The semi-formal sector and the Turkish political economy

MEHRAN KAMRAVA*

ABSTRACT The general dichotomy in developing economies between the ‘formal’ and ‘informal’ economic sectors needs to be refined to account for the ‘semi-formal’ sector; one whose activities appear to be governed by formal rules and procedures but are, in fact, largely unregulated and unrecorded by the state. Using Turkey as an example of a transitional, developing economy, the paper situates the semi-formal sector in relation to the other two. Also important to examine is the level of autonomy which the semi-formal sector enjoys in relation to the state and other economic sectors. Autonomy depends on access to resources, and the use of these resources in pursuit of economic, political, or socio-cultural agendas. Three comparative lessons can be drawn: 1) despite state endeavours, a sizeable portion of seemingly formal economic activities go unreported and unregulated; 2) the semi-formal sector helps the perpetuation of a mutually beneficial relationship of mutual neglect between state and society; and, 3) the sector’s political agendas may best be characterised as one of ‘oppositional pragmatism’.

The goal of this article is two-fold: first to introduce the concept of the semi-formal sector, and then to examine it within the context of the political economy of Turkey. Sandwiched in-between the formal and the informal sectors, the paper claims, is the semi-formal sector. As such, the semi-formal sector enters into a series of relationships, economic and otherwise, with both the formal and informal sectors and also with the state. For its part, while the state has very clear economic agendas, which in Turkey include the promotion of small and medium-sized enterprises, it has been unable to effectively bring the semi-formal sector under its financial and institutional regulatory purview. The semi-formal sector’s own agendas and preferences, which are often diametrically opposed to those of the state’s, further accentuate the objective and subjective divides that separate the two. What essentially results is a chasm between the state and one of the more popular classes of society. But, for reasons that are both organic and contextual, the semi-formal sector has not developed an ability to put its preferences into practice and to become a catalyst for major shifts or adjustments in prevailing patterns of state-society relations. Essentially, therefore, both the state and society, or at least the state and the semi-formal sector,
continue to operate in separate, largely unrelated plains, as if in a condition of near-perpetual avoidance.

Methodology

Before delving into the substance of the paper, a word needs to be said about the methodology employed for researching the topic. Much of the research for this paper is based on fieldwork carried out in Istanbul and Ankara in July and August 1999. In Istanbul, Turkey’s commercial capital where approximately one third of the country’s economic activities occur, I surveyed a total of one hundred businesses by examining twenty business establishments in each of the city’s five largest commercial districts, where, as it happens, semi-formal businesses tend to congregate. These included the areas outside of the Grand Bazaar (Kapali Çarşı) and in Bayazit, Eminönü, Karaköy, and Taksim. These areas were specifically selected in order to avoid biased sample selection. The vicinity of the Bazaar and Bayazit are generally regarded as traditional neighbourhoods, where it is common to come across conservative sociocultural norms and individuals with relatively strong religious convictions. Taksim is generally considered to be the opposite, being home to several international hotels, fashionable boutiques, designer stores, night clubs, and the Atatürk Cultural Center concert hall. While ensuring that the businesses I examined represented a fair cross-section of those concentrated in each of these areas, I kept my ‘surveys’ deliberately informal in order to overcome barriers to mistrust and the merchants’ reluctance to discuss their business practices, especially in relation to such sensitive matters as taxation, banking preferences, and employment practices.

In Ankara, I concentrated on sixty business establishments in three main areas: the older, relatively more conservative Ulus, the fashionable and seemingly ‘modern’ Cankaya, and the Maltepe district, where the old and the new, the modern and the conservative, come together in a melange of different cultural norms, businesses, and individuals. Again, care was taken to avoid biased sample selection by ensuring that the districts examined and the businesses within them were fairly representative of the different currents of Turkish social and economic life. In each of these areas in Ankara, I concentrated on twenty different types of businesses that, as the next section argues, fall into one of six categories: mobile vendors, stationary stalls, informal shops, bazaar shops, formal shops, and supermarkets. As with those in Istanbul, to avoid the pitfalls of distrust and preference falsification, I abstained from employing formal survey research methods and instead spent time first socialising with and, as much as possible, gaining the trust of the merchants whose businesses I studied. I believe this approach yielded more accurate, if less rigorously empirical, results.

In order to better understand the state’s perspective toward the semi-formal sector, I also interviewed a number of government experts based in Ankara, some twenty-three in all. These experts were drawn from the Small and Medium Industry Development Organization (KOSGEB), the Credit Guarantee Fund, the State Planning Organization, Halkbank, and the Ministries of Industry and
Commerce, Finance, and Health. I deliberately avoided meeting with elected officials or with policymakers with possible vested interests in the pursuit of specific policies or outcomes. Instead, the officials I interviewed were professional technocrats who, in one capacity or another, implemented policies related to the state’s interactions with small and medium-sized industries. The interviews themselves concentrated on the acquisition of factual data rather than on ascertaining the experts’ preferences or views.

All of the interviews and the fieldwork were concluded prior to the August 17, 2001 earthquake that devastated Izmit and Istanbul. The economic effects of the earthquake on the state’s capabilities and on private entrepreneurs, no doubt extensive, have not been taken into account in this paper, requiring further research and new fieldwork. Nevertheless, despite its catastrophic consequences for many, the earthquake did not alter the composition of the economic sectors or their relations with one another and with the state. If anything, it added tremendous new strains to the state and its capabilities, thereby increasing the chasm between state agencies and the different economic sectors, strengthening the validity of the arguments that follow.

Defining the Semi-Formal Sector

Studies of economic development and political economy have traditionally focussed on two sectors within the national economy: a formal and an informal sector. In general terms, the formal sector may be defined as that group of enterprises and business establishments whose commercial activities are subject to state regulations and, at times, even control. Whether in retail or in manufacturing and production, businesses in the formal sector generally conduct their operations according to business norms and practices that are not only officially sanctioned but are, in fact, defined and redefined by the state. Although members of the formal sector do not all uniformly observe the state’s many policies and regulations regarding the economy, practically all do, nevertheless, conduct their activities based on and according to some of the state’s main economic guidelines: permit procedures, tax registration, minimum wage, quality control, workers’ insurance, health and hygiene regulations, employee stock options and profits sharing, and other similar state-mandated economic rules and regulations. By and large, therefore, enterprises operating in the formal sector tend to employ a larger number of employees (usually five or more), and are endowed with greater capital, whether in the form of investments or in savings. This allows their proprietors to be in a better position to absorb the ‘costs of formality’ accrued through meeting state requirements and greater expenses for labour and

---

1 I am most grateful to these organizations and to the Istanbul Chamber of Commerce for access to many of their internal documents and archival materials related to my research.

2 Michael Todaro. Economic Development. 6th ed. (Reading, MA: Addison-Wesley 1997), pp. 268–272; John Cross. Informal Politics: Street Vendors and the State in Mexico City. (Stanford: Stanford University Press 1998), p. 32. Both the informal and the semi-formal sectors are found in the industrially advanced capitalist economies of the West as well. What separates the role and place of these sectors in the developed economies from those in the developing world is the degree and extent to which they permeate the macro-economy and are active in various commercial activities. For a study of the informal sector in Western economies see, Melanie Leonard. Invisible Work, Invisible Workers: The Informal Economy in Europe and the US. (London: Macmillan, 1998).
access. State-owned enterprises, multinational subsidiaries, and parastatals—enterprises owned partly by the state and partly by domestic or, more frequently, foreign investors—are extreme examples of formal sector business establishments.

At the opposite extreme is the informal sector, whose economic activities are unregulated and unrecorded. The informal sector cannot afford the costs of formalisation as its constituent enterprises are invariably initiated with little or no start-up capital. An overwhelming majority of such micro-enterprises involve only one individual who relies on his or her labour rather than capital to make ends meet. The overhead costs involved are therefore minimal. A study by the International Labour Organization, in fact, defined informal sector activity as a ‘way of doing things characterised by’

(a) ease of entry;
(b) reliance on indigenous resources;
(c) family ownership of resources;
(d) small scale of operation;
(e) labour-intensive and adapted technology;
(f) skills required outside the formal school system;
(g) unregulated and competitive markets.

