economic development and governance (See for example: Sabel, 1989; Storper, 1995, 1997; Porter, 1998; Scott, 1998, 2001). Michael Porter explains this trend as:

In a global economy which boasts rapid transportation, high-speed communications, accessible markets, one expects location to diminish in importance. But the opposite is true. The enduring competitive advantages in a global economy are often heavily localized, arising from concentrations of highly specialized skills, knowledge, institutions, rivalry, related businesses, and sophisticated customers (Porter, 1986: 90).

The social science literature has been trying to make sense of all these kinds of regional dynamics. As a result of these efforts, various concepts have been developed in order to explain the success of different regions, the progress they have achieved with respect to international competitiveness, and the structures that have made it possible for these localized economies to acquire dynamism and success. These concepts aim to describe the transition to a new era of a vertically disintegrated world economy where production is also still locationally fixed, in a period that it is said to be characterized by global flows of money and goods with local orientations having no importance. They posit the competitive advantages of small-scale production, with an emphasis on the vertically tight network of firms. Piore and Sofer (1982) and Piore and Sabel (1984) propose that it is especially important to study the clustering activities in newly emerging industrial districts, because:

There, product specialization stimulates the division of labor, enhances product differentiation to obtain competitive advantages, and increases the flexibility of the productive process, in consequence of its decentralization in smaller production units, and of the product, to respond to variable market conditions (Piore and Sabel, 1984: 542).

Michael Storper, an important figure within the studies of globalization, emphasizes the key role of regional communities and firms as the basic building blocks of an

increasingly connected world (Storper, 1997). Additionally, the wave of research in “new economic geography” sparked by Paul Krugman’s seminal contribution through some of his writings (See Krugman, 1991a) also has widened this current of thought. Thus, these concepts facilitated the return to region and the analysis of locally agglomerated production systems. It became apparent that along with globalization, industries still tend to concentrate, mainly around large- and medium-sized cities, forming creative local production systems.

This return to the perception of region as a locus of study has found inquiries in disciplines outside of the field of economic geography, such as location theory, regional development and growth poles, urban economics, and social networks. They all have been dealing with different aspects of regional economy and development within the broader discipline of “regional science,” which is a field that was developed in the early 1950s by Walter Isard and his associates as an interdisciplinary domain that examines the locational dimension of the human activities relevant to society —be it economic, political, social or geographic. For more than 50 years, many concepts such as “clusters,” “innovative milieus,” “industrial districts,” “regional innovation systems” have been created within this approach. Each in their own way has attempted to describe how a region should be regarded as an important resource of competitive economic advantage and development. This drive within the field for coming up with new concepts mainly came from the consideration that classical Fordism no longer represents the dominant paradigm of the socio-economic organization of the contemporary economic order. Hence, there was a need for a new relevant unit of analysis in order to explain the emerging portrait of our economic world.

However, the contemporary processes of structural change are far more complex than a simple praise of the economic success of the local organizations. The

new industrial spaces of economic development are actually very heterogeneous; and globalization contributes to the spatial unevenness through the similarities and differences between new spaces of production. A broader political economic perspective on the nature of contemporary capitalist development and local transformation reveals that the global market and its constant extension to new places are the greatest factors in creating this unequal economic geography, benefiting some and undermining some others (Amin and Robins, 1990b: 7).

Drawing from all of these points, this thesis aims contribute to this strain of literature by surveying the bathrobe and towel cluster in the Anatolian city of Denizli. A quick glance at the development and contemporary organization of the main industries of Turkey would reveal that they agglomerate in the form of clusters, which form the basis of the country's competitive pattern. Especially after the 1970s, industrial activity on the whole bourgeoned. However, this success was largely due to calculating an average for the whole country; since the growth of the less developed regions in the east of Turkey lingered below the national average, while that of the relatively more developed western parts of the country experienced an increase (Öz, 2004: 48). For example especially after the adoption of liberal policies in the 1980s, Istanbul became the top location of business life, the export capacity of which and international trade links developed into the greatest within the country. Following Istanbul, İzmir, Ankara, Bursa and Adana became other important industrial centers. Consequently, export-oriented businesses which were established near these cities prospered particularly (for instance, Tekirdağ) (Öz, p. 49-51).

Yet, even though those cities have been the leading foci of trade, different regions such as Gaziantep, Kayseri, Konya, and Denizli have achieved surprising growth rates within the last two decades. Hence, the patterns of geographical concentration of economic activity in Turkey, and major regional centers of industry

have become topics of interest for scholars in recent years (Eraydın, 2002, as quoted in Öz, 2004:52), both because they represent a new trend of industrial organization, and their position as local industrial centers is distinct from the newly grown industrial hubs in other parts of the world. These late comer cities have gained heavily from globalization and their ability to achieve export-led growth (Pamuk, 2007) continues to develop on labor-intensive work and cheap work force. Thus, I believe an in-depth analysis of one of these cities in Anatolia, its corresponding trade organization and the state-business relations might shed light the mechanisms that fosters this success both through their relation to local patterns of adaptability and their connections to the state, which forms a two-way street between politics and economy in contemporary Turkey. Furthermore, the economic developments of especially Denizli, Gaziantep, and Çorum are very much alike to the economic developments in some of the West European countries (Mutluer, 2003:14-5), something which brings about a context that deserves attention for further research.

While trying to make sense of these recent developments regarding the re-organization of major industrial production spaces in Turkey, different concepts and theories have been put forward. The most popular of them is the notion of “Anatolian Tigers,” which is a term which clearly reflects the increase of interest in the successful economic performance of some East Asian countries known as the Asian Tigers (Asya Kaplanları). The regions, which are included in that category involved the aforementioned cities that have had a significant share in exports, particularly in sectors such as textiles, furniture, metal and clothing, which also have received little state support and little or no foreign investment.

The concept of the Anatolian Tigers mostly tried to link the economic success of these cities to a collective understanding of business based on religion, and a perceived rivalry with the Istanbul-based bourgeoisie groups. In that sense, even

though it can be considered as a successful conceptualization in explaining the process through internal factors that are present in Anatolia, it does not accomplish the task of articulating the process through a global perspective, which would also necessitate taking into account the interplay of both the local with the international, and the achievement of these cities in adjusting their traditional institutions and cultural backgrounds to the conditions of global competitiveness.

Hence, this thesis proposes to look at the topic from a different angle. It draws its main theoretical assumptions from within this understanding of political economic research, and it is especially inspired by one of these concepts, the notion of clusters, which was developed by Michael Porter. For the purposes of this analysis, cluster theory appears as the perfect framework, since it permits us to have a better understanding of the factors that allows local economic development and competitiveness by paying attention to both of its aspects: the relationship between the cluster and competitive strategy at the firm level, and also the one between the surrounding environment and the firms. It is also extremely useful as it stresses the fact that much of the competitive advantage a firm or a cluster lie outside the individual company, even outside the corresponding industry (Porter, 2000, as quoted in Clark, Feldman and Gentler, 2000). Thus, cluster theory offers a well-adjusted structure to study both the quantitative figures of economic development, and the central role of history and the social relations of production that are present in a region. It also stresses the importance of the connection between the firms of a region which focuses on the development of a localized infrastructure in supporting a shared developmental vision for business growth, which is based on both competition and cooperation.

Yet, it should be also mentioned that while I made use of the cluster theory heavily, the main intention for doing so was to gain a greater understanding of the

sector and its organization, rather than conducting the overall analysis. My initial purpose was not purely theoretical, but it was rather practical. Providing a detailed investigation of the towel and bathrobe sector, how it has taken shape, what kind of processes have been at play in bringing about the current situation of the trade relations that the city is located in, the notion of cluster was utilized to produce data for an economic sociology analysis. Richard Swedberg defines economic sociology as the discipline that applies the principles of sociology to economic phenomena to explain them. Hence, it shares a great amount of goals with economics, yet, they are also different in the sense that the former puts emphasize more on the role that social relations and institutions play in economy (Swedberg, 2003: xi).

This focus is obviously a choice, rather than a necessity. Originally, cluster theory concentrates more on understanding the economic organization, its technical details, and possible conditions for growth or failure. In a way, even though it accounts for the socio-economic factors that facilitate economic performance, cluster theory sees them as elements, rather than determining conditions in themselves. Whereas economic sociology, applied here through regional theory, centers itself more on the political and social features present in a region when explaining the reason for success. It conceptualizes economic activity within its social embeddedness (Polanyi, 1957), since we could understand economic life as one of the forms of interaction through which people, institutions and processes connect with each other. Hence, while cluster theory helped me to decode the specific form of historical development and the configuration of the contemporary situation of the towel and bathrobe sector, what constituted the main theoretical background over which I constructed my narrative of Denizli's economic success relied on regional theory. The center of attention has always been to understand the social organization of the economy in Denizli, meaning, accounting for the importance of social

dimension in the analysis (Swedberg, 2003: 53), which has been emphasized especially by the New Economic Sociology (Granovetter and Swedberg, 1992: 3).

Hence, this research took shape as an extension of this inquiry into understanding the patterns of local industrial developments in Turkey with a focus on the developments that took place since the beginning of 1980s, up until today. It also analyzed the impact of regional organizations and clustering activities (coupled with the neoliberal policies of the same period) on the city which has experienced unprecedented economic growth in the textile sector, particularly in bathrobe and towel production. While attempting to understand the factors that have enabled this success, the regional socio-economic structure of the city, the role of institutional and policy support for cluster development, and the competitive advantages of regions based on regional concentration were examined as well.

Additionally, while looking at the historical development of the cluster and the contemporary forms that it took, this research also clarifies the link between geographical clustering, regional development, and international competitiveness through the case of Denizli. This thesis explains how regional specialization in the appropriate industry, which would actualize a region's economic potential in its highest form (in this case textiles, in particular the towel and bathrobe industry), with illustrative weight given to the influence of formal and informal institutions (considered to be socially constructed, since they are rooted creations of a long historical period of development), the configuration of networks of economic organization (especially their role in circulating information, knowledge for economic activity), and values and traditions of action that are present in these networks and institutions. Moreover, emphasis is also given to the accumulated cultural and behavioral characteristics of the region, which have been brought about by collective institutional life.



Consequently, this study seeks to answer questions such as how Denizli's success in textile export capacity with direct links to international networks, and in attracting foreign investment came to be, what kind of entrepreneurial, institutional, and social interdependencies have enabled this success; how these strong trade links have been maintained to this day; and what kind of externalities, social and institutional patterns are involved in bringing about this resilience in the city. This thesis hypothesizes that the city's regional success first of all lies in its ability to develop its industry base via a solid background of "know how" in textiles that has accumulated in the region throughout 2000 years. Furthermore, over the course of various that took place in the region, especially in the Republican period facilitated a certain entrepreneurial infrastructure which enabled the businessmen of the city to take advantage of the various advantages that were provided by the state in different periods and by the clustering activities of the region.

For the purposes of this analysis, the main methods of research consisted of in depth-interviews with various members and representatives of Denizli business circles, local officials and a number of textile workers, on-site observation in the city, and archival research with some of the publications and statistics of the Denizli Chamber of Commerce (DTO), the Denizli Chamber of Industry (DSO), the Denizli Exporter's Association (DENIB), the Denizli Businessmen Association (DIAD), the Denizli Municipality, and the TÜİK (Turkish Statistical Institute). Twelve face-to-face interviews were conducted, which helped me to contextualize the organizational structure of the local institutions and the relations between the leading businessmen of the city. Additionally, the documents and data acquired from the DTO and the DENIB helped to ground the analysis imperically, along with providing a more concrete perspective on the characteristics of the regional economy in Denizli.

In doing so, this thesis is composed of four chapters. The first of these chapters outlines the main academic concepts that are used throughout the analysis, and the basic premises that are proposed by the selected theoretical frameworks, which are regional science and the cluster theory. The arguments and the empirical scopes of both structures are discussed at length and in consideration of their relevance to the case at hand. The reasons as to why these two foundations were chosen are also presented with detail. Along with international examples of successful works that have fed these literatures, a section is devoted to the works which make use of cluster theory in their analyses of Turkey.

The second chapter provides an overview of the Turkish industrialization after liberalization. It starts with a discussion of the definition and extent of globalism and presents the ever-present importance of the local within this background. Subsequent to the narration of the macro and micro level developments that have been taking place in the global economy and the way they have been reflected on Turkey, it provides a background to the years of export-led growth. Following the account on the import substitution period, the chapter continues with a comprehensive analysis of the post-1980 neoliberal period by dwelling on each decade in itself. After that, a part is devoted to the content of liberalization policies and their effect on export-led growth of the country. The chapter closes with an in-depth evaluation of the development of manufacturing in Turkey, and the impacts of global currents on the sector. This assessment is made primarily via three important factors that reflect on the structure of the manufacturing sector in the country: changes in real wages, productivity, and employment.

Next chapter is the point where the in-depth analysis of Denizli starts. First, an analysis of the presence of textile manufacturing in the Turkish economy is presented, with details on its development and current position. Then the narrative

starts to focus on Denizli. The city's long history with textiles, which dates back to more than 2000 years ago, is presented within two subsets: before and after 1980, an anchor which accepts the liberalization of the Turkish economy as some kind of a turning point for the advancement of the industry. The pre-1980 era is divided into sub-periods in itself, too: the intervals before and after the establishment of the Turkish Republic are dealt with separately. In every part, the major events that contributed to the city's competitive advantage in export-oriented manufacturing are discussed, as to how they became a factor in Denizli's economic development.

The chapter continues with narrowing down the scope to the core of the thesis, and starts analyzing the place of the towel and bathrobe industry in the city. With the help of the narrative on the evolution of the industry, the story of the city's increased participation in the global markets after the 1980s through export-oriented production processes, the historical development of the cluster formation, along with the sector's contribution to Denizli's growth and international competitiveness are presented. In other words, the section moves on to answer the question "why bathrobe and towel industry?" upon the explanation provided to the question "why Denizli?" by the previous parts of the chapter.

The last chapter reveals the result of the fieldwork and shows the applied conclusions of the basic premises of the two theoretical frameworks in terms of Denizli. It details the answer to the question of "why Denizli?" through an in-depth analysis of the basic factors that are at play in the city's success. Of course, like many phenomena that have been the locus of socio-economic research, the reasons for the city's appearance as a successful example of regional development are manifold. Hence, along with the economic and historical components, the fourth chapter broadens the scope of the study at a more socio-cultural level as well. Hence, the final chapter presents a concise summary of the main arguments that are voiced

in the previous chapters and the answers to the inquiries dealt with throughout the thesis.

In the last 30 years, there has emerged a considerable literature on regional development in Turkey, with some of the most important works devoted to Denizli. Özlem Öz discusses the place the city has within this body of knowledge by citing frequently used terms such as “the shining star of Turkey,” “one of the Anatolian Tigers,” and “the Denizli miracle,” which aim to illustrate the region’s economic success (Öz, 2004: 85). But even though the city has become a focus of research, very little attention has been paid to the historical and cultural conditions that made this success possible in the first place. These analyses mostly focus on the contemporary aspects of the city’s competitive advantage and its components, and looks into whether this success will be sustainable or not. While there is no need to discuss the necessity and importance of that kind of an examination of Denizli’s economic achievement, this thesis aims to fill in a part of the gap that exists in our knowledge devoted to a socio-economic analysis of regional development.

## CHAPTER 2

### REGIONAL OUTLOOK ON ECONOMIC DEVELOPMENT: THEORIES OF LOCAL TERRITORIAL ORGANIZATIONS AND CLUSTERING

All of the aforementioned points which were listed as the strengths of regional science and the cluster theories have particular importance in the case of Denizli and the development of its towel and bathrobe industry. Accordingly, the chapter is devoted to a detailed analysis of both these theoretical approaches, and the specific points which render them the most suitable tools for the study of Denizli's towel and bathrobe industry in the first place, by highlighting their contributions.

#### Concentrating on the Locale: Walter Isard and the Birth of the Field of Regional Science

Despite the fact that it has been a matter of discussion for a long time in modern economics, and has drawn the attention of various notable theorists such as Alfred Marshall, location moved out of the mainstream of economics with the advent of neo-classical economics in the mid-19<sup>th</sup> century (Porter, 1998b: 206). However, since the beginning of the 1950s, there has been a revival of interest in the topic, which can be observed most clearly in the field of regional science. A fundamental definition, specifically in terms of the field's objectives is provided by Walter Isard, who is accepted as the founder of this interdisciplinary field by creating a network of scholars from economics, city planning, political science, sociology, and geography. While initiating regional science, fully established in 1954 with the foundation of the Regional Science Association, Isard had in mind applying the use of formal neoclassical economic theory and meticulous statistical techniques in representing and explaining the relationship between the space and economy, meaning, adapting the approach or mind set of economics to the problems of geography.

Isard's textbook *Methods of Regional Analysis: an Introduction to Regional Science* (1960) constitutes a good single-volume introduction to regional science and

economic analysis, providing a well-structured description of into what the field is set out to do and how it aspires to do this. There, he gives a broad definition of regional science with respect to its objectives, as well as pointing out various important problems an analyst might encounter when studying economic phenomena in a region (Isard, 1960). A distinctive aspect of this description is its exclusive emphasis on specific concepts that economists would normally recognize as economic problems. This is exactly the point that distinguishes Isard from a regular economist, and the field of research he sought to establish from any other economic analysis. He did not simply define these elements as economic problems, but as conceptually unique characteristics that are encountered while defining a region.

This is also an excellent aspect to keep in mind when making an effort to understand the setting and the objectives of regional analysis. Most of the time it is understood as the quest to define an economic conceptualization in micro terms or as a field the object of which is to set geographical limits to any kind of economic organization. Yet, an interdisciplinary and multivariate outlook such as Isard's proves that regional science is not composed solely of a locational outlook to economic phenomena. For example, Paul Krugman asserts that the field has provided the literature with a set of new tools that have transformed industrial organization and trade theory (Krugman, 1995, as quoted in Isserman, 2010: 206).

Now with a scholarly foundation grounded in social science theory including and welcoming such diverse fields as sociology, demography, geography, history, it contains an institutional basis that was established with a many of active regional science associations. To name a few of these important associations, one can mention first and foremost the Regional Science Association that Isard founded in 1954, with its three branches: the European Regional Science Association (ERSA), the North American *Regional Science* Council (NARS) and, the Pacific Regional Science

Conference Organization (PRSCO). Additionally, there are several others, which very active in the field, such as the Western Regional Science Association (WRSA), the Mid-Continent Regional Science Association, the Southern Regional Science Association, the Northeastern Regional Science Association, and the Australia New Zealand Regional Science Association International Inc. (ANZRS AI Inc.). Other than these central and rooted organizations, many associations in China, Mexico, and Russia are opened almost annually.

Speaking of these organizations, it is important to talk about various domestic and international conferences organized by them. The most crucial ones are the North American and European meetings of the Regional Science Association International that occur annually, the Pacific meeting every other year, and the world congress every five years. The field is also a host to a number of well-established regional science journals. Along with the important books and publications that have contributed to the development of the regional science, some of these valuable journals have given direction to the field, and made the research of crucial academics available and widespread. To list a few of them: *Regional Studies*, *Journal of Regional Science*, *Papers in Regional Science*, *Regional Science and Urban Economics*, *Annals in Regional Science*, *Urban Studies*, *Journal of Urban Economics*, *Environment and Planning A*, *International Regional Science Review*, *European Planning Studies*, *Journal of Economic Geography*, and *European Urban and Regional Studies*.

There are also a lot of interdisciplinary academic programs, and plentiful prestigious regional research institutes in regional science. Along with a couple of exceptions such as Cornell University which awards graduate degrees in the field, most of its practitioners work in departments such as economics, geography, sociology, urban planning, public policy, or demography. The University of

Pennsylvania had a distinct department of regional science until 1993, which had been established through the efforts of Isard himself in 1956. Hence, regional science offers a valuable perspective into the study of social, economic, political and behavioral phenomena that have a spatial dimension (Florax and Plane, 2010). The real success of the field has been to provide a locus for scholars and professionals from a wide range of disciplines concerned with regional, interregional, phenomena of all geographic scales to interact. As said above, the disciplines that contribute to this interchange within regional science are diverse, but their center lies in the social sciences. They extend to the physical sciences, engineering, and even to the humanities as well. In that sense, it is truly a grand interdisciplinary field (Florax and Plane, 2010: 46).

#### Cluster Theory as an Analytical Tool in Studying Regional Agglomerations

One of the developments which have spurred interest in the regional aspects of economic organizations is the popularity of research on the regional agglomerations of specific industries. As a result of this concern, Marshall's concept of industrial districts (IDs) became widely popular once again in the 1980s. With respect to IDs, Marshall stated that:

The contemporary force of social and business relations, overlapping at the local level, is exemplified by industrial districts, and especially those: (1) whose industry is based mainly on small and medium-sized specialized firms resulting from local agents' entrepreneurial and life projects, where economies of the division of labor can possibly be achieved without the extended hierarchical organization of big firms; (2) whose social dimension is represented by a local society with a well-defined identity for their localized industries, such as to appear like a "nation within a nation" within the flux of change and of open relations (Marshall, 1919:20-1).

Marshall's definition of industrial districts certainly inspires contemporary research even today, since its insights also can be applicable to post-industrial countries with agglomerated industries operating within them. It surely offers a wide perspective to analyze the historical evolution of various industrial regions and their



present-day workings, as well as the making of predictions into their chances at developing sustainable development patterns. However, it has a couple of shortcomings on several levels, making Marshall's theory fall short when we attempt to analyze a region in its integrity (See: Belussi and Sedita, 2009). At that point, another concept gained prominence in the 1990s: the notion of "clusters" by Michael Porter.

In his book *On Competition*, in which he talks about clusters as a specific concept, Porter defines a cluster as:

A geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities (Porter, 1998b: 199).

Developing the term, Porter was trying to come up with a concept that would denote the special position of regions, through which their competitiveness depended on the continuous collaboration of their organizations with their external sources as well as with the local endowments. This was chiefly because he theorized that the basis of economic competitiveness in modern times depended on productivity, not on access to inputs or the scale of individual enterprises. Moreover, according to him, productivity rested on how companies compete, not on the particular fields in which they competed in, and the sophistication with which they competed in a particular location was strongly influenced by the quality of the local business environment (Porter, 1998b: 80).

Thus, cluster theory became renowned for being helpful in analyzing regional development and the competitiveness of local industries, and it became very fashionable, provided that it offered a new way of thinking about the economy and of organizing economic development efforts in many states and nations. It also presented deeper insights into understanding many aspects of economic policy, such as export promotion, attraction of foreign direct investment, research and

development, technology policy, technical training, and infrastructure. In that sense, clusters provide a means for bringing together firms and institutions, and for identifying the problems that limit productivity and development.

As a result, Porter's notion has exerted considerable influence over the past fifteen years on the study of regional and local agglomerations of industrial specialization. This is mostly because while there is now a fairly broad consensus on the type of macroeconomic and legal conditions necessary to achieve economic progress, it also has increasingly become clear that these conditions are not sufficient. Cluster analysis has proved itself useful in terms of its ability to explain the relationship between regional assets and economic success. Thus, it is a widely used tool for promoting regional, national, and local competitiveness, and innovation and growth by policy-makers all over the world, such as those in the World Bank (WB), the Organization for Economic Co-operation and Development (OECD), by national governments and regional and local development agencies (Asheim, Cooke and Martin, 2006: 1).

The popularity of the cluster theory also points to a recent inquiry within the studies of regional economic phenomena. In fifteen years, there has been a flood of interest, within economic geography, economics, and business studies, in industrial location: an inquiry into the observed tendency for many industries to form specialized concentrations in particular locations (Asheim, Cooke and Martin, 2006: 1). The fact that industrial localization and the clustering of firms as an economic phenomenon carry the potential to provide an engine for local development of course is nothing new. It was a key characteristic feature of nineteenth-century industrialization in Europe, the United States, and elsewhere, as it was also present in Marshall's analysis of industrial districts (Marshall, 1907, 1919). In *Principles of Economics*, which was first published in 1890 and is accepted as the book which laid

down the foundation of the works on the regional clustering of industrial activities, he talks about the geographic concentration of specific industries in particular districts. He makes an analysis which sets the main reasons for such concentrations, such as the availability of specific inputs, labor market pooling, information spillovers, local demand and related industries (Marshall, 1907:222-7).

However, in the face of the major shifts in the structure of industrial production, such as the rise of mass production methods, and the ascendancy of large, integrated firms that took place in the greater part of the twentieth century, many of these former localized concentrations of specialized activities went into decline, and a rather different and more geographically dispersed pattern of production, the one that is usually referred to as the transition from Fordism to post-Fordism, became the main basis of economic growth (Piore and Sabel, 1984). Some scholars additionally argue that the beginning of the 1980s marked the commencement of an accelerated movement towards a globalized, information-technology driven economy that has eroded the significance of location and spatial proximity for business performance and success (See: O'Brien, 1992; Cairncross, 1997).

