

Turkey's East-West Economic Divide Impacts Growth Potential

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Turkeyflag Turkey's buoyant growth since 2002 has failed to erase the country's regional disparities.

The dynamic metropolitan areas along the Mediterranean coast continue to attract the bulk of investment and population, whilst the poorer agricultural regions to the east suffer from poverty.

Regional inequality hampers overall growth and contributes to the segmentation of the consumer market.

- Decades of urban migration have contributed to the depopulation of central and eastern parts of Turkey, whilst feeding growth in the coastal cities. Despite the ambitious government programme of regional development - the South-Eastern Anatolia Project - which has been in place since 1977, people continue to move away from the poorer agricultural east towards the west, where they are more likely to find jobs in tourism or services. Istanbul in particular has continued to grow, reaching a population of 12.1 million in 2010, up from 8.8 million in 2005. The city will continue to grow rapidly, reaching 17.8 million inhabitants by 2020 - 22.3% of the total population;

- Growing urban centres attract the most investment and offer the best consumer markets. They have also benefited the most from the country's strong real GDP growth which averaged 4.2% between 2005 and 2010 and increased disposable incomes. In 2008 - latest year available in national statistics - Istanbul had the highest regional Gross Value Added (GVA - the value of goods and services produced in an area), amounting to 27.7% of the total.

Implications

Poverty and income inequality are the immediate results of regional disparities:

- In 2009 - latest year available in national statistics - 17.1% of the country's population lived in poverty, defined as household income below 50% of median household disposable income. 30.3% of this population was located in South-East Anatolia, the agricultural region which borders the politically volatile countries of Syria and Iraq, and which has seen a high influx of refugees;

- Only 37.9% of South-East Anatolia's population was economically active in 2010, and the unemployment rate in that region stood at 12.4%, according to national statistics compared to an overall unemployment rate of 11.9%;

- Turkey also has an unequal income distribution. In 2010, the richest 10% of households (decile 10) owned 30.3% of total annual disposable income, as opposed to only 2.2% owned by the poorest 10% of households (decile 1).

With poorer infrastructure, less affluent consumers and yet equally high minimum wage, the east is unable to compete with the west:

- The minimum wage, which is binding across the whole of Turkey, has risen strongly in nominal euro terms since 2002. By January 2011, it has reached €385 (US\$481) a month, up from €175 (US\$159) a month in 2002, overtaking all new EU member states apart from Slovenia, according to Eurostat;

- Investment is much more profitable in the urban areas of the west. The megacity of Istanbul, for example, led the regional consumer expenditure total, with US\$154 billion in 2010 - 28.2% of total consumer spending. The city also saw a 35.0% surge consumer expenditure in nominal US\$ terms over 2005-2010, owing to the rapidly increasing population, which grew 23.2% over the five years.

The consumer market remains highly segmented:

- In 2010, households in Istanbul spent on average US\$43,670 compared to a per household consumer expenditure of US\$19,294 in South-East Anatolian. The inhabitants of the poorer provinces are often only able to afford the basics, with differences in consumer expenditure per household especially visible in the areas of leisure and entertainment and hotels and catering. While food and non-alcoholic beverages absorbed only 15.9% of the total expenditure of the average Istanbul home in 2010, in South-East Anatolia this figure reached 32.5%.

Note: Others™ includes consumer expenditure on alcoholic beverages and tobacco, clothing and footwear, household goods and services, health goods and medical services, communications, education, miscellaneous goods and services.

Prospects

After the post-crisis rebound growth of 9.2% in real annual GDP in 2010, Turkey's growth will slow down slightly, to 5.0% in 2011 and 4.5% in 2012. This will ensure continued growth in annual disposable incomes and consumer expenditure;

With real annual disposable income per capita expected to rise by 37.6% between 2011 and 2020, both lower and middle earners are likely to profit. This will eliminate some income inequality and improve the capacity for discretionary spending. However, the areas of growth will continue to be located predominantly around the urban centres;

The government is yet to come up with a new regional development strategy after the South-Eastern Anatolia Project comes to completion in 2012, having failed to erase the country's regional disparities.

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