As mostly new entrants into the labour force, members of the informal sector create their own employment through a remarkable array of activities, ranging from small trade to street vending, domestic help, prostitution, letter writing, peddling drugs, and menial labour. This immense range of activities has led to the emergence of internal differences within the informal sector between those for whom the streets remain the primary arena of economic activity—thus belonging to the ‘mobile’ informal sector—as opposed to those with slightly more economic resources who have been able to trade in their push-carts for permanent or semi-permanent stalls and kiosks and are, therefore, part of the ‘stationary’ informal sector. In his study of the informal sector in Mexico, Cross found that vendors can be divided into those who are officially tolerated and those who are not, and tolerated vendors can be further divided into smaller categories.

There is, it is important to note, often times a dynamic relationship between the formal and the informal sectors. To begin with, the informal sector often fills a market niche to which the formal sector has little or no access—e.g. closely knit communities or neighbourhoods. Especially people in lower income areas or in squatter settlements are far more likely to rely on the informal sector for their shopping and services needs than on fancy-looking shops and on huge and seemingly expensive supermarkets. More to the point, however, is the indirect, reciprocal economic relationship between the two sectors: while the informal sector often provides many of the raw materials on which the formal sector relies

3 Cross. Informal Politics. p. 31.
for its operations, the formal sector in turn provides many of the clients who patronise the relatively inexpensive goods and services of the informal sector.  

While conceptually useful for better understanding the range of economic activities in developing economies, the formal-informal dichotomy overlooks a sizeable arena of economic activity where the two sectors overlap. More specifically, there is an entire, separate sector made-up of traders, producers, entrepreneurs, and merchants whose businesses belong firmly in the formal sector in terms of size, location, the goods they sell, and their own class backgrounds, but who run these businesses with little regard for officially sanctioned and mandated rules and procedures. In fact, most often avoid contacts with state and other formal private institutions such as banks and credit agencies. For many, the only contact with a state agency or one of its agents occurs only when they initially register their businesses. Research on Turkey indicates, however, that the officially registered businesses represent only a fraction of all the seemingly formal shops and enterprises found in cities and towns. Even those stores and shops that are registered with the relevant agencies of the state are only nominally formal as the economic dynamics that underlie their operations—from employment practices to acquiring loans and credits—have a highly informal but nevertheless routinised nature. Looked at from the perspective of ‘formalization costs’, members of this sector can, if they so choose, absorb the direct and indirect expenses related to the undergoing formalisation vis-a-vis the state. However, for a variety of reasons, only some of which are economic, they choose not to. Thus they deliberately straddle the worlds of formality and informality, constituting a sector of their own, best classified as semi-formal.

In all political and economic settings throughout the world, entrepreneurs try to reduce the costs associated with their formal recognition by and observance of state regulations as much as possible. Many, therefore, under-report their

| Table 1. Varieties of economic sectors and retail establishments in Turkey |
|-----------------------------|---------------|
| **INFORMAL**               | Mobile Vendors |
|                            | Stationary Stalls |
| **SEMI-FORMAL**            | Informal Shops |
|                            | Bazaar Shops   |
| **FORMAL**                 | Formal Shops   |
|                            | Supermarkets   |

7 Todaro. *Economic Development*. p. 271. For example, in Indonesia’s Lake Kawah region on the island of Java, individual groups of villagers, called ‘porters’, collect solidified sulphuric acid chunks atop the Kawah Igen volcano and sell them to the local chemical fertilizer factory. The porters and the factory represent the informal and the formal sectors respectively. Over time, there has emerged a mutually dependent and beneficial relationship between these representatives of the two sectors. See, Robert Ballard. *Exploring Our Living Planet*. (Washington, DC: National Geographic Society, 1988), pp. 297–303.
8 Author’s personal interview with Cengiz Ersun, Deputy Director of the Istanbul Chamber of Commerce. Istanbul, 20 July 1999.
earnings, inflate their expenditures, and try to circumvent other state regulations that may hinder their profit earnings. But there is a difference between businesses that simply try to boost their revenues by cutting official corners and those whose very genesis and daily operations are permeated with informality and whose various economic activities go pretty much unrecorded. In fact, as the case of Turkey demonstrates, although semi-formal sector businesses overlap with those in the formal and informal sectors (table 1), they do have their own, largely unique characteristics in terms of their general clientele, the number and class standings of their owners and employees (table 2), and, more importantly, in the nature of their relations with formal, state and banking institutions (table 3).

As tables 1 and 2 indicate, the semi-formal sector in Turkey is comprised of three general varieties of retail establishments: stationary stalls, many of which closely parallel permanent and semi-permanent stalls in the informal sector: informal shops, such as local bakeries, grocery stores, mechanic shops, and auto-parts sellers; and shops in the bazaar, ranging from carpet sellers to herbal stores and patisseries. There are, nevertheless, some businesses concentrated in the bazaar whose trade is closely regulated by the state, the most notable being jewellers, for whom the state monitors and controls the supply and price of gold. Jewellers and other bazaari merchants whose import-export businesses require interaction with the state (e.g., appliance dealers) fall into the formal sector, along with the increasingly popular supermarkets and department stores and other ‘formal’ shops such as clothing boutiques and car and appliance dealers. Insofar as the number of employees is concerned, semi-formal enterprises seldom exceed five. Of the total of 160 businesses surveyed, only twenty-three (14 per cent) employed five or more employees on a regular basis, all of them being teahouses and/or small restaurants. For most others, their number of employees increased to five or more only on occasions when they hired extra labour on a temporary basis, often for purposes of hauling goods or performing various types of manual labour.

In terms of each sector’s interactions with various state institutions and other formal banking and credit agencies, as outlined in table 3, the informal sector has literally no interactions with the state or its agencies, except when harassed by the police. While the formal sector is theoretically in full compliance of and contact with official rules and procedures, the semi-formal sector very seldom ever comes into official contact with state and banking institutions. When semi-formal merchants do interact with banks, it is often only for personal savings deposit purposes and not to get loans and credits. Loans and other forms of credit are often acquired not from banks but from friends, family members, and other informal networks. Paying taxes of any amount is universally rare.

The conception of the semi-formal sector reeds to be dynamic, or, at least, allow for a measure of dynamic fluidity in the precise boundaries between the semi-formal and the formal and informal sectors. Tucked in-between the some-

10 Author’s personal interview with Ersun. This selective regulation of commercial activities also extends to segments of the informal sector. The street vendors who sell mussels in Istanbul, for example, are tightly regulated by the city’s Chamber of Commerce for quality control as some of their customers, including tourists, have fallen deathly ill. The Chamber of Commerce also closely regulates the city’s taxis, with some of whom there have been major problems with over-charging in the past.