Yet, things seem to be developing in the opposite direction: globalization and technological change appear to be promoting, rather than undermining, the importance of location in the organization of economic life (Asheim, Cooke and Martin, 2006:1). Many scholars contend that we have also been witnessing the emergence of new localized production systems of specialized industrial agglomerations, as parts of a more general "resurgence" of regions and cities as the locus of contemporary economic development and governance (See: Sabel, 1989; Storper, 1995, 1997; Krugman, 1997; Porter, 1998; Scott, 1998, 2001). Michael Porter himself explains this trend as:

In a global economy which boasts rapid transportation, high-speed communications, accessible markets, one expects location to diminish in importance. But the opposite is true. The enduring competitive advantages in a global economy are often heavily localized, arising from concentrations of highly specialized skills, knowledge, institutions, rivalry, related businesses, and sophisticated customers (Porter, 1998b:90).

What all these scholars have emphasized is that increasing global economic integration itself leads to heightened regional and local specialization, as falling transport costs as a result of the proximity established within a region and the trade barriers that makes it harder for the firms to relocate allow them to agglomerate with other similar firms in a specific area in order to benefit from local external economies of scale (See: Krugman, 1991b; Fujita, Krugman, Venables, 1999; Brackman, Garretsen and Marrewijk, 2001), which in their turn raise local endogenous innovation and productivity growth.

Michael Porter's neologism "industrial clusters" and his theory emerged in a context like that, aiming to present a new and more comprehensive way to think about economic development. In *On Competition*, he states that clusters are:

Geographical concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, associated institutions (for example universities, standards agencies, and trade associations) in particular fields that compete but also co-operate (Porter, 1998b:197).

In his definition, two important points need to be discussed. Firstly, Porter states that the firms in a cluster are linked in some way. That means, as stated before, that clusters are composed of interconnected firms and associated institutions linked by commonalities and complementarities. The links can be both vertical (such as buying and selling chains) and horizontal (such as complementary products and services, sharing a common trade objective, the use of similar inputs, technologies, labor, and cooperation). Moreover, most of these linkages, as he argues, involve social relationships or networks that produce benefits for the firms involved. Second, he mentions that geographical proximity is a key feature of clusters. That is, they are

spatially localized concentrations of interlinked firms. In that setting, co-location encourages the formation of, and enhances, the benefits that arise from networks of direct and indirect interaction between firms that benefit their economic development (Asheim, Cooke and Martin, 2006:3).

Throughout his book *The Competitive Advantage of Nations*, Porter models the effect of the local business environment on competition in terms of four interrelated influences, which he graphically depicts in the form of a diamond: factor conditions (the cost and quality of inputs), demand conditions (the sophistication of local costumers), the context for firm strategy and rivalry (the nature and intensity of local competition), and related and supporting industries (the local extent and sophistication of suppliers and related industries) (Porter, 1990). His diamond theory of clusters stresses how these elements combine to produce a dynamic, stimulating and intensely competitive business environment.

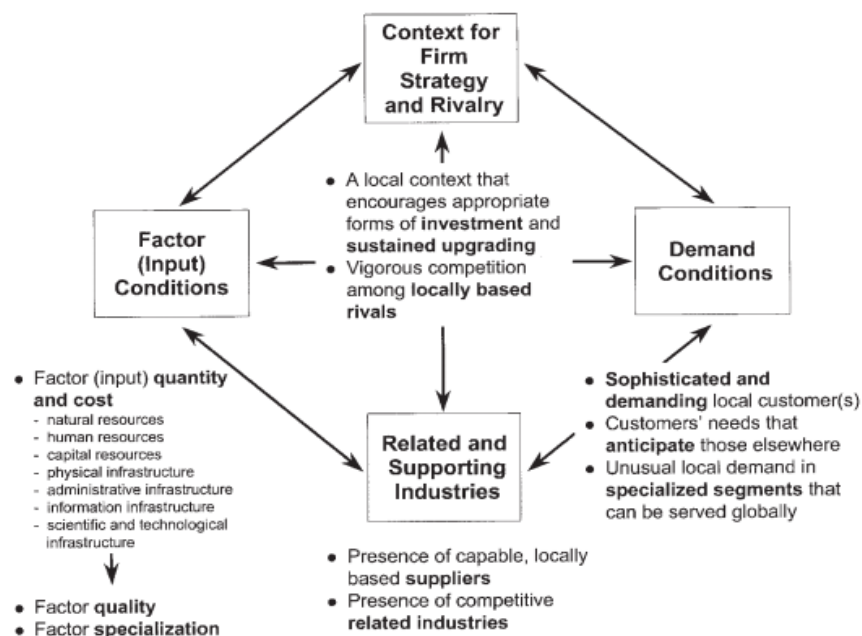


Figure 1: Porter's Diamond Model of Cluster Development  
Source: Porter, 2000c.

A cluster is simply the manifestation of the diamond at work. Proximity, the colocation of companies, the nearness of customers and suppliers, intensifies all of the pressures to innovate and upgrade, which in turn increases a cluster's chances at maintaining a successful pattern of development. More recently, Porter has maintained that geographical concentration improves processes of interaction within the competitive diamond by increasing the productivity of integral firms or industries within the cluster, which in turn encourage further innovation. Thereby, it benefits productivity and fosters high rates of business formation (Porter, 2002, as quoted in Clark, Feldman and Gentler, 2000).

As discussed above, the rediscovery of region in economic theory is based on the success of highly dynamic regional economies and industrial districts which draw intensively upon local aspects for their competitiveness. In accordance, the trend of research into clusters, and the interest in the networks of cooperation between firms, has flourished due to the cognizance that variations across regions in economic growth and performance ultimately depend on a set of factors and resources such as knowledge, capabilities, skilled human capital, institutional and organization structure, which are specific to these locations and relatively immobile in space. This is exactly the web of relations on which Porter built his theory of clusters. It was exemplified through the success of the industrial districts of the so-called "Third Italy" (the center and north-east of the country) and many others, along with the acknowledgement that it is possible to use clustering as a basis of economic policy (See: Piore and Sabel, 1984; Pyke et al., 1990; Dei Ottati, 2004; Becattini et al., 2003).

These regions have drawn the attention of various theorists working on clusters not only because they are the clearest and the strongest examples of

clustering (Pyke and Spengenberger, 1990, as quoted in Pyke, Becattini and Spengenberger, 1990: 1-9), but also because of their dynamism, ability to remain competitive, and the fact that they have been able to maintain a satisfactory wage level, given the pressure they have faced since the early 1980s from multinational enterprises and competitors in low-wage countries (Crestanello, 1996, as quoted in Crestanello, Pyke and Sengenberger, 2004: 6).

Other than the Third Italy, some other well-studied and popular illustrations of clusters include Emilia-Romagna's manufacturing cluster (Italy), Silicon Valley's high-tech cluster (the US), and Baden-Württemberg's manufacturing cluster (Germany) (See: Best, 1990; Hassink, 1992; Storper, 1993; Saxenian, 1994; Cooke, 1996; Di Giovanna, 1996; Sternberg, 1996; Cooke and Morgan, 1998; Boekholt and Thuriaux, 1999). Inspired by these examples, researchers also have tried to find similar cases of cluster developments in regions like Cambridgeshire (UK), Route 128 (the US), Sophia Antipolis (France), Wales (UK), Basque Country (Spain), Toyota City (Japan), Sinos Valley (Brazil), Daegu (Korea), Silicon Glen (Scotland), Flanders Language Valley (Belgium), and Bavaria Valley (Germany).

#### Socio-Economics within Cluster Theory

One last point about clusters, one that is extremely relevant to the analysis that is being recounted here, is that, research has shown that most of the clusters achieve permanent economic development through building economies of association within themselves. This component of the cluster theory again stresses the importance of the business networks that would be created as an extension of the web of social relations that is present in a certain region. As Ash Amin puts it, building economies of association along these lines would help regions to overcome some of the structural impediments that can be present in that specific region, by enforcing local ties and by encouraging continual upgrading and capacity-building

across sectorial networks of horizontal and vertical inter-dependency. That is the part of the theory which emphasises the vitality of the socioeconomic characteristics in facilitating economic development (Amin, 1998:11).

More than a hundred years ago, Marshall drew attention to, by arguing that since nearly all important knowledge has deep roots “stretching downwards to distant times,” the growth of a cluster is favored by “the character of the people, and by their social and political institutions” (Marshall, 1907: 224). Cluster theory credits this point of view and emphasizes the importance of the social characteristics of a region by taking into account the possible contributions of local elements such as craft traditions, small firm clustering, informal and flexible work practices, and structures of social cooperation, which add to the competitiveness, and growth potential of that locality. In that sense, it combines the quantitative perspective of economics to regional geography, with the collective and social foundations of economic behavior, and thus, it can be said to have an institutionalist approach within its methods.

Hence, it appears that the capacity of those regions helped them to accomplish building economies of association to adapt around particular sectors, and to anticipate at an early stage new industrial and commercial opportunity, which enables them to develop and retain competitive advantage around a range of existing and future possibilities. Amin asserts that economies of association can include a wide range of activities: making efforts to improve cultures of innovation within firms through encouraging social dialogue and learning based on shared knowledge and information exchange, building schemes to facilitate inter-firm exchange and reciprocity (which can be realized through several means such as buyer-supplier linkage programs, incentives for pooling of resources, joint-ventures, and task specialization). Additionally, it may comprise establishing contacts and commonalities between sector-specific organizations (e.g. trade associations,



sectorially based service centers, educational institutions) and other economic organizations (e.g. large and small-firm lobbies, function-specific producer services agencies, trade unions, chambers of commerce, local authorities, regional development agencies) (Amin, 1998: 10-1) so as to increase the productivity of collective resources.

When all of these elements are combined, clusters produce a favorable environment for the developing industries within them through these aforementioned efforts at building economies of association, which in turn ensures further success by creating a potential for “learning to learn” (Hudson, 1999), and that in turn proves to be their unique strength. This potential is best reflected on several factors, such as the skill and professional profile of the labor market; the volume and quality of training and education across different levels; the depth of linkage between schools, universities, and industry; the quality and diversity of the research, science and technology base; and the availability of intermediate centers of information and intelligence between economic agents and their wider environment (e.g. commercial media, trade fairs, business service agencies) (Amin, 1998:11). It also displays itself in the building of networks in that specific area, through which the region benefits from the circulation of informal information. These networks, in return, facilitate the spread of knowledge and capabilities, and the prospect of economic innovation through social interaction.

#### The Application of Clusters to the Turkish Case

Cluster theory also has been applied to the Turkish case. The economic performance of various Anatolian cities, particularly after the 1980s, has been reviewed in the context of the success of their local organizations. In that vein, two scholars especially comes to the fore, Özlem Öz, who has worked extensively on the geographical clusters in Turkey, local development, and revisited Porter’s theory

with examples from Turkey; and Ayda Eraydın, who has done abundant work on industrial geography, and the dynamics of urban and regional growth and change in Turkey.

Öz's books and articles both shed light on the competitive structure of the Turkish industry, while applying Porter's theory of geographical clustering to a developing country (See: Öz, 1999, 2002, 2003, 2004a, 2004b). Eraydın also has contributed to this literature through her publications on the characteristics of the development of Turkish industrial clusters, and their dynamics of economic growth (See: Eraydın, 2001a, 2001b, 2005a, 2005b, 2005c, 2010; Eraydın and Armatlı-Köroğlu, 2005). Through their works, they have contributed greatly to the literature of clusters in general. This is a very important point, since clusters in developing countries have been relatively less investigated than those in developed countries, and the studies that have been conducted usually focus on whether or not the associated conditions are any different in developing countries, and on policy lessons that can be learned from clusters in the developed world (Bell and Albu, 1999). Consequently, their work adds to the literature on clusters in the developing world by examining the phenomenon of clustering in Turkey, which is classified by the World Bank as a middle-income developing country.

Other than Öz and Eraydın, an interest in regional economic development and clusters has flourished in Turkey, and is fully embodied in various research projects, such as Sedef Akgüngör's research on geographic concentrations in Turkey's manufacturing industry (Akgüngör, 2006), Bilge Armatlı-Köroğlu and Burak Beyhan's work on the role of small and medium enterprises in the regional development of the Anatolian city Denizli (Armatlı-Köroğlu and Beyhan, 2003), Tanyel Özerçi's Ph.D dissertation on the institutional aspects of regional development (Özelçi, 2002), Ahmet Saraçoğlu's Ph.D dissertation on the effect of

local production networks on economic development (Saraçoğlu, 1993), Jülide Yıldırım's research on regional economic policy (Yıldırım, 2006), and Gezici and Geoffrey's work on regional convergence and economic performance (Gezici and Geoffrey, 2004).

## CHAPTER 3

### TURKISH INDUSTRIALIZATION AFTER LIBERALIZATION

#### Globalization

Since the last quarter of the twentieth century, a new trend in the world economy has arisen: globalization. That means we now live in a period of an increasingly internationalized market characterized by quests for monetary stability, fiscal retrenchment, and an attempt to establish a reduced role for governments in regulating the economy. This reflects a changed status in the social and economic policies of the post-WWII Western European countries, later on spreading to the rest of the world as well.

Several historians (See: Wallerstein, 2000) maintain that there is nothing new in globalization; early modern times, and even more so the nineteenth century, marked the beginnings of it. However, what distinguishes this period is the further dramatic quantitative change in the economic interactions between various countries and continents –trade, migration, capital investment, establishment of subsidiaries, production abroad and financial transactions– which all existed before and characterized modern capitalism. The transformation in the forms of these interactions, combined with a qualitative change in the international division of labor, altered the world economy.

Turkey without a doubt has been affected by these developments. In that sense, the date January 24, 1980 marked the beginning of a transition period for the country, through which it abandoned the nationalistic import substituting industrialization (ISI) policies towards a new interpretation of developmentalism in favor of a neo-liberal and more export-oriented outlook. Throughout the 1980s, various procedures had been implemented to ensure the establishment of a market system through the opening of the economy, in order to restructure the public

expenditure priorities, to liberalize the financial sector, and to carry out privatization and deregulation.

The following section will give a short summary of the incidents preceding the liberalization efforts, and the processes which led to the developments that have been unfolding since the beginning of the 1980s. The primary focus of this account will be on the ISI period of the 1970s. In most cases, for somewhat less economically developed countries such as Turkey, the initial meaning of the term globalization signifies a process of integration to the world economy. Therefore, this narration will likewise shed light on the path that the textile industry in the country, since this sector provided the primary means for it to become incorporated to the world market. Besides the macro analysis, the process also has had implications on Denizli's economic performance, since the city's further integration into the world economy and its efforts for competitiveness in the international markets through textile exports also should be regarded within the context of increasing globalization.

#### Background to the Post-1980 Turkish Economy: The Import Substitution Years

The Turkish state has followed different economic models at different times, pertaining to the developments both in the international arena and the domestic situation with respect to the positioning of the country within these developments. In connection with these, economic historians Şevket Pamuk and Roger Owen establish a series of sub-periods in order to develop a better understanding of the evolution of the Turkish economy (Owen and Pamuk, 1998). Their conceptualization is apt and consistent with the different phases through which this evolution has been taking place over the years. It also allows the reader to track the long-term record of the economy better, with respect to economic growth, structural change, distribution and socio-economic welfare.

For the benefit of the background evaluation of Denizli and the development of the export-oriented manufacturing, the sub-period that concerns this analysis the most is the period between 1963 and 1979: the years Pamuk and Owen identify as the high age of the ISI and its crisis (Pamuk and Owen, 1998:104). This period is extremely important, since this study hypothesizes that the developments that took place during those sixteen years paved the way to the structural basis upon which the city has been drawing to build its success in export-oriented textile production. It is also argued here that although it failed as a macro-economic policy tool, the policies of the ISI period benefited the city greatly, specifically because it was coupled with the socio-economic factors of the region, the historical accumulation of textile producer culture and the entrepreneurship that were present there, and the export-oriented economic model that Turgut Özal tried to set up after that period.

As the name suggests, during this period immediately before 1980, Turkish state was mainly preoccupied with the ISI model, keeping prices low in order to prevent high inflation, and strictly controlling exports to keep the balance in the amount of foreign currency and to protect the domestic market. The motivation for adapting import substitution arose both due to the international conjuncture, and the social and economic developments of the post-1960 period. In that sense, the country appeared as a typical developing country of the periphery. What happened was far from unusual.

Throughout the developing world, governments in those years made heavy use of restrictive trade regimes, investments by state economic enterprises and subsidized credit as key tools for achieving ISI objectives. In Turkey, after the 1960 coup d'état, one of the first things the state did was to establish the State Planning Organization (SPO). The SPO was given the responsibility of preparing the long-term and annual plans of the Turkish economy, following up their implementation,

and advising on current economic policy. Additionally, it played an important role in private sector decisions as well, since its approval was required for all private sector investment projects that sought to benefit from subsidized credit, tax exemptions, import privileges and access to scarce foreign exchange (Öniş and Riedel, 1993:99-100).

The change to ISI was followed by a decade of rapid economic growth and low inflation. The financial system was made an instrument of industrial policy, through which the interest rates were regulated by the government and credit were being rationed to key businesses. Moreover, all through the 1960s and 1970s, high Turkish unemployment was amended by guest worker programs in Europe (especially in Germany), and the Middle East. These guest worker programs proved to be extremely helpful for Turkey since they provided both a vein to channel the Turkish unemployed and the needed capital and foreign currency for the country in the form of worker remittances (Sayek and Selover, 2002).

The period from 1963 to 1977 embodied what Albert Hirschman calls “the easy stage of ISI” in Turkey (Hirshman, 1968:82). The initial model of the 1960s represented a combination of the old and the new: state economic enterprises with roots that went back to the etatist era began to play, once again, an important role in industrialization. This role, however, was quite different from that in the earlier period. During the 1930s when the private sector had been weak, industrialization was led by these state enterprises, and the state had been able to control many parts of the economy. During the ISI era, in contrast, the private sector began to take over. Big family holding firms, large corporations which included numerous manufacturing and distribution companies as well as banks and other services firms emerged as the new leaders (Pamuk, 2010: 26).

During the first years of the ISI period, the opportunities which a large and protected domestic market offered were exploited; however, import substitution did not extend to the stage of capital goods industries, which is in fact technologically more difficult. The export orientation of the manufacturing industry also remained weak in later times. Turkey obtained the foreign exchange necessary for the expansion of production from traditional agricultural exports and, as noted, from the remittances of workers in Europe. However, the ISI policies were successful in bringing about economic growth, especially in their early years (Pamuk, 2008: 284). The GNP per capita increased 4.3 per cent annually between 1963 and 1977, and 3.5 per cent per annum, including the crisis years of 1978–9. The rate of growth of manufacturing industry was significantly greater, with an annual average of more than 10 per cent per between 1963 and 77 (Çeçen, Doğruel and Doğruel, 1994).

Pamuk especially draws attention to the role played by the domestic market during this period. Although income inequalities had not been overcome in the country, various groups of the population were able to participate in the emerging domestic market of consumer durable goods. Within the same period, real wages almost doubled. The reasons for this increase were various: market forces, and political and institutional changes in the country all affected this situation. Industrial growth deepened, and also increased the demand for labor. The rights that workers obtained with the 1961 Constitution raised union's bargaining power. This was not a problem for large industrial firms, since they were not under pressure to compete in the export markets under the ISI. They accepted the demands on wage increases easily, since higher wages also helped workers purchase the products that these large firms produced (Pamuk, 2008: 284). However, by the mid-1970s, those big industrialists started to be disturbed by wages increases, and the strong position of the laboring classes (Keyder, 1987).



Pamuk also indicates that the progress of industrialization was not without problems. The coziness of the large domestic firms in their protected environment brought about the biggest strain on Turkey's ISI performance. Big firms ignored the exports and remain focused on the large and attractive national market. All through the 1970s, the share of the export sector in the GDP was not even four per cent, and almost two-thirds of these revenues came from the traditional export crops. A shift towards exports would have increased the efficiency and competitiveness of the existing industrial structure, and acquired the foreign exchange necessary for an expanding economy. It could have even supported the continuation of import substitution through establishing backward linkages towards the technologically more sophisticated intermediary and capital goods industries. Nevertheless, the incentives given to the industrial firms and the big-enough domestic consumption provided them a sufficient domestic arena, which in turn limited their potential to gravitate towards exports (Pamuk, 2008: 284). Instead, they relied on government support and remained inward oriented.

To give an example of the situation, one could look at the exports numbers of manufactures all through the 1970s, which were very low. Geographically, the industry was clustered in the İstanbul region, and more generally, in the northwest corner of the country. The big businessmen remained strongly dependent on the government, seeking subsidies and tariff protection. They were opposed to economic integration with Europe, since they feared that they would not be able to compete with the products of the European industry (Pamuk, 2008: 268). Thus, the Turkish industry entered a vicious cycle.

Even though Turkey was a typical example of a peripheral developing country; looking back on the ISI years, one can also see a pattern rather unique to Turkey within that general framework. To borrow the term from Peter Evans, the

custodian role (Evans, 1944) of the state was always dominant when the country was trying to implement import substitution policies. For Evans, custodians are regulators, and it is a fact that all states formulate rules and try to enforce them. They provide caretaking in the form of protection and policing, and they always try to prevent illegal behavior. Likewise, the role of the state in the Turkish economy has always been extremely significant, and it was especially crucial in relation to private sector. Republican Turkey, like many other late industrializing countries, has followed a development strategy in its much heavier interventionism and protectionism (Buğra, 1998: 523).

Nonetheless, even though the Turkish state was very autonomous and had high capacity to regulate and control, that advantage could not be fully exhausted during the ISI period. Certainly the bourgeoisie was not in a position to dominate the state, unlike Latin America for example. It was weak, and although its relation to the state was still important, the upper hand always belonged to the state. Yet, elections were still a major part of politics in Turkey. Electoral democracy mostly played around the non-bureaucratic, moral economic area, because there has not been “rights” but “entitlements” that must be negotiated constantly. The establishment of a private property setting and public housing might have been an alternative way to go, but this option could not have been realized. It was pretty much the same with agriculture too. All through the 1970s and 1980s, peasantry was exempt from taxation, which was clearly a populist move to win over the masses in the elections (Ayşe Buğra, personal communication, November 23, 2010).

Similarly, in a typical ISI order, interest rates would be low and foreign exchange rates would be overvalued in order to encourage exports and discourage imports. Wages of industrial workers would be high for them to be both the producers and the consumers of durable goods. In Turkey, during the first years, both

wages and the rate of growth of the economy met this standard. In the second part of the 1970s, the situation changed. The wage increase started to exceed the profits. Another thing about a typical ISI order is that, terms of trade are usually against agricultural goods. This is because then wages could be kept low for industrial workers to still buy these goods. However, agricultural prices kept increasing in the country, largely due to the exemption from taxation. This was also related to the Turkish state's capacity to tax and spend that money. Thus, we actually see a slightly different import substitution, the ISI à la Turca, one might say, in Turkey elections (Ayşe Buğra, personal communication, November 23, 2010).

Consequently, the problem of balance of payments and budget deficits continued to increase through the 1970s. Imports could not be financed with the exports, and they were somewhat covered by the workers' remittances. With the Oil Crisis of 1973, the situation deteriorated further. Following these developments, then Prime Minister Demirel came up with the idea of "convertible deposits" (Eder, personal communication, April 15, 2012). The convertible Turkish lira deposits were foreign currency bank deposits for which the Central Bank guaranteed the principal and interest of deposits against exchange rate risk (Öniş and Riedel, 1993). Demirel thought of this with the intention to attract foreign money and continue economic development after the increase in world oil prices.

The deposits helped for a while; but despite all measures, the Turkish economy confronted real challenges of high inflation and unsuccessful disinflation programs in the 1970s. Finally at the end of the decade, the country faced the downfall of the ISI. Turkey, being a country with a large domestic market, could not succeed in establishing the shift toward export promotion, because it required a strong government system with a considerable autonomy, which was something that the Turkish political scene lacked all through the 1970s (Eder, personal

communication, April 22, 2012). In the ten years before the military takeover of 1980, the country had twelve changes of government, and six Prime Ministers (Directorate-General of Press and Information, 1988:72-3).

Against the background of import and output contradiction, commodity shortages, a severe foreign exchange crisis and strained relations with the IMF and international banks, the minority government of Süleyman Demirel which was just newly installed before the coup in September 1980, announced a comprehensive and unexpectedly radical policy package of stabilization and liberalization in January 1980: 24 January Decisions. Turgut Özal, a former chief of the SPO was to manage its implementation (Eder, personal communication, April 22, 2012). The Demirel government was unable to gain the political support necessary for the successful execution of the package; but the military regime that came to power with the coup authorized the new program and kept Özal in the government as Deputy Prime Minister responsible for Economic Affairs (Pamuk and Owen, 1998:117). Thus, an era ended in the Turkish history, starting a new one with open economy.