11 Author’s personal interview with Ersun.
Table 2. General characteristics of the different economic sectors in Turkey

<table>
<thead>
<tr>
<th>ECONOMIC SECTOR</th>
<th>TYPE OF BUSINESS</th>
<th>GEOGRAPHIC CONCENTRATION</th>
<th>NATURE OF GOODS SOLD</th>
<th>GENERAL CLIENTELE</th>
<th>CHARACTERISTICS OF OWNERS</th>
<th>CHARACTERISTICS OF WORKERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>INFORMAL</td>
<td>Mobile Vendors</td>
<td>Spread throughout the city, especially in the innercity and in the main commercial districts and shopping areas</td>
<td>Sell a whole variety of items ranging from foodstuffs to trinkets and nonessential items such as cassette tapes, CD players, cell phones, etc.</td>
<td>Mostly members of the lumpenproletariat, working class, and lower middle class, others in the small retail sector</td>
<td>Mostly male; one-man operation, financed by own capital, of all ages but mostly young; first generation immigrants from countryside, eking out a living</td>
<td>None, although women sometimes take their small children along</td>
</tr>
<tr>
<td>SEMI-FORMAL</td>
<td>Stationary Stalls</td>
<td>Also spread throughout the city, especially in the innercity and in the vicinity of the bazaar, fewer in the wealthy and in other residential areas, invariably cluster together in the same alley or street</td>
<td>Clothing and all other types, of goods that are less expensive than in formal stores; prices driven down by intense competition from other stalls selling the same good</td>
<td>Clientele ranges from the lumpenproletariat to the working class, lower middle classes, middle classes, and at times even upper middle classes</td>
<td>Usually one person, at time accompanied by a small child (12 and up) who acts as 'errand boy'</td>
<td>None, although some fathers take their sons along; on rare occasions, in busy season, a young male may be hired to help out</td>
</tr>
<tr>
<td></td>
<td>Informal Shops</td>
<td>Spread throughout the city, especially in the innercity and in the main commercial districts and shopping areas</td>
<td>Specialising in small-scale service and repair, or sale of small goods (mechanic shops, plumbing stores, spare parts, etc.)</td>
<td>Lower middle classes and middle classes</td>
<td>1 or at most 2 middle class owners, often related</td>
<td>1 or at most 2 workers, either a young boy or a father-son team (master-artisan/helper team); no benefits; child labour common, though in small manufacturing, helpers are older</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Often younger family members, or, in trades demanding heavy labour (e.g. carpet sellers), members of the lumpenproletariat anywhere from 1 to 5 employees, seasonally and depending on trade: mostly family members, though manual labour is done by others</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Members of the lower m/c and middle classes</td>
</tr>
<tr>
<td>FORMAL</td>
<td>Bazaar Shops</td>
<td>Inside the wings and alleys of the bazaar; each wing tends to be grouped by the goods sold (textile, jewellery, herbs, carpets, etc.)</td>
<td>Specialise in the sales of a specific good; some small restaurants and cateries that cater to local clientele</td>
<td>Mostly middle classes who need a specific item (jewellery for marriage), foreign tourists and out-of-towners</td>
<td>Mostly upper middle class, with traditional, conservative beliefs, often a family venture made up of a partnership or a father-sons team</td>
<td>Solidly middle class, or, more often, upper m/c; 1 to 3 partners, most with high school or college degrees</td>
</tr>
<tr>
<td></td>
<td>Formal Shops</td>
<td>Spread throughout the city, especially in the innercity and in the main commercial districts and shopping areas, often concentrated in open or covered 'passages'</td>
<td>Sell the same goods as bazaar and informal shops, but more formally; include car dealerships, boutiques, furniture &amp; appliance sellers and the like</td>
<td>Shoppers range from the middle classes to the upper m/c and the upper class; sometimes (as in car dealers), lower m/c cannot avoid them</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Super-markets</td>
<td>Found in most areas, but especially in upper class and fashionable neighbourhoods</td>
<td>All items that cater to upper m/c and upper class tastes and purchasing habits</td>
<td>Shopper range across the economic spectrum</td>
<td>Wealthy and famous industrialists, such as the Köc family</td>
<td></td>
</tr>
</tbody>
</table>

Note: The characteristics of workers are illustrative and may vary depending on the specific sector and the region within Turkey.
<table>
<thead>
<tr>
<th>ECONOMIC SECTOR</th>
<th>TYPE OF BUSINESS</th>
<th>USE OF FORMAL BANKING INSTITUTIONS</th>
<th>NATURE/DEGREE OF TAXATION</th>
<th>INTERACTION WITH OTHER STATE AGENCIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>INFORMAL</td>
<td>Mobile Vendors</td>
<td>None</td>
<td>None</td>
<td>None; if so, very seldom contact with municipal police called the zabeta</td>
</tr>
<tr>
<td></td>
<td>Stationary Stalls</td>
<td>Seldom, only when interest rates are artificially inflated in order to encourage banking; rarely are banks ever used for loans</td>
<td>Almost one hundred percent tax evasion</td>
<td>Very seldom; if it occurs, it is in the form of collecting rental fees by the municipality through the zabeta</td>
</tr>
<tr>
<td></td>
<td>Informal Shops</td>
<td>As with stationary stalls, seldom do informal shop owners rely on banks, depositing their money only when interest rates are artificially inflated in order to encourage banking; rarely are banks ever used for loans</td>
<td>Almost complete tax evasion, reporting only nominal income to pay minimum taxes</td>
<td>As with stationery stalls, very little interaction with any agency of the state</td>
</tr>
<tr>
<td>SEMI-FORMAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FORMAL</td>
<td>Bazaar Shops</td>
<td>Relatively more extensive reliance on formal banking, especially in deposits, though no for borrowing purposes</td>
<td>Tax evasion rampant</td>
<td>Relatively more extensive, though not nearly as much as state regulations demand; avoidance and neglect of the state is widespread</td>
</tr>
<tr>
<td>Formal Shops</td>
<td></td>
<td>Far greater reliance on banking, deposits, money transfers, currency exchange, and other services</td>
<td>Municipality controls and enforces taxation strictly, thus evasion difficult though still commonplace</td>
<td>Due to relatively higher visibility and profile, interaction with Chamber of Commerce cooperatives, and other such agencies somewhat frequent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Super-markets</td>
<td>Extensive reliance on banks and other credit agencies for deposits, loans, payrolls, etc.</td>
<td>In full compliance of all state tax regulations and a bastian of the formal economy</td>
<td>Extensive interaction with various state and municipal agencies, such as the Labour and Social Security and the Health Ministries, in addition to the municipality</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SEMI-FORMAL SECTOR AND THE TURKISH ECONOMY

Figure 1. Overlapping boundaries of economic sectors

what larger informal sector\textsuperscript{12} and the smaller formal sector is a persistent core of merchants, producers, and traders who make-up the semi-formal sector. But the semi-formal sector’s boundaries overlap with the other two, allowing for the occasional cross-overs and inter-meshing (figure 1). For example, many formal shops that sell clothing or kitchenware place some of their goods on a near-by cart on the sidewalk and by making the extension seem autonomous, try to appeal to a different class of clientele also. More frequently, as the case of the Maltepe Pazari in Ankara demonstrates, the distinctions between the stationary informal sector and the semi-formal sector becomes nearly impossible to discern. The Maltepe Pazari encompasses an area slightly smaller than one square block, located somewhat near the centre of Ankara. On weekdays, approximately 480 semi-permanent stalls are set up, some made of simple steel pipe frames covered by a tent while others take the form of actual shops, selling an entire array of goods ranging from shoes and sun glasses to toiletries, clothing, toys, and textiles. The area turns into a farmers’ market on Mondays, with other merchants folding their stalls and placing them in an especially designated nearby storage. In this instance, the precise distinction between the three sectors becomes increasingly blurred. For example, I came across a shoe-seller who claimed to have two shops, one in Maltepe and another in a different location (he had an actual store in Maltepe). Whereas he paid no taxes on his Maltepe shop and did not have to contend with any state regulations there, he did pay taxes on his other store and, to the extent necessary, observed the laws concerning business transactions. Another seller of sun glasses, selling his goods in a semi-permanent stall and identifying himself as a member of the middle class, told me he has street vendors selling glasses for him on consignment. Clearly, these and other traders like them represent cases in which members of one sector cross over into another in order to expand their customer base and the geographic range of their commercial activities.

\textsuperscript{12} Based on the ILO statistics that Todaro (\textit{Economic Development}, p. 270) presents the informal sector’s share of the urban labor force is an estimated 46 per cent in parts of Africa, 41 per cent in most of Latin America’s larger cities, and 39 per cent in South and Southeast Asia.
The Semi-Formal Sector and the National Economy

By definition, semi-formal sector businesses, whether in trade or in manufacturing, are all small and medium-sized enterprises (SMEs). In Turkey, approximately half of the estimated labour force of 23 million is engaged in non-farming activities. There are over one million enterprises, employing some 3.6 million people. SMEs account for 99.8 per cent of the enterprises and 82 per cent of the employment. The largest number of the SMEs are in textile, wearing apparel, and leather industry, some 29 per cent of the total, followed by fabricated metal products at 25 per cent, wood products and furniture at 22 per cent, food, beverage, and tobacco at 11 per cent, and others at 13 per cent. Within the SME classification, an overwhelming majority of the enterprises are small. Nevertheless, their contribution to the total value added remains only a fraction of what the large enterprises contribute. According to a report prepared by the Organisation for Economic Cooperation and Development (OECD), in Turkey SMEs account for 99.5 per cent of overall establishments in the manufacturing industry, 61.1 per cent of total employment, and 27.3 per cent of the value added by the manufacturing sector. Data on the SMEs in selected industries, provided in table 4, while slightly different, generally substantiate the OECD’s estimates. For example, the SMEs sampled constitute some 99 per cent of the total number of the industries surveyed but contribute only 44.5 per cent of the value added. Small enterprises, interestingly, account for some 97 per cent of the total, but contribute only 23.5 per cent of the manufacturing value added. As these data demonstrate, therefore, SMEs, within the ranks of which the semi-formal sector is situated, tend to be numerically preponderant, are labour intensive, and the value added created by their activities tend to be significantly less than those of the larger enterprises.