#### The Turkish Neoliberal Experiment: From 1980 until Today

With the crisis of the late 1970s, import-substituted industrialization policies proved to have reached their limits. Even though Turkey achieved really high growth rates between 1963 and 1977, the excessive and long-term protectionism of the ISI era was a primary reason of export stagnation and the pervasive balance of payments crisis of the late 1970s (Öniş and Bayram, 2008; Çetin and Yılmaz, 2010). Hence, the stabilization program of January 24, 1980 started the structural transformation of the Turkish economy along neo-liberal lines, mainly in three spheres: the liberalization of the foreign trade regime, of the financial sector, and of the capital accounts during late 1989.

We could divide the neo-liberal experience of Turkey into three periods which correspond to successive decades: First, the 1980s, when trade liberalization was introduced in order to bring about deregulation to attract foreign direct investment; second, the 1990s, when financial liberalization was established and foreign direct investment entered the country; and last, the 2000s, as the deepened (orthodox) liberalization was materialized through the establishment of the institutions and the legal structure of neo-liberal order. Of course, these phases are not mutually exclusive, and each bears the marks of the ones that precede it. The rest of the chapter will go through all three periods with respective details, and try to track down the developments that are crucial in bringing about the way in which the Turkish economy was functioning through those years (Eder, personal communication, April 27, 2012).

#### 1980s: First Encounters with Neoliberalism

As indicated by Ziya Öniş, the 1980s for the most part revolved around the personal and uninterrupted leadership of Özal. His rule was the most crucial point that ensured the credibility of the stabilization-cum-structural adjustment program that was advocated by key international institutions such as the OECD, the IMF, and the WB, in both domestic and international circles. Consequently, the first half of the 1980s under neo-liberal transformation seemed to realize the switch from the previous trends and embodied a clear progress towards an externally competitive economy which experienced a significant increase in exports.

On the whole, the success of the Turkish economy was most visible in three fronts. First, the ratio of total exports in Turkey's gross domestic product (GDP) increased from 4.1 per cent in 1980 to 13.3 per cent in 1988 (Ertuğrul and Selçuk, 2001:12). The process was also accompanied by a diversification of exports, which embodied an enormous increase in the share of manufactured exports at the expense

of agricultural exports. Yet, this success could not be maintained in the second half of the 1980s (Öniş, 1993). Additionally, the doubling of exports within almost two years not only improved the balance of payments, but it also helped output levels recover from the initial impact of stabilization measures. Second, one other thing that helped the balance of payments to improve was the rescheduling of the external debt rescheduled after negotiations with the IMF and the international banks. Fresh credit was obtained. Last, the rate of inflation was reduced from 100 per cent in 1980 to 30 per cent in 1983, and then fluctuated at around 40 per cent; although it rose again to over 70 per cent at the end of the decade (Pamuk and Owen, 1998:118).

Despite these positive developments, the huge increase in Turkey's exports in manufactured goods was not the success of the adjustment programs altogether. As will be explained in the following parts of this chapter, it was mostly due to the channeling of the pre-1980 import substitution industries to this field. These programs surely helped to restrict the domestic market by pursuing a tight wage policy and thus increased productivity, which reflected on the increase of the production of more manufactured goods for exports (Aydın, 2005:44-8).

However, even though the export capacity was growing and the structural adjustment programs seemed to work, the performance during those years laid the foundation of a problem that Turkey is still trying hard to solve: the country's huge budget deficit. As Dani Rodrik put it, the Özal period was a decade of premature liberalization and incomplete stabilization (Rodrik, 1991). Additionally, he generally ignored the rule of law, and did not feel the need to develop the necessary legal structure and the institutional organization for a well-functioning market economy. So, even though this autonomous style of decision-making was useful for a while, it also weakened the neo-liberal program in the longer-term. That is why his period is called the unorthodox years of neo-liberalism, since despite his huge efforts, it was

not Özal but later Recep Tayyip Erdoğan who started to build the essential neoliberal organization in Turkey.

The decision to open up the capital account fully in August 1989 is an example of his unchallenged power. It was purely Özal's own initiative, and the decision clearly lacked the necessary bureaucratic background. Öniş considers this act a premature decision while the country was obviously going through pervasive macroeconomic instability and maintained a severely under-regulated financial system (Öniş, 2004:115). The move resulted in flows of short-term foreign capital; however, in the longer term, it proved to be very costly, leading Turkey into a tumultuous decade of political and economic problems.

#### The Lost Decade of the Turkish Economic History: The 1990s

Against this background, the second decade of the Turkish neo-liberalism was characterized by a high degree of macroeconomic and political instability, lower growth rates, chronic inflation, the outbreaks of several financial crises and weak budgetary performance. The economic instability had started to build up in the Turkish economy from the late 1980s onwards. The main reason for this deterioration was the continuous and increasing debt that the economy could not escape (Eder, personal communication, April 29, 2012).

Caught in a vicious cycle of high deficits, skyrocketed inflation, and huge interest rates, as well as the decline of the Central Bank's foreign reserves, Turkey's credit rating started to be lowered at the beginning of 1994, which eventually initiated the devaluation and the massive outflow of those short term funds on which the financial system had more and more been relying. As a result of the instability which had emerged, the country encountered its first financial crisis of the neo-liberal era in 1994. The Turkish Lira was devalued twice, in January and April. The

government announced a new stabilization program on April 1994, and a stand-by arrangement was approved by the International Monetary Fund (IMF) Board.

Turkey did not receive considerable foreign direct investment in this period, so it became harder for the country to finance its account deficit. Normally, convertibility should have attracted a greater amount of foreign direct investment, because it signals to the international investors that you are creating an investment-friendly environment by lifting the restrictions on capital. However, since the current account balance is understood as a sign of a country's external instability, an ever enlarging current account deficit is expected to reduce capital inflows. Since then, Turkey faced the variations in money flows in the global market (Ayşe Buğra, personal communication, December 10, 2010).

One of the most important developments of the period was the Customs Union (CU) between the EU and Turkey, which came into effect on January 1, 1996. This agreement was about regulating the trade regime, and brought huge structural changes to Turkish economy. However, the effect of the CU to Turkish exports was not substantial. The reason was that before the CU, the EU had already removed tariffs on imports from Turkey. Yet, it resulted in another transformation, in the sense that as the import penetration increased, local firms felt the need to take action in order to compete with competition. They adopted various measures to increase productivity and raise their competitiveness potential, especially in medium-technology industries like motor vehicles, consumer durables and consumer electronics (Taymaz and Yılmaz, 2007: 133).

All in all, the analysis of the 1990s clearly shows that the relative success of the 1980s could not be carried into the 1990s, and the failure in creating long-term structural changes compatible with liberalization led to a series of crises. As Mehmet Uğur indicates, in the face of the lack of a capable bureaucratic basis, and with the



persistence of populism and rent politics in the Turkish political scene, liberalization project could not keep up with its contemporaries in Central and East Europe for example, even though it predated the efforts of these countries (Uğur, 2004).

#### Turkish Economy in the 2000s: The AKP and Orthodox Neo-liberalism

Affected by the serious irregularities in the world economy and its internal problems in the regulation of the banking system and high inflation, Turkey started its third decade of neo-liberal economy with a crisis too, and lived subsequent crises in 2001 and 2008-2009. The 2001 crisis was actually the cumulative result of the problems of the preceding decade, and its problematic organization. The country's domestic market was not in a position to freely compete in the harsh global economy, hence its premature exposition made a financial crisis unavoidable (Cizre and Yeldan, 2005: 389). However, the 2001 crisis also proved beneficial for the economy, since it opened the way to a more serious and dedicated liberalization project. The social upheaval following the 2001 crisis resulted in the victory of the Justice and Development Party (AKP), producing Turkey's first single party government since 1987 and the first two-party parliament in 48 years. Under the rule of AKP and through the application of various "regulatory reforms" after the crisis, and worked to restructure the state in line with the requirements of the global market economy through the combination of the policy recommendations of two external actors: the IMF and EU discipline (Yalman and Bedirhanoglu, 2010:117).

In line with these reforms, the economy performed a miracle recovery until the crisis in 2008. The success was to the AKP's endurance in maintaining fiscal discipline while keeping the interest rates low. However, this recovery did not succeed in creating jobs and decreasing unemployment, which stayed very high especially in the urban areas, above 13 per cent through 2005 (Pamuk, 2008: 291). It would also be a mistake to see those four years as a period when neoliberal policies

were followed wholeheartedly, it was rather, as Yalman and Bedirhanoğlu put it, the convergence of various political projects (Yalman and Bedirhanoğlu, 2010: 120).

By May 2008, the global crisis was about to hit Turkey. However this time, the government was hesitant to go to the IMF for assistance. Prime Minister Recep Tayyip Erdoğan even claimed that the global crisis would “pass tangent” to Turkey (Milliyet.com, 2008). Nevertheless, an examination of the macro-economic data clearly reveals that Turkey was negatively influenced by the global crisis (Öniş and Güven, 2011: 585) with the sharpest quarterly GDP decline of the last three decades (-14.3 per cent), and the highest rate of unemployment around 16% in the first quarter of 2009 (Uygur, 2010: 2-3).

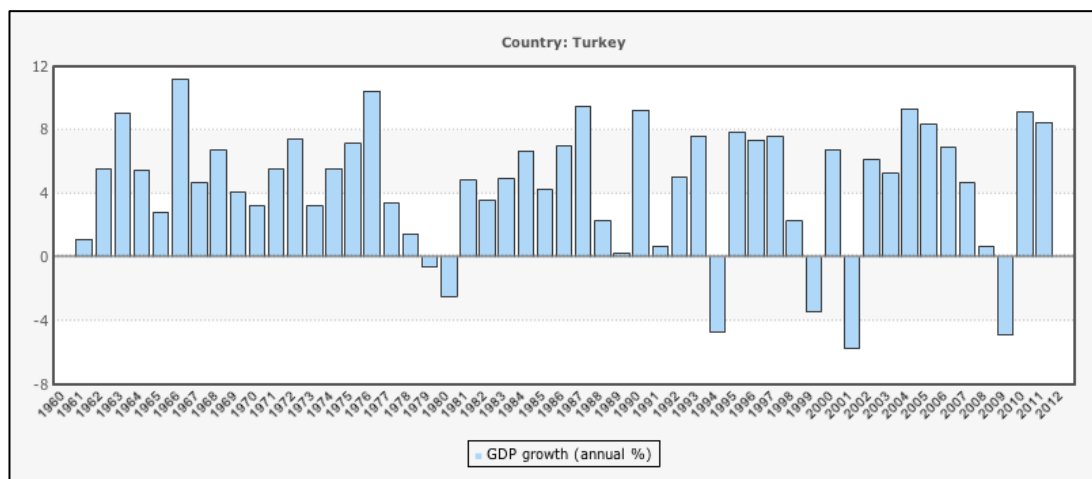


Figure 2: Turkey’s Annual GDP Growth in Percentages

Source: World Bank Data and Statistics for Turkey.

(Available at: [www.worldbank.org.tr](http://www.worldbank.org.tr))

Although the Turkish economy rebounded strongly in the first half of 2010, it is still debated whether the government could have regulated the crisis period better and more comprehensive set of measures could have helped the country tone down the effects of the crisis in the first place. By the time of the writing of this thesis in 2012, Turkey is in three years into the crisis, and still struggling to regain its pre-crisis levels. The progress is surely visible, the economy is recovering and hopefully the numbers will continue to go up. Even though the crisis has not been well

managed, the AKP government has been quite successful in its political management of the crisis. It was victorious in diverting attention away from economic issues and is able to present itself as a progressive force in Turkish politics. The nervous relationship with the IMF also has been portrayed as a sign of national strength and autonomy. Indeed, the reluctance to ask the IMF for help reflects Turkey's new self-confidence policy, mainly in affairs with its Middle Eastern neighbors (Öniş and Güven, 2011: 603).

#### Liberal Policies in the Turkish Economy and Export-Led Growth

Many developing countries in the late 1970s and 1980s adopted structural adjustment programs, which ended their commitment to import-substituting industrialization strategies and enabled the shift to export-oriented growth. Among these countries, the most cited ones besides Turkey are North Korea (pictured as the ultimate success example of export orientation), many Latin American countries such as Argentina, Brazil, Chile, Mexico, China and Hong Kong. The main objective of these programs was to manage the countries' integration into the global economy, through implementing various Income policies and labor market deregulation toward a redistributive model that favors capital. Those, in turn, have meant to create greater market openness and higher profits to stimulate growth, and ensure accumulation in export-oriented, labor-intensive sectors that would generate employment (Onaran and Stockhammer, 2005: 66).

After the effects of these changes and the prevalence of the capital account crisis were felt at the end of the 1970s, Turkey also was forced to open up its economy to the world markets from the 1980s on. As already mentioned above, since 1980 the country has been implementing various capital-friendly strategies in line with this objective: sharp devaluation of currency, import liberalization, encouragement of exports by heavy subsidies, tax rebates, credits, liberalization of

financial markets, limitation of domestic demand by an incomes policy, moves toward privatization and incentives (such as the establishment of export processing zones) to attract foreign direct investment (Çağatay and Berik, 1991:161). The 24th January Decisions aimed at reducing inflation, attracting foreign financing, and attaining a more outward-oriented and market-based economic system, and thus, consolidating export-oriented industrialization. Export subsidies were brought into force, and exchange rates reduced to make Turkish exports more competitive (the CBRP, 2002: 5).

According to the 2002 report of the Central Bank of the Republic of Turkey (CBRP), the post-1980 export incentive schemes of Turkey may be classified under five major categories. First, the exchange rate was continuously depreciated. That was the government's primary policy to support exporters (Rodrik, 1991). Second, direct payments were made to exporters, which meant that the state covered their initial costs through the government's budget and extra budgetary funds. Third, special and subsidized export credits were provided. The Export Promotion Fund, the Central Bank, the Turkish Development Bank and Turk Eximbank provided those credits. Rediscount rates were kept below the commercial interest rates. Fourth, tax exemptions were introduced on imported inputs, which were used to act as an input in the production of export goods. Therefore, tax exemptions increased gradually, while the export sector was growing. Finally, corporate tax allowances were provided. Although there is no precise estimation, it is predicted that these allowances increased over time as well (CBRP, 2002: 6-7).

Consequently, the share of total export subsidies in the total manufactured exports steadily increased between 1980 and 1984, and then decreased gradually as the sector became more self-sufficient and independent over time (Undersecretaries of Foreign Trade, 2007: 5). In addition to incentives and subsidies, the Free Trade

Zones Law was passed in 1985, again with the purpose of increasing export oriented investment and production. Mersin and Antalya free zones were opened in 1988, the Aegean and Istanbul Atatürk Airport free zones in 1990, the Trabzon free zone in 1992, since October 1995, and commercial activities have been conducted in the Mardin and East Anatolian free zones. Furthermore, Turkey became a member of the World Export Processing Zones Association in 1991 (Undersecretaries of Foreign Trade, 2007).

One other thing to mention about the subsidies is that they were differentiated by sectors. Mostly the tax rebates were the highest for skill-sensitive investment goods, and below the average for labor and resource intensive consumer goods in manufacturing. Yet, the share of consumer goods was the highest in direct payments, because this product group (including textile and food processing) made up the largest part of total manufactured exports. As a result, exports rose from 2.9 billion US dollars in 1980 to 11.8 billion US dollars in 1989 in annual terms (Undersecretaries of Foreign Trade, 2007: 4). Within the same period, the composition of exports also changed considerably. The share of industrial products in total exports rose from 36 per cent to 78 percent (Undersecretaries of Foreign Trade, 2007: 5).

The 1990s were different from the first phase of export-orientation. During that period, labor costs started to increase while the rate of the depreciation of the Lira slowed, thus the growth rate of exports lost its speed when compared to the 1980s. As already stated, an important change was the establishment of the CU between the EU and Turkey; but it did not benefit the country significantly and immediately, even though its positive effects could not be underestimated (Ayşe Buğra, personal communication, December 12, 2010).

All these combined, we can observe an upward trend in the exports of Turkey, first starting in the 1960s. The breakthrough was experienced during the 1980s, with the opening of the economy, and the movement has accelerated in the 2000s.

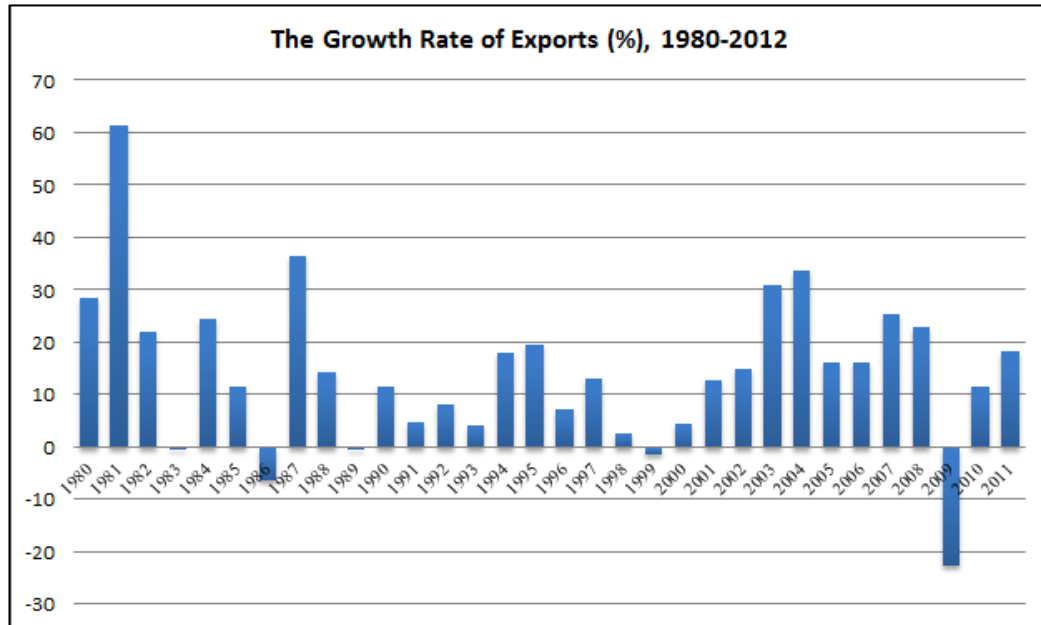


Figure 3: The Growth Rate of Exports in Turkey in Percentages  
Source: TUIK, International trade statistics  
(Available at: [www.tuik.gov.tr](http://www.tuik.gov.tr))

We can also follow these developments through the share of exports in the GDP all through those periods, which rose to 27 per cent by the time we reached 2001, and was declared to be 23.9 per cent for 2011 (World Bank, 2011).

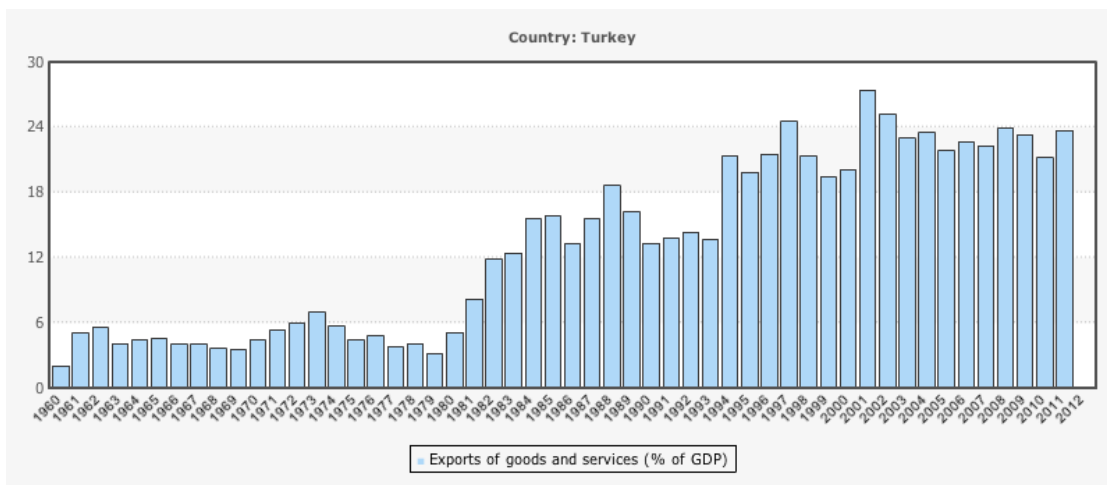


Figure 4: The Share of Exports in GDP as Percentages  
Source: World Bank Data and Statistics for Turkey  
(Available at: [www.worldbank.org.tr](http://www.worldbank.org.tr))

Lastly, it should be indicated that the export orientation alla Turca was via a strict pro-capital redistributive mechanism. It was the huge wage declines that enabled the adjustment of capital to the conditions of the new trade regime while ensuring least problems possible and highest trends in profitability (Ayşe Buğra, personal communication, December 12, 2010). So overall, the success of the export-led industrialization policy of Turkey was due mainly to the shift of industrial capacity toward international markets through a significant reduction of real wages, the advantage provided by excessive export subsidies, and real devaluations rather than new investments (Boratav et al. 1994; Metin-Özkan et al. 2001; Onaran 1999; Onaran and Yentürk 2003; Senses 1989; Yeldan 1995; Yentürk 1997). This could be observed more clearly when we analyze the composition of the Turkish exports and the periodic changes that these elements have experienced. For example, since the beginning of the liberalization process, the share of agriculture in the GDP decreased steadily while that of industry (especially manufacturing) increased. One of the reasons why the share of industry also increased is the increased concentration of the Turkish industrialization on international markets (Satoğlu, 2008: 6-8).

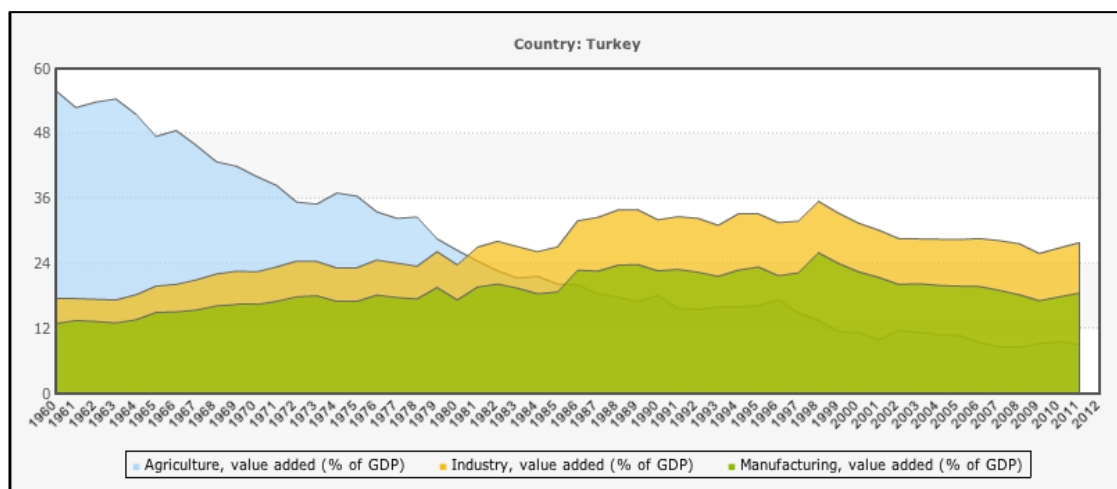


Figure 5: The Share of Major Sectors in GDP as Percentages  
Source: World Bank Data and Statistics for Turkey  
(Available at: [www.worldbank.org.tr](http://www.worldbank.org.tr))

Thus, in that context, understanding the development of manufacture becomes even more important, with its ever-increasing share in the export-oriented economy. That is one of the biggest reasons why it was decided this study should focus on an Anatolian city that specialized in manufacturing. Via one such region, one can discover the new horizons opened upon to the country's industry and its production potential by the open economy. Hence, in order to understand this process better, the next section presents an outline of the major developments that Turkish manufacturing has been through since 1980, also shedding light on the basic points that are beneficial for the analysis of Denizli.

#### Turkish Manufacturing since 1980

In the post-war period, industrialization became synonymous with development. Hence, the manufacturing sector was seen as the main initiator of growth, which is characterized by dynamic returns to scale (the positive relationship between the growth of output and the growth of productivity), that were the consequences of "learning-by-doing" and technological improvements (Şenses, 1994: 7-8). Overall, it was argued that the growth of the manufacturing sector would:

Raise productivity not just in the sector itself, through an extension of the division of labor, but also in the other major sectors. Further productivity gains and technological progress arising in manufacturing [would] be passed on to other sectors through their purchases of capital and intermediate goods (Weiss, 1988 as quoted in Şenses, 1994).

As indicated in the previous section, after the liberalization of the economy, the Turkish industry came to occupy an ever-increasing share within overall exports. This is something which also gives a clue about the direction of change of Turkish manufacturing. When the export numbers of Turkey more than doubled in the immediate aftermath of liberalization, it was surely perceived as the triumph of the



liberal free market economy. Turkey's exports sharply increased from 2.6 per cent of GDP in the crisis year of 1979 to 8.6 per cent in 1990 (See Figure 4 above). Equally important was the role of manufacturing, which accomplished approximately 80 per cent of this increase (Pamuk, 2008:287).

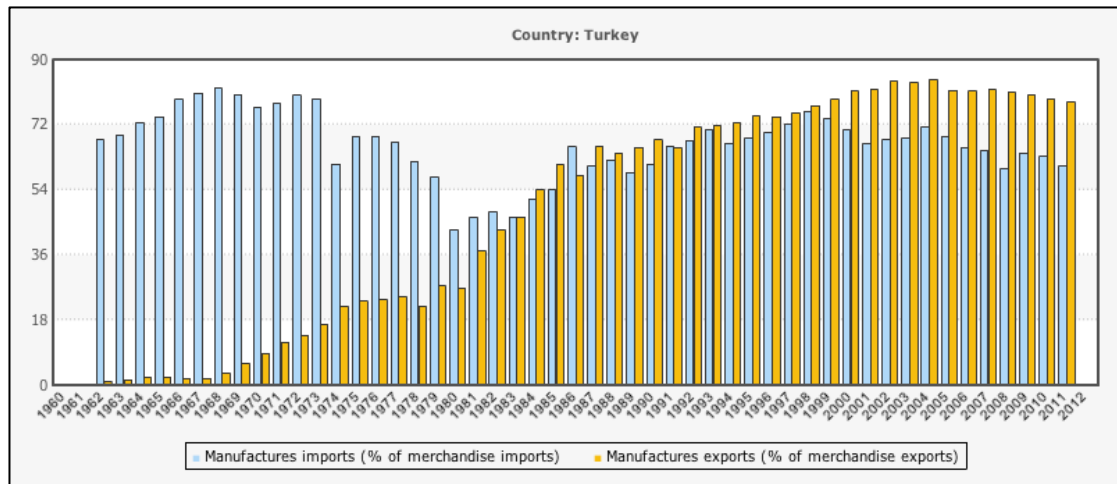


Figure 5: The Share of Manufacturing in Imports and Exports in Percentages  
Source: World Bank Data and Statistics for Turkey  
(Available at: [www.worldbank.org](http://www.worldbank.org))

However, when we look into the situation more closely, it appears that this was actually not the achievement of neo-liberal economic policies. For example, as Fikret Şenses points out, despite the fact that Turkish private capital was reluctant to invest in the productive sector, and the public sector investments in manufacturing were not encouraged by the World Bank, the share of manufacturing in exports progressively increased throughout the 1980s, until the mid-1990s (Şenses, 1994). How could this happen? The fact is, the “success” was not due to a structural change that Turkish industry accomplished after liberalization. The State Institute of Statistics (SIS) data suggest that the processes of export orientation and overall trade liberalization since 1980 had not changed the fundamental characteristics of manufacturing industry significantly (Günay, Metin-Özcan and Yeldan, 2005:1899). As mentioned before, the increased output was due mostly to the revitalization of the unused capacity in existing industries rather than due to further industrialization

(Aydın, 2005:46). As a result of high interest rates and political instability, new investment was nonexistent, even in the area of exports (Pamuk, 2008: 287).

In order to get a deeper sense of the structure of the industry and the characteristics of its contribution to the economy, the rest of the chapter looks into three of the most important denominators of manufacturing. Thus, the following part focuses on the performance of the sector with respect to the changes in, real wages, productivity, and employment.

### Real Wages

One aspect of this export capacity recovery was a decrease in real wages. As the manufacturing industry evolved into the main sector which led the export-orientation of the economy, it became also the principal area in which the distribution patterns between wage-labor and capital was re-shaped (Günay, Metin-Özcan and Yeldan, 2005: 1899). Throughout its history, Turkey has traditionally implemented devaluations (mostly to regulate high inflation) with the hope that it would improve its international competitiveness via real cost reductions (e.g. the advantage of “cheap labor”) (Özçelik and Taymaz, 2004:421). Thus, the decreases in real wage have always been one of the most important dimensions of these cost reductions.

If the general trends regarding the changes in real wages since the 1980s are observed, it is apparent that they mostly fluctuated without following a permanent direction. Increasing exports, on the one hand, should have had a positive effect on real wages, because of the rising demand for labor. However, in the period immediately after the liberalization, real wages and agricultural incomes decreased substantially, generally in order to provide room for the initial push to export expansion (Satoğlu, 2008).

Moreover, further investigation reveals that real wages in export sectors have always been lower than the ones for the other sectors for all years, with no exception. Considering the fact that Turkey was a developing country specializing in labor-intensive goods in its foreign trade, lower wages in exporting sectors may be considered normal. However, the paradoxical observation is that, in 1998 the real wage index for exporting sectors was below its 1982 level. This calls for the conclusion that the main purpose of the post-1980 change in foreign trade regime was not to concentrate on the sectors in which Turkey had a comparative advantage, but to create a surplus to export by suppressing wage (Kızılca and Metin-Özcan, 2008: 147). Indeed, real wage rates could not catch up with their 1978 levels before the early 1990s (Taymaz, 1999).

Yet, starting from 1986, wages began to increase until the 1994 crisis. For example, real wages in the manufacturing sector rose by 90 per cent from 1988 to 1991 (Boratav, 2009). The 1994 crisis changed the income distribution significantly. According to the Central Bank's annual report for 2003, real wages fell by 30 per cent in the crisis year of 1994, and then they were continuously reduced between 1994 and 1998 (Aydın, 2005: 130). Similarly, wage costs also declined greatly, which led export earnings to rise. Along these lines, Turkey once again turned back to its classic mode of surplus extraction, which meant increasing the profit margin and the export performance of industrial sectors through cutting on wage costs (Metin-Özcan, Voyvoda, and Yeldan, 2002: 85).

Still, between 1994 and 2000, there was a gradual increase (Kızılca and Metin-Özcan, 2008:147), but only in 1999 and 2000 was there a real improvement registered in real wages, which was only an 11 per cent increase on 1994 levels. Like the 1994 crisis, there were major capital outflows in 2001 again, damaging industrial workers, and both the real wages and share of labor declined dramatically. The

reduction of real wages continued in the post-2001 period too (Aydın, 2005:130).

And even though a pattern of minor and gradual increase was observed following the period of crisis, capital outflows yet again damaged the Turkish economy heavily during the crisis of 2008 (Oyvat, 2011: 124).

### Productivity

A major structural problem of the manufacturing sector is that the gains of export penetration have not reflected much on labor productivity. Yet, the relationship between productivity and export capacity is a highly debated one, especially for developing countries like Turkey. There is a strain of literature which argues that trade liberalization and export orientation can positively influence productivity growth, on the basis that imports would foster the quality of production through introducing an increased variety of available inputs and technological knowledge from abroad (Taymaz and Yılmaz, 2007: 127). However, theoretically it is also possible that liberalization might affect productivity growth negatively, because domestic producers may feel threatened when they are faced with reduced market shares, and become less enthusiastic about the cost of adopting higher technologies (Rodrik, 1999).

Using a database from 1984 to 1996, Şule Özler and Kamil Yılmaz reported that the trade reforms of the 1980s and early 1990s had significant impact on productivity growth in the manufacturing sector. Additionally, they showed that the sectors that had achieved the greatest productivity gains were the import-competing sectors (Özler and Yılmaz, 2003). Drawing upon their research, Taymaz and Yılmaz analyzed the productivity growth in the Turkish manufacturing industry in the period after the CU. Apart from the liberalization of tariffs and the adoption of the EU's common external tariff for industrial products, the agreement also included several other integration elements, which involved ensuring the compatibility of Turkey's

competition policy legislation to that of the EU, the adoption of the EU's commercial policy towards third countries (including textile quotas and the free trade agreements with all the EU's preferential partners (Zahariadis, 2002). Their research revealed that the Turkish manufacturing industry has been through three sub-periods through which it experienced significant growth in total factor productivity (TFP)<sup>1</sup> after 1980: 1985-1988, 1988-1994, and 1994-2000.

This periodization is obviously consistent with major changes in the country's trade policy and overall macroeconomic conditions. For example, when examined through the behavior of the Turkish Lira, we see that it had been through a strong real devaluation in the first sub-period, whereas it appreciated in real terms in the last two sub-periods, which were separated by a sharp devaluation during the 1994 crisis. Regarding trade openness, the first sub-period was experienced a relative stability in imports, and export-output ratios. In the second sub-period, especially in the early 1990s, the import increased while there was a sharp decline in export-output ratio. Both the imports and the export-output ratio increased dramatically in the third sub-period, though at a slower speed. We also observed a decline in TFP levels in the first sub-period, followed by a rapid increase in the second, and stagnation in the third, with the exception of import-competing sectors that accomplished great growth in TFP in the third sub-period as well (Taymaz and Yılmaz, 2007: 139-40).

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<sup>1</sup> Total factor productivity is the portion of output not explained by the amount of inputs used in production. As such, its level is determined by how efficiently and intensely the inputs are utilized in production.

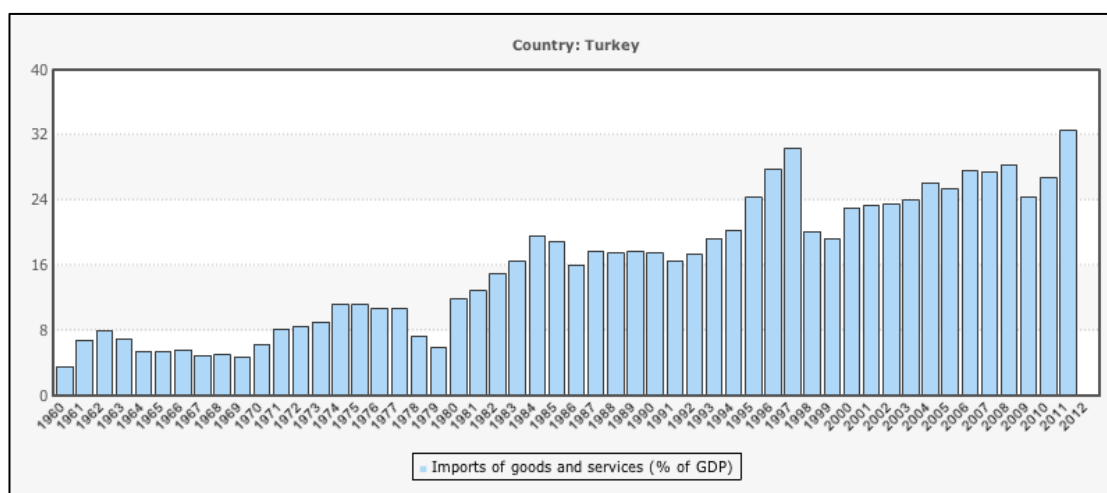


Figure 6: Imports of Goods and Services as Percentage of GDP

Source: World Bank Data and Statistics for Turkey

(Available at: [www.worldbank.org.tr](http://www.worldbank.org.tr))

Therefore, we see that the growth rate of labor productivity was slow before the reforms in 1980 in comparison to the two decades that preceded it. In other words, the growth rates of labor productivity in the manufacturing sector speeded up during the 1980s and the 1990s. However, that increase did not reflect on the employment rates, since it was mostly due to utilizing the redundant capacity (which had been created largely in the 1970s) in the manufacturing industry. This situation brought about an increase in the 1980s and 1990s especially for medium and large scale manufacturing firms. In contrast, the growth rate of employment slowed down after 1980 (the CBRP, 2002: 47).

From 1980 to 1993, labor productivity in the manufacturing sector increased constantly. By 1997, the average labor productivity was twice as much as its level in 1980. This truly supports the argument that trade openness and productivity are positively correlated. Nevertheless, as indicated before, real wages decreased continuously during the 1980s. Despite a relative improvement between 1990 and 1993, by 1997 they were at the same level that they had been in 1980. In other words, during the two decades that proceeded liberalization, real wages did not associate with real labor productivity (the CBRP, 2002: 47).

Especially after the CU was established, the increased competition from imports led to important changes in the performance of domestic producers of manufactured goods. Before, some sectors such as automotive, durable home appliances, electrical machinery and basic metals had continued to receive protection behind high tariff barriers despite the import liberalization process that had started a decade earlier. However, productivity growth in these and other import-competing sectors was higher compared to the export-oriented and non-traded goods sectors (Özler and Yılmaz, 2009).

Focusing on the trends in the manufacturing industry as a whole, it appears that the CU pushed Turkish industry to transform itself towards greater productivity much faster than it would have otherwise done so. Most of the productivity gains resulting from the increased competition from the EU products were realized before the early 2000s. After 2003, the EU's share in Turkish imports started to decrease steadily, while that of the East Asian countries began to rise. So, the productivity gains that have been achieved since the early 2000s have been made mostly by reason of the increased labor productivity in those sectors which were confronted with intensified competition from China. This was also possible due to augmented dependence on intermediate input imports from East Asian countries (again especially from China) (Yükseler and Türkan, 2006). While Turkey carries out approximately 50 per cent of its export connections with the Euro Zone, the zone's share in import transactions is less than 35 per cent. The appreciation of euro against dollar after 2002 also enabled Turkish exporters to rely more and more on imported inputs from China and other Asian economies in order to keep production costs low and under control.

Despite all these positive remarks on the (generally) increasing trend of the Turkish manufacturing industry, Voyvoda and Yeldan's analysis shows that since the

beginning of the structural adjustment reforms and outward-orientation from 1980 on, the fundamental sources of productivity gains have not significantly changed. The authors found that neither one of the leading export sectors of the 1980s (including manufacturing) generated sufficiently strong productivity contributions, nor did they admit strong inter-industry linkages to serve as the leading sectors propelling the rest of the economy, thus bringing about a feasible strategy of export-led industrialization (Voyvoda and Yeldan, 2001). A study carried out by the World Bank also points out that the main source of productivity growth in Turkey between 1975 and 1990 was the changes in the sectorial composition, which is basically the flow of labor from agriculture to other sectors (WB, 2000). That brings the analysis to the third point which will be elaborated regarding the developments that have been observed in the Turkish manufacturing since 1980.

### Employment

In general, unemployment rates in Turkey decreased after 1980 since the increase in employment rates surpassed that of labor force. While the unemployment rate was 11.6 per cent in 1980, it declined to 8.6 per cent in 1989, and then to 6.6 per cent in 2000 as the growth in labor force participation lost some momentum during the 1990s. The average growth rate of labor force between 1981 and 1989 was 2.6 per cent, then dropping to 1 per cent during the period of 1990-2000. This situation provided a crucial contribution to the decline in unemployment rates in the 1990s (CBRP, 2002:46).

The manufacturing sector is particularly important within the context of these developments since it absorbed almost half of all waged employment by 1992 (Satoğlu, 2008:14). To understand the size and the value of sector further, it should be noted that in 2006, the share of manufacturing in the GDP reached 21.1 per cent (TSI, 2006).



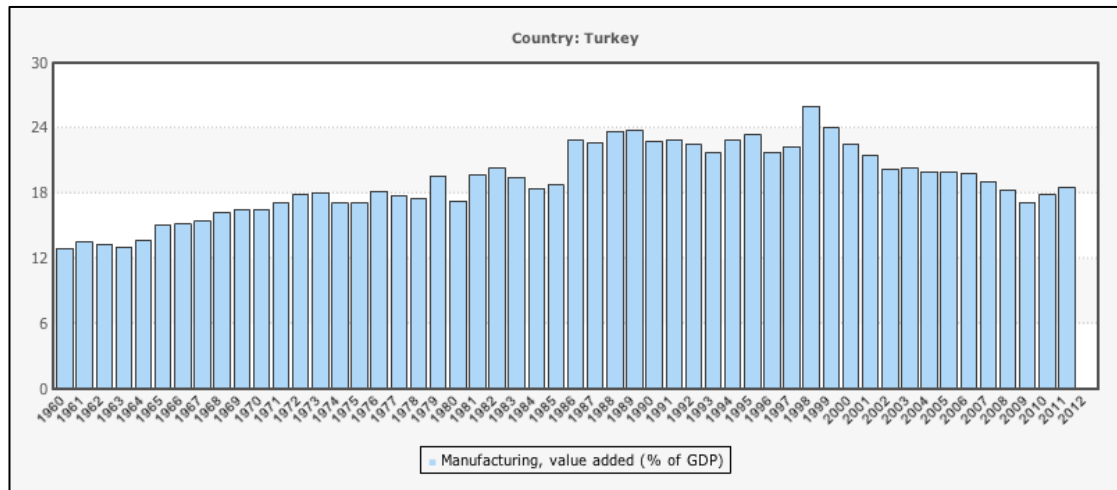


Figure 7: Manufacturing's Share in GDP in Percentages (Value Added)

Source: World Bank Data and Statistics for Turkey

(Available at: [www.worldbank.org.tr](http://www.worldbank.org.tr))

In manufacturing, an important feature of the labor market developments during the 1990s was the total rise in marginalized labor employment in the Turkish economy. Especially with respect to the manufacturing industry, the ratio of marginalized labor increased significantly after 1980, in particular after 1990 (CBRP, 2002:48). It was also a common form of employment in the Anatolian firms.

These developments in the labor market and job creation capacity of the economy should be investigated in detail to get a holistic view of the Turkish manufacturing. Turkey went through an important labor absorption process, which is also demonstrated by the unemployment rates. During the period of 1981-97, total employment grew only by 1.5 per cent per annum, while working age population (which is the group of all potential workers) increased by over 3 percent (WB, 2000). There are two possible explanations for this situation: either the economy was not growing enough to generate employment for the population, or its growth was not adequately labor intensive. There are no clear accounts on these issues. Basic economic theory suggests that labor abundant economies will produce more labor intensive goods as specialization occurs; therefore they create more employment after they integrate with the world economy. However, after trade liberalization,

necessary employment creation did not take place in Turkey. Neither did the trade reforms help to improve general productivity in the economy (CBRP, 2002:61).

So, what kind of an assessment can be made regarding the Turkish liberalization and the development of its manufacturing industry in light of these analyses? First of all, the growth in Turkish exports was mainly due to the dynamics of the wage-cycle and post-crisis adjustment (the adaption of incentives and real wage decrease during 1980) (Satoğlu, 2008: 18). For the most part, the increase in the profits correlate positively and to a great extent both with price inflation and real wage costs. Yet, profit margins were not significantly influenced by trade openness (Gunay, Metin-Özcan and Yeldan, 2005: 1899).

A strong result of this is that, despite all efforts for cost reduction and to increase the competitiveness of exports, the share of industrial production in the GDP was not able to surpass 30 per cent, which is very low for the industrialized countries. Successive financial crises throughout the 1990s and early 2000s, and minimal investments in innovative technologies limited the prospects of the Turkish manufacturing sector in becoming a strong exporting industry at the national level. The growth appears to be the collective result of several regional success stories, which has been confirmed by various studies that assert that economic activity in Turkey does not have an even geographical distribution and businesses are located in major metropolitan areas as well as a set of growing regions. The work of Falcıoğlu and Akgüngör demonstrates that in the period following the liberalization, Turkey's regions became more specialized and industry became more concentrated. They argue that this is a strong evidence that proves Krugman's hypothesis, which maintains that regions become more specialized and industries concentrate more through economic integration with the global market, forming hubs of regional development (Falcıoğlu and Akgüngör, 2008:303).

As it has been mentioned in various part of this thesis so far, Denizli is clearly one of those emerging regions in Turkey, with a great potential in international trade and production capacity that developed through the protectionist years of import substitution and supported environment of export-orientation. An example of a traditional export-oriented centre for bathrobe and home textiles, it offers a valuable opportunity to investigate the ways in which local economic development, through clustering activities and a policy framework which focuses on the collaboration of SMEs, would be achieved through participation in the global market. The next chapter focuses on the historical heritage of Denizli, which has provided the city with the background and know-how to built its base for economic success.

## CHAPTER 4

### A CASE IN POINT: THE HISTORICAL EXPERIENCE OF DENİZLİ WITH TEXTILES

#### Textile Manufacturing and Turkey

The textile and clothing industries play crucial roles in the economic progress of many countries. They were extremely important during the industrialization process in the eighteenth and nineteenth centuries, and they continue to support the economic growth of developing countries which have a lack of capital, but have an abundance of cheap labor (Karaalp and Yılmaz, 2012: 8).

Since Turkey is one of those developing countries with a more or less similar composition, the textile industry has had a significant share of production and employment in manufacturing, and as well as in the export figures of the country since the beginning of the 1980s. A detailed look at those figures shows that the country has undergone fluctuations annually with respect to its competitiveness in the international market in textile and clothing products over the past three decades. To get into more detail, Turkey's comparative advantage in textiles indicated a significant increase especially from 1995 to 2000. In 2002, manufacturing products became the leading item in exports with a share of 65 per cent, followed by services (31 per cent), and agriculture (4 per cent). After a slowing down period, a rise was observed once more. Currently, textiles and apparel combined constituted around 38 per cent of manufacturing exports, and 25 per cent of total exports (Günlük-Şeneşen and Şeneşen, 2011: 239).

When we divide this export capacity in textiles into different types of products, Turkey especially stands out as leading exporter in towels and bathrobes along with China, Pakistan, Germany, Italy and India in towels and bathrobes. As Öz asserts, during the period of 1996–2000, the country was one of the top three

exporters, accounting for around 10–20 per cent of total world exports of these products (Öz, 2004: 84). The main buyers of Turkish textiles were the United States and the EU countries (especially Germany, Britain, France, the Netherlands, Italy and Belgium), with additions from the targeted new markets of the Middle East, Russia, Balkan peninsula, and Africa.

Within this picture, the leading “textile cities” in Turkey have traditionally been Istanbul, Adana, Bursa and Izmir. However, in the case of towel and bathrobe production, the leading centers are Denizli and Bursa. Within these two, Denizli is especially important when we take into account the share of the city in the total production and export of these products. According to the latest statistics that were compiled at the beginning of 2012, Denizli ranked the eighth within the exporter cities of Turkey (DSO, 2009c). It is also the fourth largest textile producer in Turkey; following İstanbul, İzmir and Bursa. At the end of 2011, Turkey’s total export for textile and apparel was 10,102,967,073TL, and Denizli’s share was 527,430,000TL (around 5.25 per cent) (DSO, 2009f). Moreover, the textile sector in Denizli is highly specialized and successful in producing and exporting towels and bathrobes. In that category, within the same period, Turkey’s total export was \$824,959,000 (Turkish Ministry of Economy, 2012), of which Denizli’s share was \$551,876,000 (almost 67 per cent) (DSO, 2009f). The city also hosts the greater part of the employment in this area (because there are a small number of very large and successful towel and bathrobe producers such as Yeşim Tekstil and Özdilek in Bursa, whereas Denizli hosts a large number of smaller firms), which accounts for more than 70 per cent of the country’s total production of towels and bathrobes (DSO, 2009a). Even though the city does not host the largest groups of textile producer firms, it includes two of the largest exporter firms in textiles (Taç Textile and Linens, which belong to the

same holding company: Zorlu, which was founded by a family from Babadağ, one of Denizli's two important textile towns).

The city's great success in the world market attracted considerable attention before this study as well, some of which is mentioned in the first chapter. The city principally drew the attention of the Turkish academics and policy makers as an example of the geographic clusters theory. What is meant by the term cluster here is a typical example of Porter style clustering (Öz, 2004) with the presence of many related industries, and the dominance of small and medium size family enterprises which produce for the large sub-contractor firms that are engaged in international trade and that export the larger part of their production. The following chapter will discuss more the components of this organizational structure and the ways that they each contribute to the economic development of the city in greater detail.

Another reason making the city as a distinct case is the process it has gone through while developing its exporting base. The history of Denizli is not the same as that of the other regions with significant textile industries, such as Tekirdağ or Bursa. For example, Tekirdağ is a region which has benefited greatly from its geographical proximity to Istanbul and Western Europe. Additionally, the public sector is minimal in Denizli, something that has been very important for other cities that specialize in textiles. This situation obliged the city to rely more on its own capacity to develop (such as depending on local capital rather than borrowing or credit, forming family companies and doing business through personal ties). All of these combined, the city emerges a perfect test site for the observation of the components and the results of geographic clustering, and the argument that the concentration of specific industries clearly benefits regional economies (Öz, 2004: 57-8).