Insofar as the larger relationship between the semi-formal sector and the SMEs is concerned, there are three additional points to consider. On the one hand, as part of a larger liberalisation program and with the encouragement of the OECD, the World Bank, and domestic experts, since the early 1980s the Turkish state has launched a concerted effort to encourage a proliferation of the SMEs. At the same time, although the state has initiated legal and structural measures aimed at expanding the formalisation of the national economy, it does not always require the SMEs it assists to have fully embraced the formal economy. More importantly, practically all state initiatives designed to help the SMEs in their activities are geared toward small and medium industries (SMIs), thereby neglecting traders, whose numbers and extent of commercial activity is considerable.

13 Although it is difficult to get a generally agreed upon definition of what classifies as an SME, KOSGEB, Halkbank, and the Ministry of Industry and Trade define SMEs as enterprises with 150 employees or less, with those having 1–9 employees being micro-enterprises, 10–49 small, and 50–150 medium-sized.
<table>
<thead>
<tr>
<th>Size</th>
<th>Sector % Contribution</th>
<th>31</th>
<th>32</th>
<th>33</th>
<th>34</th>
<th>35</th>
<th>36</th>
<th>37</th>
<th>38</th>
<th>39</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Enterprise</td>
<td>97.6</td>
<td>98.2</td>
<td>99.7</td>
<td>98.1</td>
<td>93.2</td>
<td>96.1</td>
<td>93.2</td>
<td>98.6</td>
<td>99.1</td>
</tr>
<tr>
<td></td>
<td>Employment</td>
<td>43.1</td>
<td>44.0</td>
<td>89.6</td>
<td>46.9</td>
<td>26.3</td>
<td>58.6</td>
<td>17.4</td>
<td>48.9</td>
<td>72.5</td>
</tr>
<tr>
<td></td>
<td>Value-added</td>
<td>27.4</td>
<td>22.0</td>
<td>63.2</td>
<td>17.1</td>
<td>4.2</td>
<td>8.5</td>
<td>7.8</td>
<td>15.1</td>
<td>46.5</td>
</tr>
<tr>
<td></td>
<td>Enterprise</td>
<td>1.4</td>
<td>1.3</td>
<td>0.2</td>
<td>1.3</td>
<td>4.6</td>
<td>2.6</td>
<td>4.3</td>
<td>1.0</td>
<td>0.7</td>
</tr>
<tr>
<td></td>
<td>Employment</td>
<td>12.0</td>
<td>16.9</td>
<td>6.0</td>
<td>16.0</td>
<td>17.8</td>
<td>17.6</td>
<td>11.1</td>
<td>13.6</td>
<td>17.2</td>
</tr>
<tr>
<td></td>
<td>Value-added</td>
<td>27.6</td>
<td>41.0</td>
<td>18.8</td>
<td>22.4</td>
<td>8.8</td>
<td>8.1</td>
<td>12.3</td>
<td>14.5</td>
<td>34.8</td>
</tr>
<tr>
<td></td>
<td>Enterprise</td>
<td>99.0</td>
<td>99.5</td>
<td>99.5</td>
<td>99.4</td>
<td>97.8</td>
<td>98.7</td>
<td>97.5</td>
<td>99.6</td>
<td>99.8</td>
</tr>
<tr>
<td></td>
<td>Employment</td>
<td>55.1</td>
<td>60.9</td>
<td>95.6</td>
<td>62.9</td>
<td>44.1</td>
<td>56.2</td>
<td>28.5</td>
<td>62.5</td>
<td>89.7</td>
</tr>
<tr>
<td></td>
<td>Value-added</td>
<td>55.0</td>
<td>63.0</td>
<td>82.0</td>
<td>39.5</td>
<td>13.0</td>
<td>16.6</td>
<td>20.1</td>
<td>29.6</td>
<td>81.3</td>
</tr>
<tr>
<td></td>
<td>Enterprise</td>
<td>1.0</td>
<td>0.5</td>
<td>0.1</td>
<td>0.6</td>
<td>2.2</td>
<td>1.3</td>
<td>2.5</td>
<td>0.4</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td>Employment</td>
<td>44.9</td>
<td>39.1</td>
<td>4.4</td>
<td>37.1</td>
<td>55.9</td>
<td>43.8</td>
<td>71.5</td>
<td>37.5</td>
<td>10.3</td>
</tr>
<tr>
<td></td>
<td>Value-added</td>
<td>45.0</td>
<td>37.0</td>
<td>18.0</td>
<td>60.5</td>
<td>87.0</td>
<td>83.4</td>
<td>79.9</td>
<td>70.4</td>
<td>18.7</td>
</tr>
<tr>
<td></td>
<td>Enterprise</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Employment</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Value-added</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


31. Manufacturers of food, beverages, and tobacco
32. Textile, wearing, apparel, and leather industries
33. Manufacturers of wood and wood products, including furniture
34. Manufacturers of paper and paper products, printing and publishing
35. Manufacturers of chemicals and chemical, petroleum, coal, rubber, and plastic products
36. Manufacturers of non-metallic mineral products, excluding products of coal and petroleum
37. Basic metal industries
38. Manufacturers of fabricated metal products, machinery and equipment, transport equipment, professional, scientific measuring and controlling equipment
39. Other manufacturing industries
Since the early 1980s, one of the top economic priorities of the state has been to encourage the establishment of new SMEs and to facilitate the increasing professionalisation of their operations. This is part of a larger economic liberalisation programme, designed to remove price controls and reduce subsidies, lessen the role of the public sector in the economy, liberalise foreign trade, reduce tariffs and promote exports, ease capital transfer and exchange controls, and encourage foreign investments. To further the goals of economic liberalisation, the state has paid special attention to the SMEs, especially high-tech start-ups.17 These SMEs are seen as one of the main vehicles bringing about employment, technology transfer, more balanced regional development, individual capital savings, and potential increases in exports.18 Much of the state’s assistance to the SMEs is channelled through KOSGEB, a large, semi-autonomous umbrella organisation with thirty-three service centres throughout the country. At heavily subsidised prices, KOSGEB provides its SME clients with training, laboratory testing and analysis, consultancy services, and programmes aimed at facilitating regional development, exports, and entrepreneurship. The state-owned Halkbank also provides SMEs with low-interest loans, at rates ranging from 20 to 30 per cent as opposed to the 80 to 100 per cent rates common in commercial banks. In fact, some 90 per cent of Halkbank’s total loans are to small producers.19 The SMEs that do not have sufficient credit guarantees for Halkbank loans are automatically referred to the Credit Guarantee Fund (Kredi Garanti Fonu), established in 1991 and guaranteeing SME loans since 1994. Lastly, both the State Planning Organisation and the Ministry of Industry and Commerce have been actively promoting and supervising the establishment of industrial estates for the SMEs, especially in eastern and southeastern regions, assisting them with the construction of infrastructure and the provision of low interest loans and credits.