As discussed above, Denizli and the organization of its towel and bathrobe production were chosen as the foci of this research in the light of these interesting

elements. This ultimately stems from two points. First, the account behind this important exporter city's contemporary achievements and the historical accumulation that enabled it appear to be unique; and thus its research deserves a great deal of attention. Second, this analysis would be beneficial both to understand the city's own regional success better within its limits; and it is also good for getting more accurate sense of the contemporary political economy of Turkey, wherer several Anatolian towns have shown unpredicted success through taking the advantages of opportunities offered by the new global dynamics. Denizli is without doubt one of these towns. It underwent a serious turning point through Turkey's opening to global economy. The factors that enabled this turning point have been accumulating in the region for a long time. Combined with these new advantages, the city's path to its current economic achievements was materialized.

The remaining part of the chapter gives an overview of this framework. It seeks to answer the question of "why Denizli?" and to address how the city's historical know-how in textiles and the underlying dynamisms of Denizli's clustering activities were combined to bring about the developmental potential. Then, in the following chapter, the contemporary situation of the cluster, and the way each one of these aforesaid elements contributed to the success of the city will be discussed.

#### Textile in Denizli: The Background and Historical Developments

The tale of the textiles and garment industry in Denizli reveals an old success story. This history led to an unprecedented regional development trajectory in which export-oriented industrialization dynamics achieved a pattern throughout the 1980s and 1990s. Exports from Denizli rose from 10 million dollars in the early 1980s to over 2.5 billion dollars in 2010 (the exact figure being 2,518 billion dollars) (DSO, 2009b). The role of entrepreneurship and the possible implications of specialization in home textile products are visible in this unique and great export success.

As discussed above, the significance of Denizli and the reasons that intrigued me in the first place stem from that past. The city's history with textiles, which dates back to antiquity, highlights a background that has been very much supported by the specific elements of the city, and the transformation trajectory of industrial development dynamism that has been present in the region since the beginning of the 1980s. In order to show the evolution of this process, first Denizli's relation to textiles before 1980 will be examined in the first part of the chapter. Then the transformations that the city has been going through since then will be dealt with intensively, to indicate their share in city's success better.

#### Denizli's Textile Before 1980: The Tradition of Craftsmanship

##### Denizli before the Republic

To the question of "why Denizli?" that was asked at the beginning of this section, the first reply would be the historical circumstances which helped the emergence of the cluster. In the city, artisanal textile production dates back to more than 2000 years ago. One of the elements that were very beneficial in the high level of development achieved by this region in the early times is the city's location in the Menderes Valley, the gateway between the Aegean Sea and Eastern Anatolia (Denizli Valiliği, 1998). The region hosted several important civilizations which was knowledgeable about cotton farming and trade, and this past ensured an atmosphere which has been extremely advantageous to the development and commercial exploitation of the high-quality local cotton (Öz, 2004: 104). Accordingly, when talking about this history, one has to mention Ancient Denizli: the city of Laodikeia (and Hierapolis antique cities), which was an internationally famous textile center. Since it had a cosmopolitan structure where merchants from all over the world gathered and traded, the city was always important, especially in terms of wool weaving and dyeing.



Living its golden age during Roman times, the region grew into a lively trade center. The Roman period also laid the foundations for the development of a closely related industry: dye production, which proved to be a great advantage to the city later on (Gökçe, 2000). Later on, in the Byzantine period, it partly lost its glory because of the rise of Constantinople as an significant location. Nevertheless, the region was also a precious asset to both the Byzantines and and the Turks, which is proved by the fact that it changed hands four times between these two civilizations between 1072 and 1206.

The Ottoman rule brought about a new chapter in Denizli's history. By that period, Denizli and some of its villages had become significant locations of artisanal cotton weaving. Especially three towns, Kızılcabölük, Babadağ and Buldan, became centers of textile production in the traditional artisanal way (the historical developments and the importance of these towns in Denizli's development will be dealt respectively and in detail in the next chapter). The cotton supplies in the Aegean region were important sources of raw material for the city all through these years (Quataert, 1993). As a result of the careful processing of high-quality cotton, the city became famous for its production of textiles of superior quality that were known for their durability as well as their beauty.

In the chronicles of the early Ottoman period, which include abundant information about the socio-economic life besides political and military history, Denizli (known as Tonuzlu by the Ottomans) was described as a city whose textile and cloth industry gave direction to its economic life and made it a great center. It also was stated that these fabrics were to such high quality that the members of the Ottoman dynasty and various elite groups met their cloth needs from Denizli (Öz, 2004: 86). Evliya Çelebi, who visited Denizli in 1671s, mentioned the city in his Seyahatname, and recorded that textiles were very important to the livelihood of the

people in the region (Demir, 1999: 58). In the same period, the fabrics that were produced in Denizli also were exported to various Mediterranean countries (Gökçe, 2000, as quoted in Öz, 2004:86), giving the city's merchants a lot more experience with international trade.

Yet, beginning with the late eighteenth century, the city started to lose its glory. Like many other regions of the empire, it suffered an economic recession in the late Ottoman era towards the end of the nineteenth century, with a visible decrease in exports (Karaalp and Batmaz, 1998: 101-17). This was largely due to the Industrial Revolution that happened in the West, which, when combined with the liberal trade policy of the empire at the time, seriously limited the capacity of the small and weak textile production. As a result of these developments, cotton yarn and fabrics began to be imported to Denizli. The first significant imports took place in the 1870s. Consequently, the region developed new sectors to compensate for its loss, such as the production of silk, raw cotton, wool and dyes, as these were in great demand abroad.

Thus, by the end of the nineteenth century, Denizli was still a buoyant place known for its textiles. Its fame relied on the success of two of its towns: Babadağ and Buldan. The 1891 census shows that there were 190 looms at the centre of Denizli, 185 looms in Tavas, 784 looms in Sarayköy and 640 looms in Buldan, all of which are counties of Denizli Province (Özgür, 2006:9). These traditional places of artisanal work and crafts laid the groundwork for today's internationally competitive production structure. They were transformed during the twentieth century with many important stages. Towards the end of the century, another noteworthy event for the Denizli economy was the construction of the İzmir–Aydın railway, the arrival of which in the region somewhat triggered a revival of economic and commercial activities (Öz, 2004: 86).

The weak local industries of the Ottoman Empire were further hit by the effects of World War I and the Turkish Independence War. Although the situation somewhat improved somewhat after the wars, the damage was serious. The population was depressed in general, and most of the master craftsmen were dead. Whatever progress Denizli made during the first years of the Republic was insignificant (Denizli Valiliği, 1998).

#### The Republican Period: Denizli Takes Another Step Forward

Even though the city was negatively affected by the military struggles and the general economic situation, which was getting worse, the most important developments for Denizli happened in the Republican period. Soon after the Republic was founded, the city became a province. Yet, this did not benefit Denizli right away. As discussed above, its position did not necessarily improve in the first years of the Republic, and the textile production was maintained in the form of artisanal weaving (Pınarcıoğlu, 2000). The city did not gain from the Law for the Encouragement of Industry of 1927, which provided tax exemptions for new and expanding industrial firms, because only establishments that employed ten or more workers were eligible in the scope of this law. By that time, there were 1581 textile workshops in the city, and the greater part of its production base was composed of household-type industrial workshops, which were either family ateliers or employed only one worker (899 out of 1581, 56.9 per cent). Only 29 of them employed ten or more workers (1.84 per cent) (Yaşar, 2004:127). However, the Denizli Chamber of Industry and Commerce was established in 1926, which can be seen as an early indicator of the city's economic orientation.

One crucial event was the establishment of cooperatives in the city in the mid-1930s. Before the 1930s, there were a small number of tradesmen who sold their products and controlled the textile production in the surrounding regions by buying

cotton yarn and using the producers of those locals as sub-contractors (Erendil, 1998). The cooperatives laid the foundation for the city's industrialization by enabling these individuals and firms to collaborate to acquire cotton yarn at agreeable conditions, and thus they reduced the pressure that the yarn merchants had on the producers (Kayaalp and Batmaz, 1998: 101-17).

Therefore, starting with the 1930s, many small textile producers established their own cooperatives to protect themselves from the tradesmen's monopoly, and their dominant position in the production process. As voiced by Pınarcıoğlu, these cooperatives provided cheap cotton yarn to their members, and permitted them to enter the markets which were previously controlled by tradesmen (Pınarcıoğlu, 2000). The cooperatives also led to the emergence of collaborative working habits in Denizli, and hence constituted one of the most important elements that are present in the historical background of the city's social capital dynamism.

In addition to the cooperatives, the World War II further reinforced collaboration among small textile producers. War conditions made importing cotton yarn more difficult, which affected small artisanal producers negatively (Beyhan and Armatlı-Köroğlu, 2002). In order to overcome this problem, a small number of producers from Babadağ, who were known for their industriousness and dedication to business, started to migrate to Denizli province center, since they wanted to maintain their textile production in a new location with more opportunities (Penpecioğlu, 2007: 79). While migrating, they brought their skills and crafts with them. As a result, there started the process through which the production started to be relocated towards the center of the province. Moreover, these new comers in the city center largely depended on their townsmen, and formed active trust relations while trying to survive in the city, which was very different from their hometown. This enabled them to develop solidarity, reciprocity and co-operative working conditions,

which in turn facilitated the production process. Almost all of the big textile companies which now have export ties with the international market were founded by the descendants of these first comers.

There was quite an increase in the number of small textile cooperatives in the 1940s, mainly because a state enterprise, the Sümerbank Yarn Factory, was decided to supply cotton to manufacturers via the cooperatives (Mutluer, 1995). Not surprisingly, in 1946, the towns that hosted most of these cooperatives were Babadağ (1803), Buldan (1317), Kızılcabölük (1149), and Denizli's center itself (634) (Mutluer, 1995). As a result of this increase in cooperatives, little firms started to emerge. An interesting example was the establishment of one of the first textile firms in 1954 by 50 individuals from Babadağ. Many of the founders of this firm later became the founder-managers of today's leading textile firms in Denizli (Erendil, 1998).

The 1960s was another significant decade for Denizli's textile production. During these years, the use of electricity became widespread, enabling the adoption of electrical looms. All hand looms were replaced by electrical ones, which increased productivity significantly. Between 1964 and 1979, as a result of this technological improvement, value added per textile establishment increased by over ten times (Pınarcıoğlu, 2000). The motivation to modernize and technologically develop was deepened further when Denizli was included amongst the provinces that were given priority status in terms of development in 1973. Öz states that the development plans of Turkey in the 1960s and 1970s put specific emphasis on regional development. These policies were designed in line with the arrangements that included channeling public investment to the underdeveloped regions with potential, as well as providing incentives for private sector investment to flourish. Denizli benefited a lot from this scheme (Öz, 2004:189).

Eraydın argues that the state included Denizli among the first priority regions was in order to eliminate the problems that arose due to the extension of cotton yarn production of Denizli Sümerbank factory into the fabric production and printing-dyeing operations (Eraydın, 1998, as quoted in Beyhan and Armatlı-Köroğlu, 2002: 5). As expected, public investment in Denizli, especially the manufacturing industry, greatly increased in this period in which the city's priority status lasted until 1981. However, even though it was taken out of the list, the city's firms still continued to take advantage from many other investment incentives given by the state (Mutluer, 1995, as quoted in Beyhan and Armatlı-Köroğlu, 2002: 5). Additionally, the Denizli Dyeing and Printing Factory was founded in 1974, and started to provide high-quality cotton yarn, as well as dyeing and printing services to producers. This was something which further enhanced the city's domestic production infrastructure. The existence of the factory allowed the city to increase quality, quantity and variety of its fabrics.

Another important factor that helped the city's development in that period was remittances sent by the Turkish workers in Germany, further supporting the private capital accumulation in Denizli that had been started by the cooperatives (Öz, 2004:87). During those years, Denizli ranked seventh among the Turkish provinces with citizens employed as guest workers abroad. Guest workers provided Denizli with several advantages. Their investments, especially by the Turkish immigrants, in Germany, enabled the vitalization of the business life in the city. Between 1971 and 1982, approximately twenty multi-partner workers' enterprises were established (Pınarcıoğlu, 2000, as quoted in Beyhan and Armatlı-Köroğlu, 2002: 6). Even though some of these enterprises failed to survive, and only one of the surviving ones is textile-related, the guest workers' remittances brought dynamism to various parts of the city's economy in the 1970s.

The guest workers were channels through which the technical know-how from abroad was transferred to Turkey, and they also contributed to the strengthening of the atmosphere of local entrepreneurship in the city (Pınarcıoğlu, 1998 as quoted in Beyhan and Armatlı-Köroğlu, 2002: 6). While they provided Denizli's entrepreneurs with enough capital with the opportunity to retrieve insider information about international markets that are in proximity, they also constituted the channels through which they can have access to these markets easily under a closed economy. In that sense, it is not a coincidence that one of the richest businessmen of Denizli, A. Kadir Uslu, made his first initiative to form direct networks with the European markets in the country that hosted the greatest number of migrants from Denizli. One of the informants stated that Uslu produced a handful of towels with the looms he had imported from Bursa, and then loaded a container and went up to Germany to talk to potential buyers (İsmail Yılmaz, personal communication, April 9, 2012). His journey paid off, and he came back with a bunch of orders. Another informant also mentioned that this story is told quite frequently in the city, to denote that how their business activities and export success are not a coincidence but a result of their long lasting commercial tradition (Erdem Aydın, personal communication, April 9, 2012).

Apart from the connection through the migrants in Europe, and the geographical proximity, Turkey's competitive advantage in textile and already existing business connections with Europe made it easier for Denizli to form trade networks. The country has had solid trade relations with Europe, which has come to form the biggest part of its exporting locations. In 2008, even though a little bit lower than it used to be, the share of Europe in Turkey's exports was %60, and the greater part of this volume belonged to low-tech labor intensive manufacturing sectors such as textiles (Günlük-Şeneşen and Şeneşen, 2011: 234). We could see how this is

reflected on the composition of Denizli's exports too. Again, even though it is accompanied by a slight decrease, by 2011, European Union has still been the greatest market for the city's products, accounting for more than half.

Table 1: Change in Denizli's Export Value by Countries

<b>Country</b>	<b>2004</b>	<b>Share</b>	<b>2010</b>	<b>Share</b>	<b>2011</b>	<b>Share</b>
<b>USA</b>	240.878	20.30%	183.752	8.32%	235.843	8.55%
<b>EU</b>	735.260	61.95%	1.293.120	58.52%	1.600.497	51.90%
<b>New Markets</b>	83.522	7.04%	427.789	19.36%	521.521	21.27%
<b>Others</b>	127.202	10.72%	304.923	13.80%	398.978	17.31%
<b>Total</b>	1.186.862	100%	2.209.583	100%	2.756.840	100%

Sources: DSO Statistics (2009h), EU and USA Exportation of Denizli and Turkey (2012)

Available at: [www.dso.org.tr/images/file/istatistik/2009/d07.pdf](http://www.dso.org.tr/images/file/istatistik/2009/d07.pdf).

A closer examination of this data reveals a certain pattern about the composition of this export volume as well. Used to be challenged by the USA, Germany has been the country to which Denizli has exported the most, which further validates the role of the connections established before in facilitating trade between Denizli and Europe.

The same decade also witnessed a rapid increase in subcontracting relations amongst the cluster firms (Erendil, 1998), which then became the basic labor organization of the sector (these sub-contracting relations are discussed below). By means of this structure, small firms were able to develop together, something which was also nurtured by the tradition of cooperatives and their reciprocal relations. Additionally, the development of fabric production in the city gave rise to a kind of division of labor through which various tasks were distributed among numerous firms that specialized in the different parts of the production such as cotton yarn, weaving, dyeing and finishing (Pamuk, 1998, as quoted in Beyhan and Armatlı-Köroğlu, 2002: 3). All of these factors came together, and brought about a specific



work tradition in Denizli, which has become the basis of the modern export oriented textile cluster of the city.

Table 2: Ranking of Countries by Denizli's Export Share (in Percentage)

Countries	2004	2005	2006	2007	2008	2009	2010	2011
Germany	16.84	16.53	14.65	15.14	10.58	15.95	15.87	14.75
UK	15.31	12.69	13.04	11.69	9.26	9.91	9.44	10.06
USA	20.30	19.89	18.03	13.59	13.72	9.23	8.53	8.55
Italy	5.59	4.68	5.91	6.73	6.68	7.45	7.66	7.21
France	5.76	6.09	5.74	5.16	5.32	6.21	6.23	6.22
Netherlands	4.47	4.73	3.23	3.70	4.28	3.55	3.91	3.37
Saudi Arabia	1.80	0.90	0.68	0.76	2.97	2.86	3.14	3.36
Israel	1.47	1.99	2.21	1.62	1.76	2.48	2.49	3.30
Greece	1.55	1.45	2.01	1.75	2.40	2.06	2.29	2.42
Austria	1.61	2.55	1.53	1.53	1.63	2.52	2.04	2.21
Egypt	0.06	0.33	0.26	0.66	1.66	1.90	1.81	2.04
Iraq	0.13	0.14	1.03	0.47	0.24	1.02	1.80	1.92
Spain	2.10	2.56	3.38	5.16	3.08	2.48	1.74	1.77
Bursa Free Zone	0.01	0.97	1.21	0.94	1.87	1.33	1.70	1.71
Romania	1.15	1.28	2.74	3.10	1.66	1.59	1.64	1.53
Arab Emirates	0.22	0.31	0.32	0.50	2.84	1.61	1.50	1.34
Iran	0.37	0.13	0.36	0.26	0.68	2.28	1.33	1.26
Belgium	1.32	1.55	1.92	2.31	2.04	1.60	1.30	1.23
Russia	0.75	1.23	1.31	1.67	1.93	0.90	1.19	1.22
China	0.03	0.04	0.02	0.03	0.11	0.53	1.13	1.19
Others	19.18	19.98	20.42	23.22	25.28	22.54	23.28	23.33
Total	100	100	100	100	100	100	100	100

Source: DSO Denizli Export Data (2009g)

Available at: [www.dso.org.tr/images/file/istatistik/2009/d06.pdf](http://www.dso.org.tr/images/file/istatistik/2009/d06.pdf).

#### Denizli after 1980: Export Orientation in Textile

All throughout the city's history, the post-1980 era hosts the most important moments in Denizli's history in terms of textiles. In this period, by the help of export oriented policies, Turkey became one of the most important textile exporting countries. The city too got involved in a substantial export drive. Through the

opening of the economy and the abandonment of the import substitution model, importing the required machinery became much easier, which further enabled the transition from home/workshop production to larger, sometimes factory-based production, which is now a central element in the city's textile manufacture (Denizli Valiliği, 1998). In the early years of the decade, textile exports were actually limited (less than a million US dollars), and they only constituted 0.3 per cent of the total Turkish textile exports. However, they began to speed up afterwards. That happened in the second part of the 1980s, and particularly in the 1990s, when the textile exports of the city reached 16 million dollars in 1985, over 58 million dollars in 1988, 216 million dollars in 1994, and over 1.5 billion dollars in 2004 (Özgür, 2006: 1). The share of Denizli's textile exports in the Turkish total rose to 3.5 per cent in 1994, which was over half of Bursa's at that time (Pınarcıoğlu, 2000: 202).

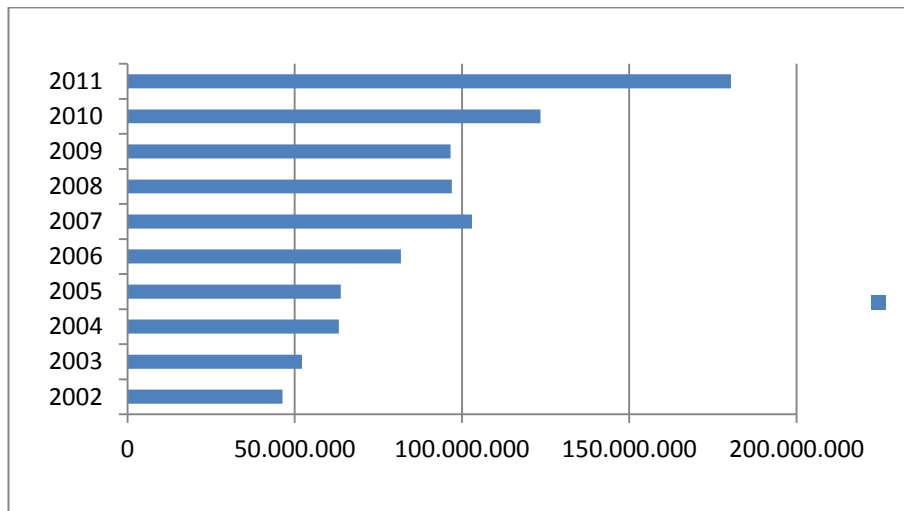


Figure 8: Denizli's Textile Exportation by Years (\$)

Source: Denizli Industry Chamber Export Statistics

Available at: <http://www.dso.org.tr/images/file/istatistik/2009/d03.pdf>.

The composition of the city's textile production and export also shows structural changes between different periods. Firstly in the 1980s, cotton yarn, fabric and home textile products (especially bed linens) were the main export items. Towel and bathrobe production was minor at that time. Nonetheless, it showed an

extraordinary export growth later on with a corresponding shift in the production share.

Table 3: Denizli Textile and Apparel Exportation by Products (FOB 1.000\$)

PRODUCT	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Bathrobes	137. 824	165. 564	190. 550	193. 040	208. 794	237. 759	232. 176	239. 108	208. 201	142. 465	146. 130	144. 397
Towels	140. 704	162. 512	218. 994	279. 934	347. 257	403. 272	408. 871	451. 820	455. 775	329. 610	370. 590	406. 906
Sheet and Cloths	70. 788	58. 778	87. 880	112. 005	117. 654	115. 735	129. 618	192. 253	238. 375	239. 899	257. 702	266. 936
Night Gowns	10. 191	10. 269	19. 584	19. 397	16. 234	15. 307	20. 946	26. 843	27. 618	24. 492		
Men's Underwear	4. 467	5. 719	9. 548	11. 620	5. 593	7. 515	14. 986	6. 512	4. 108	4. 680		
Women's Underwear	1. 018	1. 234	2. 322	5. 348	3. 463	4. 925	5. 994	5. 436	6. 572	5. 666		
Men's Wear	6. 899	16. .531	20. 671	18. 631	19. 234	17. 016	15. 508	16. 582	15. 992	10. 550		
Women's Wear	15. 804	27. 512	40. 946	50. 886	59. 656	42. 240	51. 635	84. 128	72. 044	74. 206		
Cotton Woven Fabric	19. 406	27. 287	30. 988	30. 747	38. 806	42. 003	54. 876	64. 873	56. 424	48. 958		
Cotton Knitted Fabric	1. 346	1. 160	1. 383	1. 683	2. 255	2. 125	4. 344	6. 970	9. 288	12. 642		
Cotton Yarn	10. 259	12. 908	6. 601	7. 303	13. 737	7. 201	9. 103	4. 329	3. 385	5. 880		
Socks	0	0	0	6. 399	7. 429	7. 622	8. 076	8. 106	8. 370	5. 410		
Others	31. 518	35. 609	61. 803	72. 771	90. 109	88. 777	100. 229	350. 671	170. 728	140. 623		

Source: DSO, DENIB export data.

Available at: [www.dso.org.tr/images/file/istatistik/2009/d05.pdf](http://www.dso.org.tr/images/file/istatistik/2009/d05.pdf).

First it became the item which dominated the city's textile production, and then the export numbers began to go up. In the period of 1990-1994, they amounted to 80 per cent of the exports on average (Pınarcıoğlu, 2000:221).

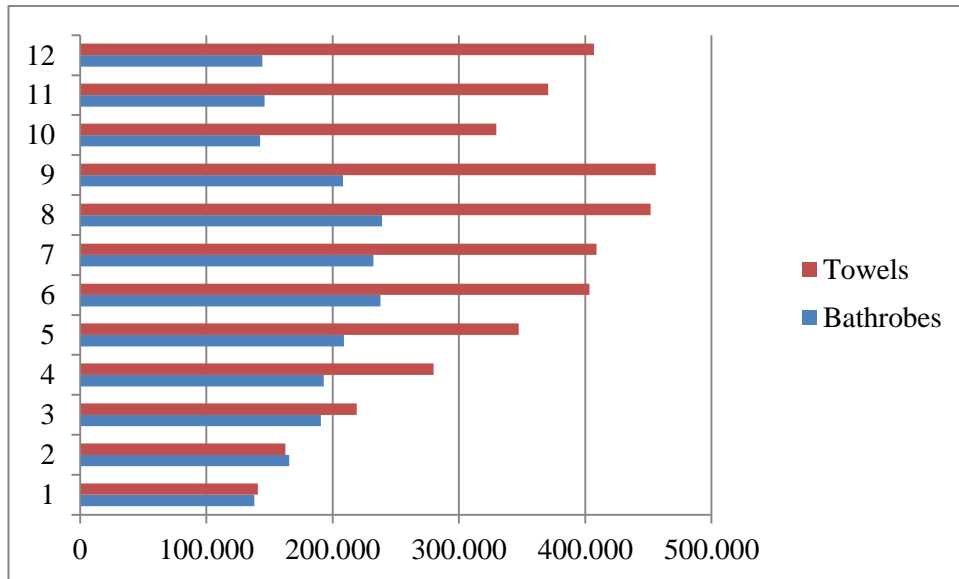


Figure 9: The Changes in the Bathrobe and Towel Exports

Sources: DSO, DENIB export data (2012).