The state’s active promotion of the SMEs has not necessarily translated into ensuring that their commercial activities are officially recorded. To begin with, although all business establishments are required to register with the Tax Office and to acquire an official operating license from the municipality in which they are located—or from the provincial governor’s office if in rural areas—they do not need to ever renew their licenses or their tax numbers so long as they remain in the same location. Thus the required amount of contact with the state is limited to a business’s start of operation. Even then, as mentioned earlier, unregistered businesses and tax evasion by those that are officially registered are widespread. Voluntary contact with state institutions is even more infrequent. KOSGEB and the Credit Guarantee Fund are relatively new organisations, dating back only to the 1980s and the 1990s respectively, and the other agencies of the state have also only recently started coordinating their policies to help and promote SME activities. Besides the common complaints over insufficient

---

17 On more than one occasion did the state-affiliated experts I met talk of a hope to see a Turkish version of California’s Silicon Valley.
19 Authors’s personal interview with I. Sinan Özdirim and Gül Ayasioglu, both Assistant Experts at the Fund Credits Department, Halkbank. Ankara, 30 July 1999.
budgetary allocations, which I heard from most of the experts I interviewed, there is an awareness that compared to similar programmes in Finland, Japan, and South Korea, Turkey’s current SME policies are in need of major structural modifications.\textsuperscript{20} Given that the state’s SME initiatives are still in a relatively embryonic stage, few of the organisations named above actively try to ensure that the businesses they deal with are formally registered with the appropriate government agency. The point, I was told repeatedly, is to attract the SMEs and to inform them of the services the state is providing to assist them in their commercial endeavours. Requiring the SMEs to first produce proof of official registration would create an additional, unnecessary obstacle in the state agencies’ efforts to draw themselves closer to the SMEs. As the Advisor to the President of KOSGEB told me, other than paying their taxes, most businessmen are unaccustomed to having any dealings with the state. They are thus suspicious of KOSGEB and other similar organisations whose new mandate is to help small and medium business-owners.\textsuperscript{21} At almost every level, therefore, state agencies have gone out of their way to create an atmosphere of trust and procedural ease in their interactions with the SMEs.\textsuperscript{22}

There is also an awareness on the part of these agencies that the SME owners with whom they interact are not always forthcoming or accurate in the information they provide. According to the Director of the Credit Guarantee Fund, for example, 70 per cent of the SMEs that his agency deals with do not record their sales revenues.\textsuperscript{23} Inspectors from the Credit Guarantee Fund, Halkbank, and even the Ministry of Finance who visit SMEs to determine their credit worthiness or their revenues are often faced with inadequate or inaccurate bookkeeping.\textsuperscript{24} At best, they are left with an estimate of an SME’s financial capacities and resources. The State Planning Organisation, which falls under the purview of the Prime Minister’s office and is in charge of coordinating overall national economic policy, also lacks sufficient data on employment in the textile and metal industry sectors, where most employees are unregistered.\textsuperscript{25} There is, therefore, an inherent measure of informality built into the state’s relations with the SMEs.

But the informality permeating state relations with the SMEs goes beyond a general laxity of reporting and recording procedures. All urban business establishments in Turkey are required to acquire an operating license from the municipality in which they are located, or from the provincial governor’s office if they are based in rural areas. They are also required to register with the Tax Office and receive a tax identification number. None of these registration procedures, however, are ever subject to renewal as long as one’s business

\textsuperscript{21} Author’s personal interview with Murat Kepir, Advisor to the President, KOSGEB. Ankara, 29 July 1999.
\textsuperscript{22} As an example, the amount of paperwork an SME owner needs to fill out to become eligible for receiving assistance through KOSGEB’s Export Promotion Institute in order to participate in international business fairs and other foreign trips is remarkably scant, especially when compared to the amount of paperwork required in other endeavours involving a government agency.
\textsuperscript{23} Author’s personal interview with Namik Onder, Director, Credit Guarantee Fund. Ankara, 29 July 1999.
\textsuperscript{24} Author’s personal interview with Ali Asker Demirhan, Head of Department, General Directorate of Revenues, Ministry of Finance. Ankara, 4 August 1999.
address does not change. Essentially, therefore, it is possible for an SME to come into contact with one or two of the agencies of the state at the very start of its operations but never have any more contact with these or with other state institutions. State-SME contacts, even if only of a regulatory type, can potentially be kept to a bare minimum of one. Also, as mentioned earlier, those SMEs that are the recipients of the state’s attention and incentives are overwhelmingly SMIs, manufacturers and producers whose activities are seen as integral to industrial growth and development at both regional and local levels. Although the manufacturing sector accounts for only 18 per cent of total number of the country’s enterprises and 42 per cent of the employment, it receives nearly one hundred per cent of the state’s attention and its incentives. In 1998, fully 50 per cent of Halkbank loans to SMEs went to the manufacturing industry, with another 49 per cent going to services. One hundred per cent of the SMEs benefitting from KOSGEB services and programs are SMIs. The Credit Guarantee Fund also deals overwhelmingly with artisans and small scale manufacturers. The extent to which Turkey’s developmental state has been successful in implementing its economic and industrial policies is open to debate. What is clear is the absence of state attention to and formulated policies toward non-technical, though pervasive, SMEs.

There are two important conclusions to be drawn here. First, the state’s efforts aimed at promoting the commercial activities and interests of the SMIs has not, so far at least, resulted in a greater degree of formalisation of the SMIs’ operations. In fact, although reliable data is not available, the sense is that an overwhelming majority of existing SMIs do not take advantage of the government’s incentive programs. According to Halkbank data, for example, the number of loan requests by SMEs from 1996 to 1998—5,600 in 1996, 8,860 in 1997, and 6,340 in 1998—only represent a fraction of the total estimated number of SMIs that could apply to the bank’s low-interest commercial loans. Thus many SMIs do not come into contact with the state to begin with, and, those which do, manage to retain much of their operational and commercial informality. Secondly, almost completely left out of state promotion and assistance schemes are traders, store owners, and other merchants, whose lack of regular contact with the state gives them even fewer incentives to formalise their operations and commercial activities. The state, as the next section argues, has not formulated a coherent and clear policy toward the semi-formal sector. The specialised and highly focussed nature of the state’s attention to the SMIs, therefore, has not necessarily reduced the numeric size and the economic autonomy and strength of the semi-formal sector compared to either the state or the other two sectors.

29 Author’s personal interview with Önder.
31 Author’s personal interview with Özdirim and Ayasiglo.
Semi-Formal Autonomy

Ultimately, the state’s inattention to the semi-formal sector translates into a measure of autonomy for the semi-formal sector in specific and for the larger society in general. Although there has lately appeared an impressive array of studies that concentrate on the political economy of state-society relations, virtually all focus on the state’s institutional capacities to act autonomously from social actors and to foster economic and industrial development.32 While tremendously insightful in highlighting state capabilities and limitations, most of these recent studies overlook or at best minimise the potential for social actors to develop sources of autonomy on their own and act independent of state institutions. There are notable exceptions, however. Barrington Moore33 and Michael Mann,34 for example, have traced the historical evolution of economic classes—in Mann’s case in painstaking detail—and their role as a main source of social power and influence on the state. That both Moore and Mann happen to be sociologists and not political scientists attests to the continued pervasiveness of neo-statist perspectives within political science.35 This is not to say, of course, that political scientists of the neo-statist persuasion have completely ignored the role and importance of social forces. Rueschemeyer and Evans, for example, who are among the original proponents of ‘bringing the state back in’, concede that ‘a social structure in which the dominant structures are monolithic drastically narrows the room for state autonomy, regardless of the content of those interests’.36 Evans subsequently elaborated on this more fully in his study of developmental states. ‘Corporate coherence’, he argued, gives the state a certain kind of autonomy. But this autonomy is ‘embedded in a concrete set of social ties that binds the state to society and provides institutionalised channels for continued negotiation and renegotiation of goals and policies … Only when embeddedness and autonomy are joined together can a state be called developmental.’37

But even these and other nuanced examinations of state-society relations overlook potential sources of social autonomy other than class empowerment or the deep ethnic and religious cleavages that the state cannot overcome.38 Throughout the Middle East, for example, there is a basic subjective disconnect between even the most populist or culturally-manipulative states (Iran and Saudi

---

Arabia, respectively) and their societies. Even Turkey’s ostensibly democratic system has seen its share of anti-establishmentarian movements in recent years. More germane to the thesis of this paper, however, is the pervasiveness of economically-grounded autonomy among certain segments of society in almost all Middle Eastern countries. As in other parts of the developing world, state-sponsored capitalist growth in the Middle East can have the effect of bringing about and deepening private capital dependence on the state. This dependence has been solidified by pervasive corporatist and patrimonial politics. Waldner, in his study of Syria and Turkey, has introduced the concept of the ‘precocious Keynesian state’, in which state-building took place at the very time when the state also embraced cross-class coalitions involving both urban and rural lower classes and, in Turkey’s case, agrarian elites. But the economic fusion of the state with private capital is far from complete. Reinforcing the larger effects of the ambitious economic liberalisation programmes that a majority of Middle Eastern states have launched in recent years is a pre-existing chasm between the state and a noticeable segment of the merchant classes. These are the merchants who make-up the semi-formal sector.

The semi-formal sector’s quest for autonomy from the state is understandable. Few merchants, after all, whether in the Middle East or elsewhere, eagerly submit to state regulations and to its tax demands without some form of resistance, however mild or subtle. The Turkish semi-formal sector’s penchant for state evasion has already been discussed. Equally important, however, and in some ways even more so, is a tendency on the part of the state itself to basically leave the semi-formals alone. Over the last few decades, the Turkish state has embarked on a number of efforts to forge coalitions with either industrialists, or labour unions, or both. But at no time has it sought to foster a corporatist alliance with the petit bourgeoisie in general or with small businessmen in particular. This has had two consequences. On the one hand, political marginalisation has made the semi-formal sector more receptive to the messages of oppositional, anti-establishmentarian parties such as the former National Salvation Party, the now-banned Refah (Welfare) Party, and the later Fazilet Party (more of which below). On the other hand, state neglect has had the inadvertent consequence of institutional autonomy. This seemingly implicit recognition of the semi-formal sector’s autonomy by the state manifests itself, and is in turn reinforced, in

---

43 Waldner. State Building and Late Development, pp. 50–51.
44 Ibid. p. 70.
several ways, ranging from the provision of a tax code that largely exempts semi-formal merchants to the general adoption of a hands-off attitude in enforcing policies and regulations.

In many ways, the state’s tolerance of the semi-formal sector can be attributed to the same reasons that prompt it to tolerate the informal sector. There is a clear awareness on the part of policymakers that the semi-formal sector is an important and pervasive source of private capital, savings, and employment, and therefore an arena through which some of the economic burden on the state is reduced. The state is reluctant to pursue policies that the semi-formal sector is likely to view as antagonistic. More importantly, so far the state simply has not had the capacity—especially in terms of policy agendas or the necessary manpower—to actively seek the regulation of the semi-formal sector. Such developments as the pursuit of neo-liberal economic policies, active promotion of cross-national trade and globalisation (the new favourite buzzword for many politicians), and, perhaps most importantly, the tenuous electoral base of Turkey’s many competing parliamentary political parties, further complicate state efforts to bring the semi-formal sector under its regulatory purview. Successive shocks such as the 2001 earthquake and the prolonged economic crisis of 2001–2002 have only exacerbated the government’s relative incapacity vis-a-vis the private sector.

In fact, it was not until 1998, that the government introduced a new tax law aimed at instituting a coherent regulatory fiscal policy toward the business sector. In retrospect, it appears that the tax law was doomed from the very beginning. The main impetus behind the tax law is the government’s efforts aimed at enhancing its chances of joining the European Union, which has called for greater economic transparency and liberalisation. The tax law’s aims were to ‘broaden the tax base, correct income distribution, encourage a record economy, bring about economic justice, and fight the black market’. According to the tax law, all businesses are required to prominently display their tax identification certificates and make available all of their records to the Finance Ministry upon request, including records of their bank transactions. But within days of the law’s passage, many businesses simply suspended their operations, many even ceasing to exist on paper, as many entrepreneurs took a wait-and-see attitude to see whether the law was actually implemented. It is estimated that within six months of the law’s passage, US $6 billion was transferred out of the country in order to avoid the heavy tax penalties. This outflow of funds had already begun in 1998, coming on the heels of first the Asian financial crisis of the year before and the Russian default and devaluation of the same year. For

---

45 At last count, there were six political parties represented in the Turkish parliament, and since the early 1990s Turkey has had a number of fractious coalition cabinets. Internal party discipline is not very strong, and many political parties suffer from splinters and leadership challenges. See, Metin Heper. ‘The State, Political Party and Society in Post-1983 Turkey’. Government and Opposition. Vol. 25, (1990), pp. 321–333; and, Ersin Kalaycioglu. ‘Elections and Party Preferences in Turkey: Changes and Continuities in the 1990s’. Comparative Political Studies. Vol. 27, (1994), pp. 402–424.
47 Author’s personal interview with Demirhan.
49 Author’s personal interview with Ersun.
many Turkish entrepreneurs, the tax law represented the last straw, and many simply folded their businesses. Of those enterprises that stayed open and continued operating, only an estimated 20 per cent changed their methods of operation in order to comply with the tax law.\(^{50}\)

The government also appears to have miscalculated the strong public backlash against the bill as represented in a wave of newspaper editorials and television commentaries condemning additional taxes on the already over-taxed middle classes. Although the Finance Ministry had hoped to have full compliance within three years of the law’s passage, by 2001, within only a year pressure by the business sector and the media prompted the Turkish legislature to delay the law’s enforcement by three years.

But even the 1998 law’s provisions regarding small businesses are full of loopholes. For example, there are exemptions for small tradesmen who do not use a motor vehicle for business purposes, do not sell household appliances or clothing, do not have an office in their place of business, and who trade in goods other than grocery items.\(^{51}\) This exempts most businesses in and around the bazaar, including small restaurants and those selling carpets, handicrafts, kitchenware, and other similar products. Even those businesses that are subject to taxation can apply to the municipality for a one-year exemption status through their respective business associations. For those who do have to pay taxes, their rates are assessed by the ‘simple method’, called ‘lump sum taxation’ before 1998, whereby their respective trade association collects all invoices and receipts for their revenues and expenditures and reports the amount of their taxable revenues to the Finance Ministry.\(^{52}\)

The state’s implicit and explicit neglect of the semi-formal sector has implications that are both political as well as economic. Economically, the state has come to adopt what is at best a timid approach to regulating the semi-formal sector, having only recently, in 1998, taken some half-hearted measures to encourage a record economy. As parliamentarians grapple with the effects of an enormously unpopular tax law and introduce amendments designed to mollify their detractors, members of the semi-formal sector, both in manufacturing and especially in trade, continue to conduct their commercial activities as if little has changed. In other words, despite some efforts to the contrary on the part of the state, the institutional and procedural gap between the semi-formal sector and the state has not yet been substantively bridged. This institutional chasm has wider implications for the state’s legitimacy in relation to the larger society in general and, more specifically, to the semi-formal sector as a potentially powerful social actor. Exactly where the semi-formal sector stands vis-a-vis state ideology and legitimacy will be explored more fully below. Suffice it to say at this point that there is little incentive for the semi-formal sector to actively support or oppose the Atatürkian establishment. This ambivalence toward the state translates into a position of benign neglect, not unlike the state’s own general attitude toward the semi-formal sector. The state tolerates the semi-formal sector which it sees as a useful provider of goods and services that the state itself cannot provide. The semi-formal sector, meanwhile, pays superficial lip service to the state (see

\(^{50}\) Author’s personal interview with Demirhan.


\(^{52}\) Author’s personal interview with Demirhan.
below) and pretends to toe the ideological line for fear of a more stringent application of existing business laws or the provision of new ones. What ultimately develops between the state and the semi-formal sector, then, may best be summed up as a mutually beneficial relationship of mutual neglect.

Before looking more closely at the agendas and motivations of the semi-formal sector, it is useful to further contextualise its position and functions by looking at its economic relationship with other sectors. Inter-sectoral relations, or, more specifically, inter-sectoral competition, have inadvertently led to a strengthening of the relative powers of the semi-formal sector as an economic actor, thus somewhat deepening its autonomy from the state. It is to this topic that the next section turns.