Available at: [www.dso.org.tr/images/file/istatistik/2009/d05.pdf](http://www.dso.org.tr/images/file/istatistik/2009/d05.pdf).

As repeatedly indicated, the collaborative environment whose roots were generated in the previous period, and the historical accumulation of textile know-how became the main driver of the industrial growth process of the city. Gül Berna Özcan mentions this historical connection as:

Industrialization in the Anatolian towns is in a way a continuation of their traditional production in a more efficient and systemized manner. Despite the continuity, however, the scale and the character of the industrial diffusion are no longer confined to traditions and to a few original industries. We see an increasing pace of diversification in city economies of Anatolia. Even in Denizli where the whole economy is dependent on textiles, clothing and the weaving, the diversity of production techniques and work practices is remarkable (Berna-Özcan, 2000: 227).

Taking a more detailed look, it would appear that the export oriented growth of Denizli was actually enabled by two crucial points that characterized the city's textile production tradition in that particular take off period. First, there was the SME-led and symmetrical development, which was structured around webs of mutual trust, reciprocity and solidarity, through which chances of growth were allocated equally by the system among small and big firms. Second, there was also the asymmetrical development that generates uneven power relations among large

and small firms, and that deconstructs local collaborative relations through which a process that excludes the SMEs from this network (Penpecioglu, 2007: 81).

An analysis of these two components of the post-1980 textile industry of the city in relation to each other, since it would present a more realistic picture of how contemporary developments with respect to the city's export potential appeared.

Until now, the chapter has tried to assess the question of "Why Denizli?" through an overview of the historical developments leading up to now. In summary, Denizli's commercial potential has been aided by what Öz describes as:

favourable historical circumstances, the availability of high-quality raw materials, the presence of talented craftspeople, a local demand for their products, and experience and know-how accumulated over the centuries led to the burgeoning of commercial activities in textile-related areas, aided by public investment, guest workers' remittances and state incentives. Without one final factor, however, the cluster might never have realized its potential: the entrepreneurial spirit of the people of Denizli (Öz, 2004: 104).

Now, the remaining section focuses on the query "Why bathrobes and towels?" The next chapter will examine the specific details of the contemporary production patterns of the city.

#### The Place of the Bathrobe and Towel Cluster within Denizli's Textile Industry

Within all these developments that Denizli's textile has achieved, the greater part belongs to the towel and bathrobe industry. Although the region has a rich history in producing different kinds of items (including towels), it was only during the 1970s that the production of towels became a leading item in the city's economy. Thanks to the specialization in towel and bathrobe production, the city started to appear on the top of the list of Turkey's new industrial districts and has become a textile pole. As indicated before, by now it has become the fourth largest textile producer in Turkey, following İstanbul, İzmir and Bursa. However, it is called the world capital of linen, towels and bathrobes. Because of Denizli and its highly

specialized production capacity, Turkey is now in the top three in the world in towel production. Employment in Denizli accounts for more than 50 per cent of the Turkey's total production of towels and bathrobes (Öz, 2004: 85).

As Öz states, the surge of towel production was actually initiated by two factors: First, the major imports of looms from Bursa, which were used for manufacturing towels; and second, the export capacity that the city experienced during the 1970s as a result of these products (Öz, 2004: 105). Not surprisingly, the first exporters were entrepreneurs from Babadağ. The story of the very first exporter, A. Kadir Uslu, which was stated before, exemplifies the importance of historical know-how and entrepreneurship in the city's success. One of the informants stated that Uslu produced a handful of towels with the looms he had imported from Bursa, and then loaded a container and went up to Germany to talk to potential buyers (İsmail Yılmaz, personal communication, April 9, 2012). His journey paid off, and he came back with a bunch of orders. Another informant also mentioned that this story is told quite frequently in the city, to denote that how their business activities and export success are not a coincidence but a result of their long lasting commercial tradition (Erdem Aydın, personal communication, April 9, 2012).

Of course, Uslu's decision and the following success were no coincidence. Exporting towels was a conscious choice, since the infrastructure in Denizli made it quite easy and profitable. Along with the long history of textiles and craftsmanship, the city had abundant skilled workers in towel production, the major inputs for producing towels were already present, and there were many establishments which specialized in supporting industries (Öz, 2004:105). Thus, all these entrepreneurs had to do was to channel the energy that was present in their region to the necessities of international trade.

When the export surge first started, other items such as bedclothes and babies' clothing were also exported in the 1980s, but their share of total exports remained well below that of towels and bathrobes. Starting with the liberalization of the Turkish economy, some businessmen succeeded in strengthening their capital accumulation and marketing relations and started to enter Western markets for exporting these items (Varol, 2002). These industrialists created an emphasis on growth and became the pioneers of export orientation (Pınarcıoğlu, 2000). As discussed above, they also developed the channels through which the SMEs of Denizli began to export, since these leading exporter firms incorporated them to the process through sub-contracting relations.

Following an initial learning period, a real increase in exports took place in the second half of the 1980s and throughout the 1990s. Especially Denizli towels and bathrobes were in great demand in international markets, which also prompted firms to increase their production of these product categories. Through the motivation that came from the popularity of their products in the European markets, the city increased its share in Turkey's total number of firms from 1.34 per cent to 2.32 per cent between 1980 and 1996, even though its population was less than 1 per cent of that of the country. Additionally, in the same period, the number of the city's manufacturing employees rose to 0.93 per cent to 1.60 per cent of that of the whole country (Beyhan and Armatlı-Köroğlu, 2002: 2).

Table 4: Shares of Some Important Cities In Manufacturing Industry Over Time

		Number of Work Places			Employment			Added Value	
		Value	X* (%)	Y** (%)	Value	X* (%)	Y** (%)	X* (%)	Y** (%)
Denizli	1980	117	1.34	0.9	7.452	0.94	16.9	0.61	14.7
	1990	99	1.12	5.1	12.201	1.19	17.6	0.69	18.2
	2000	416	3.74	0.2	40.756	3.61	0.1	1.9	0.1
Antep	1980	140	1.61	3.6	7.462	0.94	20.5	0.41	38.3
	1990	117	1.32	3.4	12.958	1.26	7.9	0.64	27.4
	2000	259	2.33	0.8	24.980	2.21	1.1	1.53	6
Çorum	1980	56	0.64	3.6	2.173	0.27	30.6	0.13	50.9
	1990	81	0.91	2.5	3.704	0.36	11.3	0.13	42.4
	2000	87	0.78	1.1	5.028	0.44	9.8	0.24	42.9
Maraş	1980	19	0.22	10.5	1.976	0.25	64.1	0.14	76.1
	1990	41	0.46	7.3	4.327	0.42	44.1	0.22	38.2
	2000	67	0.6	1.5	8.040	0.71	9.4	0.39	3.6
Kayseri	1980	102	1.17	4.9	14.556	1.83		1.45	21.1
	1990	109	1.23	5.5	18.770	1.83	21	1.05	16.2
	2000	178	1.6	1.1	25.078	2.22	2.4	1.74	1.2
Turkey	1980	8.707	100	4.7	795.650	100	36.1	100	40,5
	1990	8.871	100	4.6	1.028.196	100	2.3	100	31.3
	2000	11.117	100	2.4	1.130.474	100	11	100	18.5

\*) X: Share in Turkey's total

\*\*) Y: Share of public enterprises within those cities

Sources: TUIK, Data of work places that employ 10 and more people in manufacturing industry; DSO Industry Statistics

Available at: [www.dso.org.tr/images/file/istatistik/2009/g07.pdf](http://www.dso.org.tr/images/file/istatistik/2009/g07.pdf).

Looking at the statistical development of the city's firms also highlights the importance of the post-1980 period in the sense that around 80 per cent of the enterprises were established from the mid-1980s onwards, more than half of these after 1990 (Temel, Özeren, Ulu, and Boyar, 2002, as quoted in Öz, 2004:88). Thus, it appears that it was this process of internationalization that created the lively economic environment that is present in Denizli today. The revival of the ancient



tradition of textile production began in the early 1970s, developed in the 1980s and expanded both nationally and internationally in the 1990s.

Table 5: Sectoral Distribution of Denizli's Exportation by Years (\$)

	Agriculture	Industry	Mining
2002	17,941,936	733,059,310	23,694,151
2003	25,026,917	927,460,121	31,566,775
2004	29,910,931	1,103,099,155	53,851,946
2005	39,865,838	1,375,086,365	79,069,042
2006	44,440,740	1,608,747,689	101,232,696
2007	56,252,134	1,989,284,336	120,050,734
2008	57,222,642	2,145,857,557	112,217,067
2009	60,638,017	1,583,712,678	95,220,396
2010	70,322,030	2,024,790,531	114,470,922
2011	87,721,098	2,536,348,052	132,770,660

Source: DSO Export Statistics (2009d)

Available at: <http://www.dso.org.tr/images/file/istatistik/2009/d03.pdf>

Tracing the development and the export performance of the cluster until today, one would see that Denizli's bathrobe and towel exporter enterprises learned how to supply the orders of western buyers through producing higher quality at minimum prices and becoming quick and flexible by locating themselves within the symmetrical development medium of industry that was described above. As the cluster grew sophisticated, the city became one of the significant full-package towel, bathrobe and garment suppliers for Western buyers (Penpecioglu, 2007: 81).

To borrow the term from Beyhan and Armatlı-Köroğlu, the integration to global value chains was realized through learning by doing and learning by interacting (Beyhan, and Armatlı-Köroğlu, 2002). This also provoked Denizli to constantly upgrade its production technology, while adapting international production standards (Erendil, 1998). As Beyhan and Armatlı-Köroğlu indicate, during the time of their studies in 2005, Denizli's share in introducing either product

or process innovations was 77.8 per cent, which made it rank the third among the Anatolian industrial centers after Bursa and Ankara in innovation capacity. This high percentage of initiating new technology shows the conscious effort to adjust to the shifting circumstances of international markets, in addition to safeguarding the city's current competitive advantages (Eraydın and Armatlı-Köroğlu, 2005: 248).

To summarize, the further development of the symmetrically structured industrial growth of the towel/bathrobe market, and the constant need to technological upgrade constituted the central progressive aspects of the export oriented local transformation of Denizli. Both both local and global connections have been important in this development. While the city has been making use of its trade connections in the international arena, the relations at the national level have only been utilized to get through to particular services (particularly the facilities of the government institutions), and local relations chiefly include production activities, and subcontracting relations (acting as a subcontractor or a parent firm) (Eraydın and Armatlı-Köroğlu, 2005: 249).

The next chapter examines the contemporary characteristics of the towel and bathrobe industry, and how and in what ways it continues to participate in the international markets while preserving its export capacity and competitiveness.

## CHAPTER 5

### THE STRUCTURE OF THE DENIZLI TOWEL/BATHROBE CLUSTER AND ITS FUNDAMENTAL COMPONENTS

Denizli's towel and bathrobe industry, being a typical cluster formation, without a doubt acquired its success through its dynamism and the ability to adapt the changing conditions of the markets that it targets. As has been stated many times throughout this thesis, the main reason for that situation is the city's ability to play upon its competitive advantage, which has been nurtured by several important factors that have been present in the region: the notion of entrepreneurship grounded in the city's culture, high degree of specialization in home textile products, and the support of historical accumulation of local craftsmanship etc.

Furthermore, within clusters, various elements such as positive externalities, knowledge spillovers, the effects of labor market pooling, and linkages between buyers and sellers are as some of the crucial features that nurture the development of an industry (Porter, 1996: 87). Additionally, several aspects like the concentrations of highly specialized knowledge, cheap inputs, the presence of supporting institutions, the motivational benefits of local competition, and often the presence of sophisticated local demand for a product or service enable the growth and success of a cluster (Porter, 1990).

Looking through the evolution of the towel and bathrobe industry in Denizli, one can see clear examples of how such factors have contributed to its development. The city clearly includes a greater part of these particularities that are found in a typical cluster; and through its adaptation to the new global market conditions, it has also invested in its competitive advantage potential. Though the cluster is not as competitive and as successful as the industrial districts in developed countries, it has

been evolving into one such effective regional economy with the capacity to grow more.

In line with these points, this last chapter focuses on the ways in which the factors that participated in bringing about this success contributed to its evolution. Which elements are crucial in this process? In what ways they are beneficial to Denizli? As the chapter seeks to answer these questions, the background of the city's potential would hopefully be clearer.

### Geographical Conditions Leading to Clustering

Denizli's history with textiles which goes back 2000 years ago has been very much affected by its geographical characteristics. Being a region with very little arable land, the economy has been limited to artisanal textile production, particularly in the mountainous regions of the province (Beyhan and Armatlı-Köroğlu, 2002: 3). Its location within the fertile lands of Menderes Valley, and its proximity to the best quality cotton sources has further nurtured the choice to specialize in textile.

As discussed above, the activities of the towns of Babadağ and Buldan have been very crucial for the development of the towel and bathrobe cluster. Of course, the reasons that triggered them to arise as important centers of textiles are various. Apart from the historical know-how that had accumulated in the region for millennia, the physical circumstances of the city played a significant role in this realization. For example, like the greater part of the city, Babadağ had no arable land; thus the town chose to specialize in the traditional craft of textile producing. Second, even though around 30 per cent of the major inputs and raw materials were imported from abroad, the city provided a greater part of its industrial needs from within the regional economy and nearby provinces (Temel et al., 2002 as quoted in Öz, 2004: 88). For instance the region's proximity to high quality cotton was clearly a key factor in its leaning towards concentration on textiles. Its nearness to one of the biggest and most

advantageous ports of the country, İzmir (which is the third largest metropolitan area of the country and its second largest harbor), has additionally benefited the city; especially after the construction of İzmir-Aydın railway. Dikmen explains this relationship as:

The city has a well-developed transportation system, enough to connect the city to the other centers of country and the global economy with sea links. The global connection of the city is usually through İzmir, a metropolitan city and the second biggest harbor in Turkey (Dikmen, 2001, as quoted in Özgür, 2005: 10).

Moreover, the fabrics which are used to produce towels and bathrobes come mainly from the city itself, but also from other big textile cities of Bursa, Istanbul, İzmir and Adana. The principal customers of the cotton processing factories are the yarn factories of the city and, to a smaller degree, İzmir. The main clienteles of the cotton yarn and fabric plants are in the region, too, although they also sell their products in İstanbul, Uşak, Isparta, Ankara, Bursa and İzmir (Mutluer, 1995, as quoted in Öz, 2004: 103). Thus, it appears that its geographical position has helped Denizli a lot; both when it was first developing its industrial base, and then when it was trying to cut down from the production costs after it became an export-oriented manufacturing city.

Within this greater framework of physical advantages, a few words should be said about the city's two towns with significant textile productions. Both of them have always been main historical textile centers. Yet, Babadağ has played a more crucial role with respect to the development of the cluster. Even though its history dates back to the late fourteenth century, the town became a prominent textile producing region in the late nineteenth century. Its fabric production capacity grew even more at the beginning of the twentieth century. Weavers there used English cotton and German dyes. Around 1900, the region had 15.000 weavers working on 784 hand-loom, which in turn produced 321.000 rolls of fabric. In a few years, only

one of these item's production was over 300.000 rolls of fabric (Quatert, 1993: 105-6).

During the early years of the Republic, there were no large textile factories in Turkey; and Babadağ produced different kinds of textile items for the domestic market (Mortan and Arolat, 2009:34). An important event during this period was the first attempt to guarantee a certain kind of quality and standardization in Turkey. The National Standards Institution (TSE) had not been established yet, and the Babadağ Chamber of Commerce had made it compulsory for its members to have the quality of their products set standard and approved by the chamber before they were sold at the market. The producers in the region also had a tradition of putting their names on their products like a signature, which can be recognized as an early attempt at brandization (Öz, 2004:100).

As discussed in the previous chapter, the textile producers from Babadağ started to migrate to the city center in the late 1940s for many reasons. First, they wanted to obtain a better market and more profitable opportunities to sell their products. Second, during those years, electricity, which would greatly increase the volume of production, was not widely used in the towns of Denizli. In 1953, the cotton yarn factory was established by the initiative of the state at the town center, and provided cheap and accessible raw materials to the producers who previously had had a hard time finding yarn (Varol, 2002: 81). Later in this decade, the electrification of the town center coupled with the availability of quality yarn brought about the possibility of using electric looms, which provided the people of BabadağS who had migrated to the city center with a rewarding advantage in intensifying their productivity. These producers also formed the basis of the internationalization attempts of the 1970s; since it was their entrepreneurship in the first place that brought them to the city. They are also famous for their collective work habits, and

dedication to co-operation and relationships based on trust. As a result of this working tradition, partnerships among family members and friends are common in Denizli's small and medium scale enterprises that formed the backbone of the city's economy. These active trust relations enabled them to develop solidarity, reciprocity and co-operative working conditions. The notion of "fellow townsmanship" has been particularly crucial, especially among those coming from Babadağ (Öz, 2003b: 7).

After Denizli started to engage in its export surge, textile producers from Babadağ maintained their communal relationship; and most of the time they did not even prepare an official contract while they did transactions (Pınarcıoğlu, 2000). Beyhan and Armatlı-Köroğlu give the example of the well-known "Babadağ Banknotu" as an instance of this mutual trust relationship (Beyhan and Armatlı-Köroğlu, 2002). The banknote was a bearer security paper used for transfers among businessmen from Babadağ, through which the receiver of the item at hand informally agreed to pay his debt (Penpecioglu, 2007:82). Furthermore, the people of Babadağ are proud of themselves because of the trade organization that they founded in the town center right after the big wave of migrations, the Babadağ Industrialists and Businessmen Association (BASİAD).

An informant who is a descendant of one such migrant businessman asserted that the organization particularly delighted to be the association (İsmail Yılmaz, personal communication, April 9, 2012), which has the largest number of members after TÜSİAD (268 companies belong to BASİAD) (Mortan and Arolat, 2009: 34). In addition, still in 2005, there were 139 firms in Denizli Organized Industrial Zone; and 89 of them were textile firms. Out of these 89 businesses, 49 belonged to the entrepreneurs from Babadağ (Özügür, 2005:139).

Apart from Babadağ, Buldan has also been an important town for textile production. Its history with textile is even longer. One advantage of Buldan over

Babadağ is that the region has also had a great potential in husbandry, which has enabled the producers to use the wool that they obtained from their animals while producing textiles. This way, the town formed a self-sufficient production pattern. Its main production item, *peshtemal* (a traditional Turkish towel that absorbs water fast and dries very quickly), emerged in the seventeenth century, as the region gained sufficient support from the Ottomans for its production. The quality and the number of production was so successful that in 1910, right before World War I, a great amount of hand-loomers were brought from Istanbul to ensure that Buldan could continue weaving. It was around this time that the production of items such as towels and sheets started in the region (DENIB, 2012: 75).

Although mechanical looms were introduced to the town in the early 1950s, the weavers of Buldan decided to continue producing hand-loomers. However, towards the end of the decade, the number of electric looms started to increase and this brought about a huge growth in production (DENIB, 2012: 76). Currently, there are around 3000 mechanic looms, 30 hand-loomers and 1250 machines in Buldan, which are mostly used in home ateliers by family organizations which sell the greatest part of their production to the domestic market along with a certain volume of exporting. The main reasons for the limited exports are the inability to mass produce on hand-loomers and the competition from the Eastern Asian items (DTO, 2011b: 23-5).

Despite their similarities, Buldan has not followed the same developmental patterns as Babadağ. Even if cottage industry was common in both towns, the town has been much close to urban craft production. When considering the textile sector in Denizli and its variety, Buldan comes to mind right away. Its most well-known item is remembered by its name: Buldan cloth. One commonality with Babadağ is that the 1940s were also a crucial decade, in the sense that the cooperatives which were founded in the region enabled huge input supply and product marketing and thus,



facilitated the development of textiles further. Later on, the production capacity increased when the people of Buldan started buying second-hand electric looms from Bursa and the Sümerbank factory (Öz, 2004: 102).

Öz states that hand-made textiles are still the only income source of Buldan, though the governorship wants the region to focus on historical tourism, too. To this day, they maintain producing their hand-made cloths using natural dyes, which has a secret recipe that has been passed on from generation to generation (Öz, 2004: 102). That means that the producers in Buldan persist in making their own textile products rather than manufacturing intermediate products to the big exporter firms like the ones in Babadağ do. That is why the town mostly have remained a place of independent craftsmen who produce for the domestic market with a low profit margin, and a small international market share.

#### Labor Force Configuration and Wages

##### Sub-contracting

As discussed above, Turkey became one of the most important textile exporting countries as a result of its quest for export-oriented development, especially during the second half of the 1980s. Small firms became important actors of this process; however they had been seen as a main source of employment before the export boom as well. Denizli had its share in these positive developments too. As it should be clear by now, its advantageous setting was stimulated by two important factors: First, the potential of the region, which is related to the past experience of industrialization, and the capital that has accumulated in the hands of various family or capital groups, second, the state incentives and policies which were aimed at promoting exports. However, there is one more point that should be taken into account when analyzing the main reasons behind the city's export success: sub-contracting relations, and the flexibility they provide to the production process.

Sub-contracting can be described briefly as a form of relationship between firms that mostly depend on smaller producers for the complete or partial production of goods and services (Taymaz and Kılıçarslan, 2005: 634). It has been the dominant form of production relations in the city; and now more than half of its producers are being employed as sub-contractors. The central reasons for that are the abundance of experienced labor in textiles, and the technological capacity of the sub-contracting firms. Most of the time, different production stages such as dyeing, printing, weaving and ready-made clothing are being sub-contracted to small- and medium-sized firms which are present either in small industry sites or in organized industrial zones.

When the city first started to engage in a significant export drive, this sub-contracting connection was mostly indirect, which means producing for the trade firms in Istanbul, and foreign fairs were the primary means of integrating to export markets and fulfilling the sub-contracting requests of Western companies. The leader firms of Denizli pulled many medium-sized businesses into export-oriented production through these sub-contracting relations. Since the total production capacity of these export companies was not enough to meet the entirety of these orders, especially labor intensive stages of production were sub-contracted to small firms most of the time (Erendil, 1998). This organization scheme also benefited small enterprises, since through their connections to the exporter firms, they were able to learn how to supply the orders of the global buyers by producing higher quality items quick and flexible, at minimum price. Thus, the cluster became a significant supplier for Western customers (Penpecioglu, 2007: 81). Coupled with various technological upgrades, this process has become a central aspect of the city's export oriented local transformation.

As Porter asserts,

The provision of a local pool of skill, (or a mechanism for inducing rapid growth of skills) which is capable of application in a variety of contexts and firms is extremely necessary for the success of a cluster. Clusters provide easier access to skilled labor, and suppliers of raw materials, components, new machinery and special equipment. Firms can maintain unique competitive skills that provide competitive advantage to the group as a whole through readily available labor within a cluster (Porter, 1998: 77-90).

While analyzing Denizli's labor force structure in the towel and bathrobe industry, it appears that the sector perfectly fits the framework described by Porter above. The greatest proportion of local producers of the city is composed of small-scale producers and family firms. Family firms form the majority in the cluster, and more than 90 per cent of these firms are small enterprises with up to nine workers (Temel et al., 2002, as quoted in Öz, 2004: 92). They usually work as sub-contractors for larger firms that are engaged in international trade, and increasingly for multinational enterprises as well. As a result, large firms with two hundred or more employees which actually form a small portion of the textile companies in the city perform more than 60 per cent of the city's total number of exports (Erendil, 1998: 209-10). This situation has produced what may be considered as the biggest advantage of the cluster: cheap and skilled labor has always been present, forming the backbone of economic performance, especially after 1980, when the city started to integrate to global markets.