**Inter-Sectoral Competition**

The main type of economic interaction that occurs between the semi-formal sector and others is in the form of direct competition over greater access to consumers. As tables 2 and 4 demonstrate, members of the semi-formal sector often produce or sell many of the same goods that are manufactured or sold by the informal or the formal sector. The primary difference is in the cost that each sector charges for the same type of good. As a general rule, the cost of an item manufactured or sold by the formal sector tends to be greater than what it would cost in the semi-formal sector, and that cost is in turn greater than what it would have been in the informal sector. Each layer of formalisation adds to the ‘costs of formalisation’ and, ultimately, adds to the costs involved in the manufacturing or trade of an item. Quite frequently, of course, the lower the cost of an item within the different sectors, the lower its quality is likely to be, as quality control measures and implied merchantability tend to fade away with the lower echelons of the semi-formal and the informal sectors. But ultimately the competition is over who can attract the largest share of the clientele.

Just as membership in each sector and the nature and scope of their commercial activities overlap, so do their prices, and, consequently, their customers. By and large, however, each sector tends to have a niche among one or more of the social classes. The informal sector’s clientele is drawn primarily from among the lumpenproletariat, other members of the urban lower classes, and, at times, the lower middle class and others in the petty bourgeoisie. The same groups also patronise the semi-formal sector, but the preponderance here tends to be with those falling within the middle classes, many of whom can easily afford to buy better quality goods than those available in the informal sector. Equally important are considerations linked to prestige and status, which in turn translate into shopping preferences and purchasing habits. These same dynamics draw the relatively more affluent social groups to the formal sector, where standards and quality, and therefore prices, tend to be higher.

This customer base is by no means fixed, however, as its boundaries tend to expand and contract depending on larger developments within the country’s macro-economy. In 1998–1999, for example, Turkey suffered four major economic shocks. The first blow came in the form of a near-collapse in the Russian economy beginning in 1998, which up until then had been Turkey’s second largest trading partner (after Germany). Overnight, this brought a near-complete
halt to the lucrative ‘suitcase trade’ from which many Russian and Turkish entrepreneurs benefitted. The East Asian economic crisis was a second blow, although judging by the relatively small trade between Turkey and East Asian economies, its effects seem to have been more in giving Turkish officials an excuse for domestic shortcomings than in real shortfalls. A third and seemingly most severe blow came in July 1998 with the passage of the new tax law, the adverse effects of which were discussed earlier. Compounding all these was a dramatic decline in tourism revenues following the arrest of the Kurdish leader Abdullah Ocalan in February 1999 and fears of reprisal attacks by his followers on the part of American and especially European tourists. In 1999, the number of tourists visiting Turkey dropped by slightly more than 20 per cent compared to a year earlier, devastating many businesses in Istanbul and in other resort cities in the south.

Although these economic reversals have had serious negative repercussions for the Turkish economy—as has, no doubt, the August 1999 earthquake—in an ironic way they have expanded the consumer base of the semi-formal sector. Many middle class Turks—especially the civil servants, who bore the brunt of the tax hike—began curtailing their spending and have put off purchases of non-essential, high-ticket items and consumer durables. Automobile sales, for example, declined by nearly 24 per cent in the first half of 1999. A sizeable portion of the middle classes, meanwhile, has been forced to switch their shopping preferences from formal shops and businesses to those in the semi-formal sector, where prices tend to be lower and more affordable. In the second half of 1998, for example, private consumption declined by 2.6 per cent offset only by a 3.3 per cent increase in the first half of the year. Overall, whereas private consumption grew by 8.4 per cent in 1997, it increased by only 0.1 per cent in 1998. The decline has continued into 1999, as represented by a 22 per cent decline in private investments in the first half of the year. Every single formal sector merchant I spoke with complained about sharp losses since 1998. At the same time, there are some goods the informal sector either do not sell at all or sell at very poor quality—e.g., clothing, small electronic appliances, kitchenware, etc. In some ways, therefore, the semi-formal sector has come to acquire a captive clientele, as many former patrons of the formal sector have been forced to hunt for better bargains and lower prices.

This is not to imply, of course, that the semi-formal sector is actually doing well because of adverse economic conditions. It simply maintains that some of the negative effects of the recent economic downturn on the semi-formal sector have been blunted by a search on the part of many middle class Turks for new,

---

53 According to the data made available by Ankara’s Market Research and Promotion Institute, from 1995 to 1997 Turkey’s exports to the non-Middle Eastern countries of Asia averaged slightly more than 5 per cent, compared to approximately 61 per cent with OECD countries. Market Research and Export Promotion Institute. General Outlook at Turkish Economy and Small and Medium Enterprises in Turkey. (Ankara: Market Research and Export Promotion Institute, KOSGEB, 1999), p. 8.


55 According to Ersun, after the passage of the new tax law, the average tax rate for a middle class civil servant is approximately 40 per cent of his or her income. Author’s personal interview with Ersun.

56 State Planning Organisation. Recent Economic Developments, September 1999. p. 4


58 State Planning Organisation. Recent Economic Developments, September 1999. p. 3.
less expensive alternatives. The conclusion to be drawn here is a rather simple one: the primary form of economic interaction that occurs between the semi-formal sector and the others is in the form of competition over lower prices and thus customers, one in which macro-economic developments can have significant yet subtle effects.

Semi-Formal Sector Preferences

As with other corporate groups in society, members of the semi-formal sector tend to have goals and agendas, some of which they may pursue actively but most of which are in the form of subtle preferences. Seldom ever do the pursuit of these agendas manifest themselves in some form of activism in the same manner found in the formal sector. Turkish labour unions, and more recently civil servants, have on occasion engaged in such forms of collective actions as strikes and marches. By nature, groups within the formal sector have greater opportunities for formulating and expressing their corporate agendas. Owners of formal shops or officially-regulated manufacturing plants, for example, have their own business associations, through which they can issue statements to the media, present petitions to local and elected officials, and, perhaps most importantly, have representatives in the boards of directors at such ‘semi-autonomous’ state institutions as KOSGEB, Halkbank, and the Credit Guarantee Fund, among others. But the semi-formal sector has neither the internal cohesion and inter-connectedness nor the institutional means that are necessary for articulating and expressing its corporate agendas, whether through collective action or some type of coordinated campaign, or through organic links with the state. Instead, the semi-formal sector tends to have preferences which it tries to further however way possible without endangering its precarious relationship—of mutual neglect—with the state. Inevitable internal differences notwithstanding, these preferences can broadly be divided into those that are economic, cultural, and political.

The economic and political preferences and agendas of the semi-formal sector have already been largely discussed. To recap, they include attempts to evade the state and its policies on taxation, employment, and other areas which, given the scarcity of capital and other resources, could make the costs of operating a business prohibitively expensive. But avoidance of the state does not necessarily mean remaining completely within the informal sector. Members of the semi-formal sector have actual stores or workshops and, by catering primarily to the lower and the lower middle classes, have a rather clear market niche. Politically, the chasm between the semi-formal sector and the state is not only institutional;

59 Oktar Turel. ‘Ekonomik Buyume, Istihdam ve Sendikalar: Uzun Doneme Bakis.’ (Economic Growth, Employment and labor Unions: A Long-Term View), Middle East Technical University Studies in Development, Vol. 20, Nos. 1–2, (1993), pp. 229–250; Korkut Boratay. ‘State and Class in Turkey: A Study in Capitalist Development’. Review of Radical Political Economics, Vol. 25, No. 1, (1993), pp. 129–141. One of the most recent examples of such collective action occurred in the early weeks of August 1999, when there were a number of street marches and demonstrations by civil servants over an IMF-mandated, government proposal to raise the retirement age from 45 for women and 50 for men to 58 and 60 respectively. In the end, despite the vocal protests, the National Assembly approved the bill, which went into effect as of September 1. For an insightful comparison of state relations with the industrial classes in Turkey and Iran see, Hootan Shambayati. ‘The Rentier State, Interest Groups, and the Paradox of Autonomy: State and Business in Turkey and Iran’, Comparative Politics, Vol. 26, (1994), pp. 307–331.
it is subjective as well. In fact, as discussed more fully below, the sector’s political orientations are often reinforced by its cultural dispositions. There is little in the state that most members of the semi-formal sector finds appealing, either institutionally or ideologically. The state is best avoided as its intentions cannot be trusted, and open political activity can have serious political consequences. At the very least, it can lead to harassment by local officials and their enforcement of business laws and regulations already in effect. Overall, therefore, although the political sympathies of the semi-formal sector tend to lie with groups outside of the secular Atatürkian mainstream, it largely eschews open political activism. Unlike labour unions and the business classes, Turkey’s merchant classes have not had a tradition of political activism anyway. The semi-formal sector is no exception. In fact, the sector’s precarious economic position vis-a-vis the state makes its articulation of coherent political positions and agendas even more problematic.

The political preferences of the semi-formal sector, therefore, may best be summed up as one of ‘oppositional pragmatism’. By and large, the sector does not have the internal structural cohesion—the equivalent of ‘business associations’, for example—to formulate and articulate a coherent stance in relation to various political issues or parties. At the same time, because of its position in relation to the country’s prevailing macro-economic and political forces, it has little reason to support state initiatives and policies, and, in fact, it often tries to avoid them whenever possible. The realities within which the semi-formal sector operates, therefore, bestow it with a rather deep sense of pragmatism, not just economically but also politically and ideologically. But underpinning this pragmatism is also a general distaste for many of the state’s domestic initiatives, especially as they relate to the country’s larger cultural milieu as well as those regarding economics.

At the broadest level, the larger Turkish society is roughly divided along three cultural poles. One pole revolves around the principles of Atatürkian secularism, which ranges from a complete embrace of Europeanness to a more ‘national’ definition of the self. A second pole tends to be less secular and less infatuated with Europeanness and more aware of the country’s religious heritage. Around this pole one finds political activists and parties whose ideological frame of reference decries social inequities and the ‘pillaging of culture’—the likes of former Prime Minister Necmettin Erbakan and his now-banned Refah Party, or its current successor the Fazilet Party. Also found are spiritualists and ‘Islamic moderates’, such as Fethullah Gulen, whose wealth has enabled him to build a university and a series of religious schools throughout the country. A third and final pole falls somewhere in-between the other two, comprised of social groups who identify themselves as members of the middle class and are infatuated neither with Europeanness or its polar opposite. Cultural preferences are seldom quantifiable or easy to measure, especially in the Middle East, where actual


preferences are often concealed for the sake of social or political expedience.\(^{62}\) It is thus difficult to determine with exact precision which cultural pole has more adherents as compared to the others. It does appear, nevertheless, that more Turks, both in the more Westernized quarters of Istanbul and in other parts of the country, fall somewhere within the in-between pole.\(^{63}\)

Members of the semi-formal sector tend to cluster around either one of the two non-European poles. There are two primary reasons for this general cultural orientation. The first has to do with the overall economic and class background of most members of the semi-formal sector, who come, predominantly, from the lower and the lower middle classes. Although cultural commonalities and/or differences often cut across class divisions, in the Middle East traditional norms and values, including religious ones, tend to be more preponderant among the less affluent urban classes.\(^{64}\) Applied to the semi-formal sector, the correlation between more traditional attitudes and lower class standing means that members of the sector are more likely to be supportive of the remnants of the Refah and now the Fazilet parties rather than one of the older, more established, secular parties. Reinforcing this is the overall composition of the semi-formal sector’s clientele—those without significant financial resources—and the location of many semi-formal businesses in the more conservative sections of the cities. The resulting, less secular orientation can be seen by the increasing prevalence in shops and stores of portraits of Sultan Fatih, who has been rediscovered by religiously-oriented Turks as somewhat of a personal counter-balance to the omnipresent Atatürk. This leads to a second, overlapping reason for the semi-formal sector’s cultural dispositions, which has to do with its general posture toward and views of the state. The semi-formal sector not only seeks to avoid and evade the state, it often defines and views itself in implicitly anti-statist terms. The Turkish state, of course, sees its primary societal role as the protector and promoter of the country’s cultural modernity, defined in terms of virulent secularism and Westernism. The economic and political chasms between the state and its affiliated elites on the one side and the semi-formal sector on the other side—the so-called ‘white’ and ‘black’ Turks in Yavuz’s terminology—only accentuate the cultural and valuative divide between them. ‘The Kemalist version of secularism has become the basis of identity for the white Turks. The opposing ideology provided by Islamic networks serve as a foundation of identity for the black Turks.’\(^{65}\)

In sum, the economic, political, and cultural preferences of the semi-formal sector often come into conflict with those of the political establishment. Never-


\(^{63}\) In a thoughtful study, M. Hakan Yavuz divides Turkish society into two poles, ‘the zones of prosperity and zones of conflict. The zones of prosperity are concentrated around the “white Turks”, or governing political elite, who are at the center or state power, while the zones of conflict are centered around the poor and marginalized sectors of the population—“the black Turks”. Religion, as a residual category of the black Turks and Kurds, becomes the basis for the exclusion of the majority of the population by the hegemonic Kemalist discourse of the white Turks. Islam has become the oppositional identity for the excluded sectors of Turkish society’, M. Hakan Yavuz. ‘Cleansing Islam from the Public Sphere’. \textit{Journal of International Affairs}. Vol. 54, No. 1, (Fall 2000), p. 22.


\(^{65}\) M. Hakan Yavuz. ‘Cleansing Islam from the Public Sphere’. P. 26.
theless, the semi-formal sector does not have the institutional capabilities or the necessary resources to articulate its preferences into some sort of coordinated agenda or, even more problematic, some form of political activism. What results instead is a deepening sense of alienation and disengagement form the body politic, a subtle yet profound separation between one of society’s most vibrantly active economic sectors and a culturally and economically activist state whose limited tentacles can only hope to crack the semi-formal sector. The state’s economic and financial avoidance by the semi-formal sector continues unabated, reinforced by political and cultural dynamics of almost equal force.

The semi-formal sector has thus come to adopt a position of ‘oppositional pragmatism’ in relation to the state. It is pragmatic in its larger political and economic relations with the state, avoiding such potentially troublesome activities as petitioning officials, promoting the campaigns of Islamist (Fazilet, banned in 2001) candidates, going on strikes, marching, and the like. At the same time, it is oppositional in that given the right set of opportunities—populist candidates from a party with a slightly anti-establishment tenor, like the Refah or the Fazilet, or a political atmosphere conducive to open criticism of state officials, as was especially the case following the August and November 1999 earthquakes—most members of the semi-formal sector will not hesitate to make their anti-establishment feelings known. Again, they are unlikely to engage in noisy protests or to threaten to strike, the former only hurting their own economic lot and the latter likely to bring heavy police reprisal. But they are likely to quietly support those who stand in implicit opposition to the Western-oriented, virulently secularist, Atatürkian establishment.

Conclusion

Attention to the semi-formal sector—to its pervasiveness and priorities, its relationship with the state and with other economic sectors, and its quest for social, political, and economic autonomy—highlights several important aspects of the larger relationship between state and society. Most fundamentally, the developing state is generally incapable of enforcing regulatory compliance on one of the most economically vibrant segments of society which acts and appears as if it is formal but essentially functions informally. As with most other developing states, the Turkish state sees the informal sector as a useful outlet through which the more marginal urban classes can alleviate some of the pressures of poverty and unemployment. It thus gives tacit approval to the sector’s existence and activities. State policies toward the semi-formal sector are somewhat more ambivalent. On the one hand the state wants to regulate the semi-formal sector through taxation and the provision of employment laws, while on the other hand its pro-SME policies prompt it to take at best a timid approach to the many unregulated traders and manufacturers. The outcome is mutual avoidance and neglect.

Secondly, economic and political autonomy from the state does not necessarily result in activism of one form or another. The semi-formal sector lacks the internal links and the institutional tools through which it could articulate a corporate sense of identity and to put forth economic and/or political agendas. Significantly, members of the formal sector, as represented especially by the
labour union and civil servants, have a far greater ability to mobilise themselves and give voice to their positions and agendas. The best the semi-formal sector can do is to vote for the parties with a loosely-articulated oppositional, anti-establishment, pro-tradition platform—namely the Refah and now the Fazilet.

Future research needs to more fully explore these and other questions related to the semi-formal sector by placing it within a broader comparative perspective. Specifically, it is important to see what commonalities and/or differences the semi-formal sector has across different political and economic settings; whether it is semi-formal out of necessity or out of preference; and what forces, if any, influence its political and voting preferences. For now, the recognition that there is indeed an economic sector that is neither fully formal nor fully informal is an important step in the right direction.