Due to the uncertainties of export markets, companies have adapted to the volatility of international demand by preserving their production capacity at the lowest level which they can guarantee orders. The largest exporters sub-contract for expanding their production capacity in times of need. This strategy has served them as a precaution to protect themselves economic downturns, since they would not left with a surplus with no buyer. Meeting export deadlines, particularly when production is at its peak, certainly necessitates using sub-contractors, since the production

organization of most of large exporter companies depend on making use of networks of smaller units.

As a result of these incidents, the capacity of the sector with respect to the number of firms, the rate of employment in textiles, output and value added in Denizli has increased significantly from 1980 until today, with the exception of crisis years. Thus, it emerges that the 1980s and the early 1990s established the main period of integration to global value chains, which has constituted the primary aspect of the cluster's development. Through this process, a local economy in which small and large firms share a collective environment, and rely on trust-based local relations that were formed through reciprocity and township relations emerged.

Consequently, the SMEs became the main initiators of this economic process through their social capital dynamism, flexibility, the capacity to supply cheap and skilled labor, while the export competitiveness and the international connections of the region increased. However, starting from the mid-1990s, local transformation took another turn, which brought about the second aspect of the sector's organization. Even though exports numbers and the number of textile firms grew in the 1990s as well, the significance of the SMEs diminished in the local economy. Erendil explains this situation as the emerged tendency of the big exporter companies towards combining all parts of the production on one site, with the purpose of corresponding with the quality standards of Europe and the US markets (Erendil, 1998). This transformation can be interpreted as a move in the direction of vertical integration. All of the informants who work as sub-contractors asserted that this indeed has been the case, which can be observed in the case of the changes in their wages.

## Wages

Porter argues that companies achieve higher levels of competitive performance when economic foundations are shaped in line with cluster needs (Porter, 1990). Some of the most crucial factors regarding these clustering needs are regarding the labor force configuration. In that sense, wages can both display the competitive advantage of the region, but also its volume of growth. Nonetheless, it should be remembered that even though low wages can be a source of competitiveness, it can also indicate the existence of an under qualified workforce. Hence, long-term economic development which depends on skilled labor force may actually be negatively affected by such a configuration with low wages (Özelçi, 2002: 140, as quoted in Özgür, 2005: 7).

In Denizli's case, low wages is an important factor in its international effectiveness. Revealing this advantage, Öz states that the wage rate in textiles in Turkey (which is around US\$2 per hour) is much lower than the one in developed countries (for example about \$17 in Italy, and \$22 in Germany) (Öz, 2004: 90-1). The wage rate of textile workers in Denizli is even below the Turkish average (Özgür, 2006: 7), due to various reasons such as multiple learning strategy, and high rate of women's participation in the labor force. This situation generates an additional amount of worker mobility. The availability of skilled workers, coupled with the advantages of low wages creates an environment that favors export oriented textile manufacturers (Mutluer, 1995: 268). Yet, the wage level still cannot compete with the ones in some other developing countries. For instance in China, India, Pakistan and Indonesia, the rate can be as low as \$0.5–0.6 per hour (SPO, 2001, as quoted in Öz, 2004: 91).

However, it is very common in Denizli to employ uninsured home workers (it is pretty normal since a lot of the small-sized producers who work as sub-contractors

work as families and mostly in their homes) who accept working very long hours and being paid lower wages (Eraydın, 2002 as quoted in Öz, 2004: 91). This is another aspect that provides the city with a further opportunity to cut back on production costs. This process has intensified especially since the global crisis of 2008, given that the larger exporter firms have been seeking new techniques to pursue cost reductions. All wage-earning informants indicated that a new trend has been observed in the city of big corporations depending less and less on sub-contractors and that the income of textile workers has decreased every year. This is something which once more proves Erendil's observation that the leading firms have been trying to unite all parts of the production process in one single firm, mostly so as to measure up to the quality standards of their international customers (Erendil, 1998).

#### The Presence of Related and Supporting Industries

Porter states that:

A competitive advantage in supplier industries will clearly benefit downstream national firms if it derives from a natural resource base or a technology leader (Porter, 1990, as quoted in Yılmaz, Cassill and Powell, 2007: 4).

The situation Porter describes denotes an order with the presence of a large community of skilled local suppliers of specialized inputs. Thus, according to Porter, the existence of related and supporting industries is an important factor of sustainability of competitive advantage, because a cluster organized in that way would be able to provide its industry with a large range of possibilities for it. Hence, the firms in a cluster are both vertically and horizontally connected to each other through various supplier and buyer relationships, common costumers, distribution channels and technologies (Davies and Ellis, 2000 as quoted in Yılmaz, Cassill and Powell, 2007:4) due to the opportunities that are present for supplying for the production process from within the home base economy. Consequently, geographic

clustering increases the accessibility to information, facilitates competition and ensues innovation.

Paralleling the development of the towel and bathrobe sector, a demand for high-quality inputs, dyes, machinery, packaging and other services emerged in Denizli. For example, between 1965 and the late 1990s, the number of factories producing dyes for the industry rose from zero to 20 (Denizli Valiliği, 1998, as quoted in Öz, 2004: 96). That also reveals the fact that the city gained considerable development impetus as a result of the import-substitution policies of the state, which gave significant support to the industries in which Turkey has a competitive advantage and whose inputs it could provide from within the domestic market, such as textile. Those incentives were able to create externalities that would enable the further development of the cluster. As the sector started to grow and gain competence, local producers of textile machinery also achieved certain success (Eraydın, 2002, as quoted in Öz, 2004: 96). One example of this is a towel-making machine invented by one of the leading firms in the cluster.

Nonetheless, this does not mean that these two sectors are fully competitive in the global markets. They are actually still developing (Öz, 2004: 96). Even though various R&D projects have been implemented in order to provide the region with the necessary machinery and tools, around 80 per cent of the technology used by the cluster firms is imported (Temel et al., 2002 as quoted in Öz, 2004: 97-8). Öz also asserts that albeit growing, the rate of R&D activities is still very low, and around 5 per cent of firms lead research activities regularly (Öz, 2004: 94). To present a more comprehensive picture, it could be said that the companies which involve in R&D mostly use private institutions (53 per cent). Some own their own sections (30 per cent), and some make use of KOSGEB (12 per cent), universities (12 per cent as well) and chambers of commerce or industry (6 per cent) (Öz, 2004: 189).

Additionally, many improvements have been made in logistics, transportation and banking services, which are really enhancements that the central state needs to organize.

Among the non-textile industries of the city, tourism especially has made substantial contributions to the development of the towel and bathrobe cluster. Pamukkale, which has been designated by UNESCO as a world heritage site, attracts more than 1.5 million tourists every year. Additionally tourism has a multiplier effect on many other sectors, and it also has contributed to the internationalization of the city in particular. Being aware of this role and in order to increase the competitiveness of their city, the Denizli Chamber of Commerce started a patent process for Pamukkale in 2008, which was finalized at the end of 2011. In this way, the city aims to develop a certain basis for health tourism, attracting tourists by the mineral rich underground hot springs that it possess.

This situation is also a part of the efforts of Denizli's entrepreneurs, who try to create diversity in the city's principle sectors. The businessmen are pleased with being known as the "city of textile" and the success that they have attained with the export orientation in textiles, but they also believe that in order to ensure a steady development pattern, the city should multiply its basis of industry. Hence, especially since the global crisis of 2008, they have been trying to increase the competitiveness and export potential of some of the other sectors that are present in Denizli, for instance, the iron and steel industry. The numbers show a certain amount of success: even though the export figures of the city in textiles continuously increase, their share in the total number of exports decreases and other sectors enlarge their share in the international trade of Denizli (Süleyman Kocasert, personal communication, April 12, 2012).



Overall, it can be argued that most of the industries that are related to and support the towel and bathrobe industry are internationally competitive in the textile city of Denizli. The exceptions are the dye and machinery sectors, which are still developing. Support from institutions such as industry-specific research and education establishments is available although there is room for improvement, especially in respect to the quality of the services they provide. Finally, the contribution of the tourism sector is noteworthy in that it has facilitated the internationalization of demand.

### Specialized Production and Technology Usage

#### The Effects of Specialization

Regarding the economic development potential of SME clusters, Pietrobelli and Barrera state that:

Product specialization stimulates the division of labor, enhances product differentiation to obtain competitive advantages, and increases the flexibility of the productive process, in consequence of its decentralization in smaller production units, and of the product, to respond to variable market conditions (Pietrobelli and Barrera, 2002: 542).

Michael Porter also asserts that specialization on particular cluster areas is crucial to increase productivity (Porter, 2000: 20). He also stresses the significance of dynamics externalities created in particular and geographically concentrated industries in this process (Porter, 1990).

The situation that these authors specify perfectly fits Denizli's case. When the towels and bathrobes produced in the city came into great demand in the international markets, the big exporter firms have started to invest more in this product. This was possible and profitable due to the availability of a large and skilled labor pool, the proximity of raw materials, and the presence of various related industries which have developed due to the clustering activities. Öz explains this process by saying:

The towel and bathrobe cluster in Denizli resembles geographic clusters that are observed in Third Italy, with its specialization in a mature industry and with its high export-orientation. An entrepreneurial outlook, the local institutions (e.g. the Chamber of Industry, Chamber of Commerce, KOSGEB, EGS, and the Pamukkale University) organized as “a coalition for growth” and the high pace of new business formation, especially via spin-offs, are other noteworthy commonalities (Öz, 2003: 4).

As mentioned before, the cluster of towel and bathrobe has the leading role among the city’s exported products. The city by itself realizes around 70 per cent of total Turkish towel and bathrobe production, and more than half of the country’s exports in this product group. Additionally, textile and other apparel exports from Denizli make up around 10 per cent of total textile exports of Turkey (Öz, 2003: 4). The tradition of artisanship of various cotton textile products in various towns of the city such as Babadağ, Buldan and Kızılcabölük has contributed to the development and specialization in the textile sector industrialization in Denizli, which is a central element in the city’s export-oriented economic success.

Within this context, towels and bathrobes emerged as the principal items of textile production for several reasons. As discussed in the previous chapter, the setting was brought about by two important developments: the large-scale import of looms used for towel production from Bursa in the 1950s, and the export success achieved by these products from the 1970s on. In addition to these factors, the fact that towels and bathrobes are amongst the easiest textile items to produce further facilitated the entry of new comers and hence the enlargement of the cluster (Öz, 2004: 105).

Therefore it becomes apparent that by specializing on these items, the producers knew that they were actually investing in their potential to grow and gain competitiveness. Even though local demand was a crucial factor in the cluster’s development in the early stages, what brought about the current development potential was the cluster’s export orientation, which was fed by the popularity of the

city's towels and bathrobes in the international arena. Thus, in order to keep this interest of the Western buyers alive, the entrepreneurs chose to specialize in these items and maintain their trades through the pressures of the global capital to upgrade.

### Technology Usage and Innovation

As indicated before, SMEs that work as sub-contractors to the exporter companies comprise the bulk of local firms in Denizli. This order has been profitable especially to big entrepreneurs, because sub-contracting ensures a division of labor which is flexible enough to respond to the fluctuations in the global market, and to the orders of the international firms. However, an important point which makes this kind of flexibility and sub-contracting possible in the first place is the large pool of skilled workers that the city possesses, and their ability to use proper technology which is brought upon by a trend of specialization in home textiles.

In a city which has a rich history with textiles, local employment has expanded to a remarkable extent over the years, particularly because of the export surge that the city has been participating in since 1980. As one informant indicated, it has come to the degree that in specific regions, everyone has a loom which he or she bought after retirement. She spoke at length about how every person either knows how to use these machines through their families, or they simply learn it from the people around them, since they know that the production capacity will always need one more weaver. Plus, they mostly put these machines into their homes and use their families as immediate labor force; thus it sometimes turns into full-time job (Sultan, personal communication, April 10, 2012). This is possible thanks to the historical tradition of textile production and the knowledge that is being passed on from one generation to other. In this way, a local and skilled labor potential exists in the city, which allows the ever-growing number of sub-contractors who are also very knowledgeable about the latest technology in their field. New machinery and

management practices provide them with the flexibility necessary to adapt to the shifts in consumer tastes, which in turn support rapid and continuous improvements in the production process, as local producers learn from global buyers. Thus, research and development are often internationally driven, put in motion to match the requests of the international customers.

As a whole, more than 80 per cent of the cluster firms use up-to-date and advanced technology (Temel et al., 2002, as quoted in Öz, 2004: 94). As one informant put it, an important manifestation of the importance given to technology was the creation of the techno park project Tekmer on the Pamukkale University campus (İsmail Yılmaz, personal communication, April 9, 2012). Another example, which was the first of its kind in Turkey, is the on-line exchange system of second-hand textile machinery that was set up by the Denizli Chamber of Industry. These machines are usually sold to cities with textile or textile-related businesses. They can still be used and are in good shape. They are sold because the city's entrepreneurs constantly feel the need to upgrade to the latest technology, since they target the higher levels of the market (Öz, 2004: 94).

Even though the efforts are great, the level of involvement of the city in R&D activities is still not as high as it should be. Slightly more than 5 per cent of the city's firms conduct R&D on a regular basis. Even though this is partly because the greatest part of the firms and producers are SMEs, which cannot afford big research projects, it is still very low. Yet, there is growing interest in it, usually in relation to product quality, control, and variety, new production technologies from other firms (domestic and foreign), and new product design (Öz, 2004: 94). Those cluster firms that engage in R&D activities make use of private institutions (53 per cent), their own units (30 per cent), KOSGEB (12 per cent), universities (12 per cent) and chambers of

commerce or industry (6 per cent) to carry out these activities (Temel et al., 2002, as quoted in Öz, 2004: 189).

However, the picture in Denizli should not be considered as simple. As Caroline Arnold asserts, there are both firms that exhibit high-road and low-road approaches to industrial competition in the city (Arnold, 2010). That means, some companies have upgraded their production styles and machinery according to international standards, invested in worker training and new technologies; while others achieved their surplus through unregistered workers and long working hours (Arnold, 2010: 613-4). Even though the picture seems paradoxical, the successes of the firms that prefer the high-road model actually rely a great deal on the others which pursue passive flexibility in their workforce.

As discussed above, completing the orders of the international firms while maintaining a certain amount of trade margin, especially in times of crises, necessitates mobilizing sub-contractors. Thus, there emerged a two-tiered production relationship. On one side, there are the large exporter companies with direct links to international buyers; on the other side, there is the world of small scale sub-contractors who are mobilized to manage export orders and have great instability in their employment. Hence, this relationship of sub-contracting transfers all the instability and uncertainty of international trade not only to smaller and more vulnerable producers, but also to the workers employed in such enterprises (Arnold, 2010: 614).

It is clear that the city is now a grand textile center, and one of the many new export hubs. It is also very much influenced by the international reorganization of the textile industry. Consequently, its integration to the global markets exemplifies the primary transitions in the geography and organization of the textiles. Throughout the world, the liberalization of trade, and the emergence new information and inventory

technologies have enabled the rise of globalized production models. International buyers, including retailers and branded dealers, now put forward various specifications for their orders to their producers in developing countries, which are obliged to present a pre-determined number of designs within a specified time. As a result, direct links between global buyers and local producers, and between global demand and local production are established. For example, the firms in Denizli produce towels and bathrobes for famous brands such as Calvin Klein and Wal-Mart. The city is also known for providing towels to the Wimbledon Tennis Tournament for the past couple of years, as well as selling its products to various famous hotel chains in Europe. As a result, global forces find their way in to shape employment and production dynamics in the city, which makes sub-contracting ever more dominant (Arnold, 2010: 613).

The result is the bilateral arrangement of textile production that still very much exists in Denizli as the dominant form of industrial organization. On the one hand, there are the textile producers that used old-fashioned methods and technology, and manufacture low quality standardized items for domestic markets, in addition to working as sub-contractors to the big exporter firms. On the other hand, there were exporters who have upgraded their technology and started to produce high quality merchandise (these still work as sub-contractors for the big international companies, though). The transformation also has created a widening gap between the two sides, which has resulted in the asymmetrical development has given rise to the dominance of a few large exporter firms (Beyhan and Armatlı-Köroğlu, 2002). As one informant remarked, the city is positioned as a sub-contractor within sub-contractors in the global market: he considered this to be the result of not establishing strong projects for branding all through the years (Necdet Özer, personal communication, April 13, 2012).

## Brandization

Becoming a brand name is one of the important strategies for specialized product groups in the long run. Apart from examples such as Taç Textile or Linens, the great portion of the leading firms in the region which produce extensively for international markets in fields like the production of towels, bathrobes and home textile have not been able to establish their own brands. The biggest reason for that is the position that these firms have within the global production chain, in which they work as sub-contractors for the Western companies. This situation results in the extraction of most of the added value by the international buyers for which those companies work, such as Dockers, Massimo Dutti, GAP, Nike and some of the towel and bathrobe brands from Europe (Penpecioğlu, 2007: 100).

The cluster firms are fully aware of the difficulties they may face if they cannot find more sustainable sources of competitive advantage (Öz, 2004: 111). All of the informants agree that brandization was the only way out to break out of this locked position of passive producer. They also indicated that even though the city's exports had suffered greatly in 2008 and 2009, the situation actually had benefited the city in the long run. After 2009, the city made its come back, yet again increasing export numbers. They believe that this experience speeded up the process of innovation and new technology adoption, which will increase Denizli's competitiveness further in the international markets. It also created a stronger push towards specialization and brandization among the businessmen in the region, which will offer an important development opportunity to the textile industry in the sense that once these businessmen form their own brands, their firms would not merely be working as sub-contractors to big firms in Europe and the US. As one informant put it, they will no longer be a "nameless towel" but a specific brand. They will be

exporting their own customized products (Süleyman Kocasert, personal communication, April 12, 2012).

Lastly, the informants consistently asserted that the global crisis of 2008 separated the markets of the Far Eastern exports and those of Denizli, since their customer profiles were transformed by the macro-economic changes brought by the crisis. They said that in this way the city has been able to open itself to a different market in the sense that the exporter firms started to gravitate towards a niche market with buyers who would prefer purchasing customized products (“boutique,” to use their term) in small numbers, rather than the huge amounts that used to threaten the city with their low costs that were actually enabled by serial production. It indeed seems like the case, since the city was able to recover from the loss and move beyond the pre-crisis export levels. However, this recovery has not been due to the ability to start selling mass amounts of products again. Rather, the number of pieces sold and the share of textile in the city’s export percentages actually have decreased. That situation actually confirms the statement that the city now focuses more on selling more quality products at higher prices.

It seems like the big firms in Denizli fully acknowledge the importance of brandization and are determined to establish their production under their own names. Both individual firms and the city’s most important trade organizations such as the Chamber of Commerce and Industry, and the Exporters’ Association, work on this issue in collaboration with Pamukkale University, do research, arrange symposiums and invite experts from abroad to inform the public and the producers on various levels of the sector. They are also aware of the fact that building a brand is expensive, and it requires time and money. That is why the Chamber of Industry has started a brandization project in cooperation with the Exporters’ Association, which involves an endeavor to create the brand “Denizli” as a joint venture. They also have



started to publish a periodical named “*Made by Denizli*” in order to make their endeavors heard by the big firms and the public (Necdet Özer, personal communication, April 13, 2012). This kind of an attempt can likewise be interpreted as an example of the mutual relationship and co-operation tradition of the region. Other than creating a brand for each and every company (which would be extremely expensive and difficult), the big entrepreneurs of the city have chosen to present their city as an overarching brand.

### The Place of Entrepreneurship and the Institutional Structure

The industrial competence of the owner-managers of the big exporter firms is another central and unique characteristic of Denizli’s towel and bathrobe cluster. As has been discussed a number of times throughout this thesis, the city has a long tradition that supports entrepreneurship; and the city’s businessmen are particularly proud of the fact that economic development has more or less been achieved through this network of collaborative work ethics and without significant government support.

Öz talks about the establishment of the city’s Second Industrial Zone as a clear example of the various entrepreneurial projects realized by the city’s businessmen. After analyzing their situation and the needs of their industrial progress, around two hundred businessmen decided that if they let the state build this industrial zone, it would take too long to complete, because it would take around nine years on average to finish such a project. Thus, they decided to use their own resources to build it, and the zone was finished within a year. This was actually the first and only example of that kind of a private enterprise (Öz, 2004: 93).

As discussed above, even though the businessmen of the city have benefited from various state policies, the city’s mindset that supports entrepreneurship and tendency to self-sufficiency should not be underestimated. Öz cites other cases which

can be presented as clear examples of this. She talks about how the first joint stock corporation in Turkey was established in Denizli, how the people built their own hospital, several high schools and even the governor's residence by themselves. Finally, she comments on how the companies in the industrial zone built their own power generation plant (Birlik Energy) to solve the energy-related problems that they faced in 2002 (Öz, 2004: 93).

The industrialists of the city are mostly referred to as smart and keen entrepreneurs who are dedicated to their businesses, have a great work ethic, associate hard work with success, and appreciate the importance of what Öz termed “a coalition for growth” (Öz, 2003: 4). Unlike the first generation, who cherished saving and were hesitant to make investments, the new generation who are generally well-educated and knowledgeable about the international business world, is willing to take risks for the sake of turning the city, as one informant asserted it, into Turkey's capital of textiles (Süleyman Kocasert, personal communication, April 12, 2012). Along with the examples of the second industrial zone given above, the founding of Birlik Energy and many other accomplishments done without any significant state support, this feeling of mutuality is proof enough that whatever achievement that the city has realized is largely thanks to the entrepreneurialism of its businessmen. One last striking example of this situation is that around 60 per cent of the cluster firms closely follow other firms of the cluster to learn about new innovations (Temel et al., 2002, as quoted in Öz, 2004: 94).

Yet, one should be careful enough not to fall into the trap of essentialism when trying to understand the role of entrepreneurship in bringing about Denizli's success. As it was shown in the section about the role of the state, the city was never completely alone while developing its economic base. Rather, it was a combination of various factors that enabled the businessmen of the city to take initiatives and

build the existing context for investments, which resulted in their adoption of the term “the spirit of entrepreneurship” while explaining their city’s achievements.

However, through the research employed in this thesis, “the spirit of entrepreneurship” ceases to be a characteristic of the region which magically ensures the capacity and opportunities to make great investments, and appears to be a contextual discourse which has been employed by the businessmen for the benefit of their dealings. This of course does not mean that the emphasis on entrepreneurship and its benefits, and the success of Denizli in making use of it, do not have some truth in them. It also certainly is not the case that the motives for employing that kind of rhetoric are purely selfish. Yet, it looks like the use of “townsmanship” is a tool in facilitating the close-knit relationships that the city relies on in many different spheres (such as the institutional structure, sub-contracting, R&D, networking). Hence, it is not simply a personal and emotional aspect of the city, shared by all the successful businessmen while doing their trades, but a practical tool that has been utilized in order to increase their gain just like any other element.

Another aspect of the city’s commercial capacity is the institutional structure of the cluster. Among other factors, the presence of local skills, a competent labor market, specialized services, mutual trust, and personal relationships are very important that contribute to the potential of the developing regions (Pyke, Becattini and Sengenberger, 1990). However, it is not adequate to argue that the presence of the firms with a common geographical background, and which share certain resources is enough to nurture a region’s potential for competitive advantage. Rather, it is the combination of the socio-economic features of a close community at the firm level, and favorable (both local, and national) institutional factors that provide the context for economic success in clusters.

Thus, as a typical example of Porter-style clusters, the success of Denizli's towel and bathrobe cluster has relied on a well-organized institutional structure, too. The organizations which add to the competitiveness of the region by specializing in different areas such as education, research and trade include the Denizli Chamber of Industry (DSO) and of Commerce (DTO), the Denizli Commerce Association (DTB), the Denizli Businessmen Association (DIAB), the Aegean Garment Producers' Association (EGS) and Pamukkale University. Additionally, there are several governmental institutions such as the Small and Medium-Sized Industry Association (KOSGEB) and the Denizli Exporters Association (DENIB). These organizations have been the primary means through which the development of the cluster has been aided, especially since the 1970s when the central government provided opportunities for growth and enabled the efficient functioning of them. Since the cluster is located in a regional "supporting" institutional infrastructure, firms have been able to gain access to wider pools of knowledge on a national and global basis.

These institutions are also the main agencies for keeping up with the developments and innovations in the sector. As Öz asserts, their interest in international fairs is particularly strong (Öz, 2004: 94). Denizli firms were amongst the first to attend such fairs and continue to be one of the largest groups from Turkey at the annual Heimtextil fair in Frankfurt, Germany, which is accepted to be the most prestigious textile fair of the world. In 2012, 176 Turkish firms attended it. Out of these 176 firms, 44 were from Denizli (DTO, 2012: 7). The year before, in 2011, only 153 firms from Turkey had attended fair and 38 of them had been from Denizli (DTO, 2011a: 7). Both years, the city ranked third in participation after İstanbul and Bursa (DTO, 2011a: 8). When the population and economic scale of these cities are

considered, Denizli emerges as the leader, since its firm/population ratio is the highest.

### The Role of the State

Looking at the past, it becomes apparent that the relationship of Denizli with the state has always been somehow distant; and the government has been more of a burden than a supporter. Consequently, the city largely was left out of state investments. In the early years of Republic, due to the non-existence of an industrial bourgeoisie, the state was involved heavily in the development of manufacturing through either establishing state enterprises in different sectors or implementing various measures to encourage private sector undertakings (Erendil, 1998: 209-10, as quoted in Beyhan and Armatlı-Köroğlu, 2002: 3). This role of the state was so strong that the destiny of regions largely rested on it (Işık and Pınarcıoğlu, 1996: 64). Still, the opportunities that would enable the transition of the city from artisanal way of production to capitalist-modern form were limited.

In relation to the textile industry, two important developments were experienced in Turkey during the 1920s and 1930s: the acceptance of the Law for Encouragement of Industry (*Teşvik-i Sanayi Kanunu*), and the establishment of cotton yarn factories by the state. According to the Law for Encouragement of Industry which was put into act in 1927, only big establishments with had at least a ten horse power capacity could employ the incentives (tax exclusions and provision of land) that were designed for the development of private enterprises. But none of the textile firms operating in Denizli had enough capacity to meet the requirements for that legislation (Erendil, 1998:177). During the 1930s, the state also opened four cotton yarn factories, but none of them was in Denizli. Two of the factories were established in Bursa (Pınarcıoğlu, 1998, as quoted in Beyhan and Armatlı-Köroğlu, 2002: 3), and another one from which the textile producers in Denizli bought cotton

yarn was founded in Nazilli (Eraydın, 1998, as quoted in Beyhan and Armatlı-Köroğlu, 2002:3).

In line with this picture, the sources used for this study are unanimous in the opinion that since the beginning, even though the city has had a great capacity for trade and a rich historical heritage, the governments have always neglected it. Apart from their entrepreneurship, the point at all informants often voiced is how the city's success has been realized without significant state support. One informant proudly mentioned how the Nazilli textile factory had first annoyed the businessmen in the city, but then they realized that if the factory had been founded in their city, that would have deprived them of the strong entrepreneurial setting that now leads the city to significant economic success (Erdem Aydın, personal communication, April 9, 2012).

The informant further indicated that with the exception of the Sümerbank Clothing Factory, which was opened in 1953, the city pretty much realized its own potential for development until the early 1970s without any significant state investment (Erdem Aydın, personal communication, April 9, 2012). For example, the Extraordinary Earnings Tax of 1944 (*Fevkalâde Kazanç Vergisi*) had a very negative effect on the weavers of Denizli, making them abandon workshop-type production and return to domestic production, because the amount collected was enormous and the tax was levied on workshops with five or more looms and workers. Thus, it very much prevented the founding of big scale establishments. Furthermore, since it was during the war period, the state decided that yarn should be distributed by its own agencies in small amounts, something which further prevented the emergence of large organizations (Cillov, 1949, as quoted in Gözlükaya, 2005: 42).

However, that does not mean that the central state has never been a factor in the cluster's development at all. Even though the businessmen of Denizli contend

that their achievements have always been their own, it is only fair to say that the Sümerbank Factory had been influential in introducing a great amount of technology, and had become a direct stimulant to the local industry (Özgür, 2005: 8). In 1964, the factory started to produce fabric as well, and began printing and dyeing operations in addition to cotton yarn. By that time, the electricity also became available all through the city. Hence, the extensive use of energy, and the accessibility to cheap cotton yarn provided by the Sümerbank enabled various producers from the towns of the city, especially Babadağ, to establish factory-type businesses by combining their capital (Erendil, 1998, as quoted in Beyhan and Armatlı-Köroğlu, 2002: 5). Apart from producing themselves, these relatively large firms started to work as sub-contractors as well (Erendil, 1998: 182, as quoted in Beyhan and Armatlı-Köroğlu, 2002: 5), which also laid the foundations of the principle production pattern of the city.

The post-1970 era could be considered as the period during which Denizli developed its closest relations with the state. The import substitution policies which started in the 1960s and lasted all through the 1970s focused on the sectors whose raw materials could be supplied within the country. This classification helped the entrepreneurs to strengthen their production capacity. Additionally, as discussed above, the city was included among the provinces that have priority for development in 1973. The priority status enabled the channeling of public investments to the region, and especially to manufacturing (Işık and Pınarcıoğlu, 1996: 66, as quoted in Beyhan and Armatlı-Köroğlu, 2002:5). Even though the city was taken out of priority status in 1981, various firms have continued to receive different investment incentives from the state (Mutluer, 1995, as quoted in Beyhan and Armatlı-Köroğlu, 2002:5).

The January 24 Decisions of 1980 constituted a turning point for the city. The adoption of neoliberal policies determined the direction towards which the city's textile industry will develop. The new economic order supported export-oriented industry, and various incentives were implemented especially to textile and garment industries. The entrepreneurs in Denizli made use of these procedures, and gravitated further towards exporting. They specifically employed the tax rebates applications to benefit themselves in the best way possible, and established a steady development pattern away from the fluctuations of the domestic market (Gözlükaya, 2005: 48).

The principle mechanism through which the Turkish state favored exports was Eximbank credits. Even though they are given in small amounts and there is not a fixed method of how to allocate them, the credits have clearly benefited the cluster. Yet it is hard to identify another occasion on which the government has helped the cluster with its financial problems; although quite a number of times when the macroeconomic policies of the state harmed the cluster's potential for growth (Öz, 2004: 99).

In Denizli, various state policies have been criticized for damaging the industrial potential of the city. For instance, in February 2001, during the financial crisis, the businessmen of the city felt as if the government had misled them, since the fixed exchange rate policy which was supposed to linger for some time had been abolished that very same month. That decision caused the worst financial instability in the history of the Turkish Republic. Many businesses paid a heavy price, and some went bankrupt (TBMM, 2001, as quoted in Öz, 2004: 99). Additionally, after the crisis, there was a loss of trust among banks and industrialists towards the government, which has proved difficult to rebuild. Moreover, it created the perception in the business world that the actions of the government are unpredictable and therefore cannot be trusted, making it harder for firms to carry out any serious



strategic planning. It was frequently stressed by the interviewees that political and economic stability are essential for sustained growth.

Another example regarding the times that the state has harmed local development is the Law No: 5084, which enabled the provision of incentives for industrialization in underdeveloped provinces, was passed in 2004. This decree is strongly criticized for having negative influences on the city's textile industry and competitiveness. The law originally aimed to reduce the costs of production (by introducing different measures such as lower electricity utilization prices, exemption from income tax and lower insurance premiums) in 49 provinces and encourage industrialization. The businessmen of the city strictly opposed this law and declared it (as one informant put it) as an act of discrimination against their industriousness (İsmail Yılmaz, personal communication, April 9, 2012). Denizli Industry Chamber also argued in their yearly report of 2008 that there had been a decrease in investments within the city because of this law, since it gave incentives to the neighboring cities, and left Denizli outside (DSO, 2008: 3). Penpecioglu explains that this was mostly due to two important problems with the law. First, the law actually was unable to cover different sectors at a time and it did not stress the importance of competitiveness for exporting in international markets enough. Second, the law was not prepared properly, and did not allow room for the implementation of incentives which have to be differentiated among various types of industrial organizations, such as clustering (Penpecioglu, 2007: 105).

Overall, it emerges that Denizli has the potential to develop its industry and export capacity through its own means, especially with the help of the courage of its entrepreneurs, who are open to innovation and not afraid to take risks. Nevertheless, it would be wrong to say that this has all been only thanks to the city's own efforts. The liberalization project has had considerable contributions to the cluster. The

popular discourse of the “Anatolian Tigers” voices this assumption frequently, stating that despite the policies of the lumpish central state, there has emerged a powerful and dynamic business class in Anatolia which is extremely competitive in its export capacity and was able to adapt to the changing conditions of the international markets. Yet, it appears that the Turkish state, especially since 1980, has contributed to these cities greatly and directly by channeling a great deal of resources to them (Özügür, 2005: 122).

#### Relations of Mutual Trust and Co-operation

A crucial feature of clusters is the flexibility they provide in ways of operating. For instance, Italian clusters are seen as regions with social structures that are appropriate for the flexible organization of resources (Saka-Helmhout and Karabulut, 2006: 130). Close community and kinship ties that are present in the region contribute heavily to this flexibility, and provide tools for assistance in times of need, as well as funds for establishing new businesses. Additionally, the proximity of firms in the cluster guarantees a constant technical and commercial information exchange, as well as the diffusion of skills that facilitate entrepreneurial activity (Best, 1990, as quoted in Saka-Helmhout and Karabulut, 2006: 130). This way, the industry would be located in an adjustable environment that makes responding to changing market requirements, and adapting to new requirements possible. This resilience is most of the time gained through co-operation and reinforced by the culture and know-how accumulated by local agents (Pietrobelli and Barrera, 2002). The means of exchange are not only money and goods, but also ideas, particularly solutions to problems (Best, 1990).

Additionally, the notion of trust which is stimulated by close community relationships denotes another important trait between the firms of a cluster. Local customs exist not only in business ethics, but also in the quality of products and

services exchanged in local markets. The assumption here is that the social embeddedness of firms helps develop trust, which lowers transaction costs and facilitates knowledge exchange for innovation.

The greater network between the firms of Denizli clearly embodies this kind of a social and business organization. The importance and practicality of trust relations and co-operation shows itself in every phase of production. As stated above, the roots of the collaborative work habits of the city were laid in the early Republican period, when the city was offered very little opportunity to develop its industries. Textile producers either worked as sub-contractors for the tradesmen who provided the cotton yarn, or worked independently by buying the cotton yarn from the same tradesmen within a credit system and selling their products in the markets in the province center, or in other districts themselves for a long time (Erendil, 1998: 181). The city's tradition of local collaboration can be traced back to this period, since around this time in the 1930s, many small textile producers (with the backing of the state) established cooperatives in order to protect themselves from the tradesmen who sold their fabric or controlled the textile production. As Şengün asserts, this situation, which gave rise to (textile) cooperatives helped the formation of an entrepreneurialism and collaborative environment in the city (Şengün, 1998:94-5 as quoted in Beyhan and Armatlı-Köroğlu, 2002:4).

The hard times of World War II further strengthened the creation of intense collaborative relations. The importation of cotton yarn became more difficult due to war conditions, and textile producers in Buldan and Babadağ were affected negatively. On the one hand, most of the textile producers in Buldan began to migrate to the city center but especially to Istanbul, with which they historically had had close trade relationships. On the other hand, a small number of producers in Babadağ who produced mainly for Anatolian markets migrated to Denizli province

center and other Anatolian province and district centers (Pınarcıoğlu, 2000, as quoted in Beyhan and Armatlı-Köroğlu, 2002: 4).

It is still possible to observe the contemporary manifestations of this tradition in the city. First of all, since this is an outward-oriented cluster which exports most of its production and has high quality requirements due to the level of trade that it maintains with the Western buyers, huge importance is placed on quality. That situation shows itself in the production chain, which causes firms to prefer maintaining long-term relations with trusted sub-contractors (Öz, 2004: 95). Trust and co-operation also reveal themselves in less formal arrangements. For instance, it is fairly common for tools or workers to be bought or borrowed from other firms if one instantly needs them, mostly to complete an urgent order (Öz, 2004: 95).

Öz cites the Aegean Garment Producers' Association (EGS) as an example of an institutional form of co-operation. This organization was established in 1993 by 464 businessmen, 60 per cent of whom were from Denizli (Eraydın, 2002, as quoted in Öz, 2004: 95). The EGS developed quickly, and helped its member firms to specialize in areas such as procuring inputs, exporting the final products, training, financing, insurance and organizing fairs (Uysal, 1998, as quoted in Öz, 2004: 95). It has especially been successful at encouraging its members' exports. In fact, the EGS Foreign Trade Company became the leading export firm in Turkey in the late 1990s (Öz, 2004: 95). The previously mentioned examples such as the construction of the Second Industrial Zone, and the establishment of Birlik Energy should be mentioned here to underline the extent of the cooperation capacity of the cluster firms, in case they are convinced that a project will benefit them all. The city's business associations also exemplify the organized mechanisms of co-operation, including sectorial associations, the Denizli Chambers of Commerce and Industry, and industrialists' and businessmen's societies. The president of the DTO, Necdet Özer,

himself declared his belief that the focus of the firms from Denizli should not be competing with each other, but rather they should do so with international rivals (DTO, 2001a: 9).

As mentioned before, these social bonds and trust relations, the notion of “townsmanhip” are also employed as part of a rhetoric that situates being from Denizli and the textile trade in the context of social relationships by grounding it in the culture and history of the region, in a way that facilitates the smoothness of both personal and intra-firm relations, which in turn contributes to the economy. Hence, the presence of so many informal and organized mechanisms for co-operation does not mean that there is no competition among the cluster firms. In fact, it is an important principle for various companies that operate in the same branch of business. Öz’s study establishes that cluster firms tend to hide information on their products from other companies with which they have relations. This is even the case with close friends and family members who have separate establishments, and it is not shocking since imitation is very common in the cluster (Öz, 2004: 95). Nevertheless, it is always very difficult to keep this kind of information hidden, when the rate of circulation of workers and other personnel, the use of common suppliers and the sharing of customers is very high (Erendil, 1998: 182, as quoted in Öz, 2004: 95).

One other way to look at this issue is that, since up to date information on different products, technologies and markets is very important for the firms in the cluster, that situation makes the employees and/or managers who are equipped with such knowledge indispensable for the purposes of these companies. Thus, firms compete intensely to employ them. Therefore, the local environment is very much characterized by competition that is balanced by co-operation and relationships based

on mutual trust, the latter being especially important among firms operating in complementary areas (Eraydın, 2002, as quoted in Öz, 2004: 96).

## CHAPTER 6

### CONCLUSION

This thesis examined the patterns of regional specialization and the possibilities of realizing a sustainable development pattern through clustering activities in the case of the Anatolian city of Denizli, and its towel and bathrobe industry. Both theoretically and empirically, it aimed at a multilayered investigation into the components of the city's local success, which has been achieved through cluster model. In that sense, it contributes to the study and the understanding of the modern economic order and the political economy of contemporary Turkey.

At its core, this research was constructed from a perspective of economic sociology, although the empirical examination was done through cluster theory. Hence, rather than centering the study of Denizli's economic structure through a management perspective (that is, the clusters, originally), it meant to apply the variables, and the explanatory models of sociology to the understanding of the relationship between the economy and the social (Smelser and Swedberg, 2005: 3). This was a conscious choice in the sense that economic sociology has a greater potential to decode the connections between economic phenomena, and personal interaction, groups, various social structures, institutions, norms, and values.

As was repeated throughout the analysis, the great paradigm shift which has been observed in the world economy since the 1980s has created a market-based global economy that is grounded on the free flows of capital, production and consumption. Doing so, it also has produced an order within which international capital has become the dominant element. This process, along with generating a world with shrinking boundaries, has also transformed regional dynamics, along with the inter-firm and inter-industry level organizations and structures. This situation

might very well be located within the framework of regional integration with references to both globalization and localization.

In terms of regional economics, this state of affairs has implications referring to a description of the international economy faced by both local firms and international factories in which businesses reciprocally produce goods to compete in the global market, and to meet the demands of customers (Satoğlu, 2008: 20). As discussed, the demise of Fordism ended the perception of economic development as a model strictly performed within national boundaries and with an equal distribution between different regions within that territory. However, new successful forms of production, which are different from the mass systems of the post-war period, appeared in some regions but not others.

Meanwhile, these new regions of industrial activity seemed to contain both regional particularities (such as institutional, technological, culture, and political), and it was also shown that there was a strong connection that associated global capitalism and regionalization (Storper, 1995: 191). Increasing global economic integration itself leads to heightened regional and local specialization, as falling transport costs as a result of the proximity established within a region, and the trade barriers that make it harder for the firms to relocate allow them to agglomerate with other similar firms in a specific area in order to benefit from local external economies of scale (See: Krugman, 1991a), which in their turn are thought to raise local endogenous innovation and productivity growth. Thus, it is now clear that globalization is not the anti-thesis of local organizations per se; on the contrary, they nurture each other in many senses.

Participating in this order since 1980, Turkey has experienced a similar regional development pattern. The ISI years contributed to this spatial organization, and created their own large businesses in specific parts of the country such as the



hinterland of Istanbul, Ankara and the northwestern regions. However, as regional phenomena and localization became more important with the rise of neoliberalism after the 1970s, the structure of the Turkish industry started to be reconfigured more along these lines. Interregional disparities have always been present and very much debated in the country as one of the main issues of regional development. Various policies emphasizing convergence have been propagandized by many institutions such as the State Planning Organization. For example, the definition and implementation of “Priority Provinces for Development” (PPD) through the third Development Plan (1973-77), was a strong example of how the Turkish state wanted to support certain provinces by directing industrial investments towards them and tried to even out the differences between regional developments.

Yet, regional differences with respect to economic development still exist in the country. Little progress has been achieved in that respect so far. After liberalization, the spatial reflections of economic organization took a different turn. The new policies on export base development and decentralization policy of industrial activities from metropolitan cities continued to nurture industrial expansion in the adjacent provinces of metropolitan regions. Moreover, there have been new industrial nodes that are specialized in certain sectors due to comparative advantages (Gezici and Hewings, 2002: 114), which are referred to as the Anatolian Tigers. In the introduction, the inaccuracy of this term was discussed. Nevertheless, it is also a fact that Denizli belongs to that group of new “emerging” industrial centers with respect to its share of total manufacturing employment (Doğruel and Doğruel, 2001, as quoted in Kuştepe, Gülcan and Akgüngör, 2012: 3), and its production and trade capacity with the world market through direct links. Hence, the city presents an important case to examine, both in terms of deciphering the elements that brought

about its unprecedented success, and the links its development has to the greater scheme of contemporary political economy of Turkey.

In order to investigate the roots of this success, the application of the cluster theory proved especially successful, since the detailed analysis showed that the towel and bathrobe industry is a text-book example of an SME-led cluster organization. Apart from the various economic factors that have contributed to the city's accomplishment in participating in global markets through a position of middle rank subcontractor for big international firms, a survey of the particular social and cultural elements of the city which enabled this kind of an enterprise was also performed. As Breschi and Lissoni assert:

Geography is not a sufficient condition for accessing a local pool of knowledge but it requires active participation in a network of knowledge exchanges (Breschi and Lissoni, 2003, as quoted in Kuştepelî, Gülcan and Akgüngör, 2012: 1).

The historical analysis of first the country's and then the city's experience with neoliberalism, along with the examination of the contemporary organization of the cluster, enabled this thesis to be grounded on solid data, and helped to demonstrate the compatibility of the cluster theory to Denizli's case more vividly.

Chapter Four drew upon the previous ones, and presented a concrete case of contemporary Denizli and the economic organization of its most competitive industry which was organized as a cluster. As discussed in the chapter, the central characteristics that are looked for in a cluster to support its development and to ensure its permanence are very much present in the city. The context of their existence and contribution to the city's industrial organization was described at length in that chapter as well.

All of these aforementioned factors combined, this research showed that the city is actually a learning region which has succeeded in achieving a sustainable

economic development pattern, whose links to Western buyers has allowed its firms to engage in learning-based competitiveness owing to their daily access to the relevant resources (information, knowledge, technology, ideas, training and skills) through networks of inter-dependency, formal institutions of learning, and common understandings that surround individual firms which are formed via clustering activities. In that sense, the hypotheses that were put forward in the introduction chapter were illustrated in a way that recounts the story from both the historical and political economical perspective. As the theory suggests itself, clusters are formed in a region particularly because there are social, cultural, political, and of course economic factors present in that local who facilitate the formation and growth of a specific industry. It is no coincidence that towel and bathrobe industry bourgeoned in Denizli, and gained access and high competitiveness in international markets. Both the background and the suitable conditions have been present in the region. The role played by the historical know-how, proximity to raw materials, the presence of related businesses and supporting institutions along with the entrepreneurialism which has been the driving force to combine all these factors and bring about the competitiveness of the region are analyze within the boundaries of this research.

I believe this thesis constitutes a small but significant contribution to understanding some of the ways in which a particular cluster may become successful and the development of its patterns of competitive advantage both historically and theoretically. In that sense, as indicated before, it adds to cluster theories in general, with a focus on the clustering activities in the developing countries, as well as to our understanding of the political economy of contemporary Turkey by making the role of the locally embedded social, cultural and institutional arrangements in facilitating economic success apparent, such as the ties of proximity and association as a source of knowledge and learning (Amin and Thrift, 1995; Storper, 1997).

What lies ahead for Denizli is of course open to speculation. There has been much discussion in the literature over the sustainability of competitiveness of clusters with regard to intensifying international competition. Whether this success will be maintained or not very much depends on the various strategies that will be implemented by the businessmen of the city, and the local and central state. Öz states that Denizli constitutes an exception within the developing world clusters in the sense that the Turkish state historically has been a strong force in the formation of the cluster (Öz, 2003:15). Despite its achievements, it also has been argued that the success that Denizli achieved in the international markets with respect to its competitiveness was no more than a mere coincidence, facilitated by the end of a closed economic regime and the use of the unused capacity of the exporting sectors after 1980. The sharp decline in export numbers, especially after the crises of 2001 and 2008, are presented as proof of this argument, since the city's locked position as a passive subcontractor renders it extra sensitive to the fluctuations in the global market.

It is for sure that these claims have merits in explaining the situation of Denizli. Yet, it should not be forgotten that backward and forward linkages are very strong determinants of the industrial growth in Turkey (Filiztekin, 2002: 2, as quoted in Özgür, 2005: 5), which provide a strong background for further development and innovation. This is precisely from what the city draws its main strengths with respect to improving its industrial base. As shown in Chapter Three, the historical developments that led to the foundation and improvement on related industries that would support the production of towels and bathrobes, combined with the age-old tradition of producing home textiles brought about the specialization pattern which provided the city with its advantages when participating in international trade. Additionally, there is the benefit of low-cost inputs and cheap labor, which puts the

city in an advantageous position especially compared to Western producers. Yet, as discussed above, this does not provide a long-term asset, since the rivalry from the East Asian countries (primarily China) has the potential to throw the city out of competition. As Öz asserts, the situation encouraged the big businessmen of the city to take greater initiatives on quality issues rather than focusing on the price-sensitive parts of production (Öz, 2004: 110).

However, even though this position of relative advantage had been lost to the producers of Denizli, the changes in the international markets also changed in a way that provided the city with a new opportunity to increase its competitiveness. In the 1980s when the city was accumulating the biggest part of its capital, the demands of international customers (which were again one of the principal factors that contributed to the city's potential as a learning region) were geared mostly toward standardized products in mass amounts. Consequently, with little investment in technological innovation was enough to make the cycle continue to work. Yet recently, and especially after the global crisis of 2008, the expectations of the Western buyers have changed, in the sense that now they do not want to make huge amounts of investments in one single region/product as they used to do. They tend to gravitate more towards customized products with high market value, which brings to mind the problem of brandization. This requires both constant improvements in quality, but also enlarging the product base.

As stated in Chapter Four, the most powerful trade organizations and the university are unanimous on the idea that the only way to break out of this passive exporter position is to develop a brand. The necessity to have a big capital base and the limited availability of qualified personnel and finance make the process move more slowly, yet the businessmen of Denizli are determined to realize this. They have been organizing seminars, workshops and special training programs on the

issue, and the first step towards building a brand was realized this very year with the “Made by Denizli” program. As a reflection of the collective entrepreneurial tradition of the city, the biggest firms do not prefer to establish their own brands (considering the high costs of undertaking such a huge project by themselves as well) but rather they choose to organize through the brand of their city. Also, since the sector is primarily dominated by a large number of small firms, it would be impossible for all firms to be able to develop their own famous brands (Öz, 2004: 111).

In conclusion, I believe it is fair to say that the future for Denizli is a bit rocky; but the city clearly has the potential to further its economic vitalization. The factors which have been outlined all throughout this thesis and especially in Chapter Four contribute to this capacity and bring about the high degree of specialization in the Denizli economy. Yet, even though the city has a huge advantage in textiles because of its deep experience and specialization, to advance this sector, it also should diversify its basis for capital accumulation. All of the informants agreed on this, indicating that even though textiles is the thing they know the best, the city should enlarge its basis for economic development in order to have the ability to invest more in the sector and completely get out of the position of passive exporter. Hence, they have been developing other areas, especially tourism, which can be exemplified through getting the patent for Pamukkale. Other than that, marble production, the iron, steel, and cable industries are growing as well. Denizli’s prospects seem bright.

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