

## Business

# Boom and bust: Quakes define legacy of Turkey's 'Erdonomics'

## Lira crash forces Erdogan to become dependent on rescues from Gulf states

ISTANBUL: The earthquake's frightening rumble came deep in the night. Its ferocity killed thousands of people in their sleep and helped bring down a Turkish government. Fury over the scale of the 1999 disaster fed into broader economic discontent that ultimately propelled Recep Tayyip Erdogan to power.

The Turkish leader now hopes a similar mix of economic despair and anguish over an even deadlier pre-dawn quake in February does not push him out in elections next Sunday.

"They came with an earthquake and they might leave with an earthquake," Ankara University assistant professor Melih Yesilada said of Erdogan's Islamic-rooted party. "The AKP took power after an earthquake. Modernising the infrastructure was one of its main promises from the start. And 20 years later you see this happen," he said.

The 1999 calamity killed more than 17,000 people and put the shoddiness of Turkey's buildings on soul-crushing display.

But it also made a more profound impact. The AKP's election victory in 2002 and the rise of Erdogan a year later heralded a new economic model based on construction that changed the way Turkey worked. The vast country entered a building frenzy that became central to a growth policy dubbed "Erdonomics".

Erdogan and a clique of construction companies that consolidated around his rule ended up erecting more than 10 million housing units over 20 years. "This is an incredible amount," Yesilbag said. "This is more than half of all the EU countries combined over the same period." Some of those houses toppled in the February quake that killed more than 50,000 people. The disaster exposed a flagrant disregard for beefed-up building standards for all to see.

### 'It really worked'

Erdogan and constructors made a natural fit. "The AKP's original base was small businesspeople. Anatolian businesspeople. These people were excellent

in property development, property transactions and trade," said analyst Atilla Yesilada of the Global-Source Partners consulting firm.

"It was only natural that Erdogan, who also had a business background, looked at the immense possibilities of land development in Turkey." This boom accelerated when the global financial crisis of 2007-2008 prompted the United States and Europe to slash lending rates to zero.

It was manna for Turkey. The inflow of billions of dollars of nearly free loans allowed Erdogan's government to reshape city skylines and interconnect provinces with highways and airports.

The building frenzy plugged less educated Turks into the workforce and created a new base of political support. "It really worked for Turkey," Yesilada said. "It boosted wealth and created a new class of wealthy AKP supporters who became urban dwellers, joining the middle and upper class."

### 'Incestuous relationship'

Turkey's economic growth exploded in the first decade of Erdogan's rule. The World Bank estimates that per capita GDP grew from \$3,640 the year the AKP came to power to \$12,507 at its zenith in 2013.

Construction and the various industries connected to it made up nearly a third of that figure. "The construction sector is labor intensive, so it generates employment for the masses in the short term," said urban planning professor Osman Balaban at the Middle East Technical University.

But it did not last. A 2018 crisis in relations with Washington and a gradual rise of interest rates across the West set off a lira slide that made all those dollar loans expensive to pay off.

"The cost of construction became very high," Yesilbag said. This created a quandary that remains unresolved to this day. Contractors continued supporting Erdogan's government in return for new projects whose economic returns did not add up.

"Eventually it turned into a sort of incestuous relationship where the con-



SANLIURFA, Turkey: Syrian women walk inside a bazaar near Balıkligol (or Pool of Abraham, Haliil-Ur Rahman Lake), in the southwest of the city centre of Sanliurfa on April 27, 2023. —AFP

struction companies felt obligated to support Erdogan's re-election campaign," said Yesilada. "Over the years the system had a negative marginal return."

### Broken contract

The parallels between this year's earthquake and economic crisis to those of 1999 are striking. Turkey's annual inflation rate hit 85 percent last year—the highest since 1998. Analysts view it as a self-inflicted wound: Erdogan fought the economic slowdown by cutting the main interest rate far below that of inflation to help producers. The lira crashed and Erdogan became dependent on short-term res-

cues from wealthy Gulf states. Analysts widely agree that Erdogan's original social pact with his voters has been broken.

But they caution that Turkey's sharp polarization among groups with deeply entrenched views may still keep opposition leader Kemal Kilicdaroglu from winning a tight race.

"The damage after the earthquake was huge and it overturned the welfare and development image that Erdogan and his party were imposing," Balaban said. "So, unchecked construction may have an influence in the elections. But I am still not sure if it will be big enough to bring about his fall." —AFP

## Al-Wazzan appointed as head of strategic planning unit at Gulf Bank

KUWAIT: Gulf Bank has appointed Meshal Al-Wazzan as Head of the Strategic Planning and Follow-Up Unit, following the approval from the Central Bank of Kuwait. This comes as part of the Bank's policy to enable national talents to advance and obtain leadership positions, with the aim of contributing towards the growth and prosperity of the Bank's business, and to empower national talents, which is an essential part of Gulf Bank's 2025 strategy.



Meshal Al-Wazzan

Al-Wazzan will be given the responsibility of developing and implementing the Bank's long-term strategy, in addition to working with various sectors to develop their annual plans and handle several strategic projects. It is worth mentioning that Gulf Bank established the unit independently, in line with the recommendations issued by the Central Bank of Kuwait in 2020, in order to ensure that the Kuwaiti banking sector is well equipped and prepared to face any challenges that may be imposed by global economic conditions in the future. The unit provides the Bank with the necessary capabilities and tools to predict any internal and external challenges that may arise as a result of any developments in the global economy.

Meshal Al-Wazzan has 17 years of experience in the banking industry and held many leadership and executive positions within the bank and abroad. He began his career at Wafra Financial Consulting Company in New York, and then worked and progressed in several departments in the Corporate Banking Group at Gulf Bank from 2006 to 2017. Al-Wazzan then resumed to work at the Bank from 2019 to 2022, before being assigned as Acting Head of Strategic Planning Unit. Additionally, Al-Wazzan was the Executive Vice Chairman at the National Fund for Small and Medium Enterprises Development and the Executive Director at the Competition Protection Agency.

Academically, Al-Wazzan holds an MBA from IE Business School in Madrid, and a Bachelor's degree in Business Administration, with a specialization in Information Systems and E-Commerce, from the University of Toledo in Ohio. He also holds several courses in leadership and strategy from Harvard University and University of Chicago Booth School of Business.

## What happens if the US fails to raise its debt ceiling?

WASHINGTON: Time is running short as US policymakers remain at an impasse on lifting the debt ceiling, while the Treasury warns that the country could run out of cash to pay its bills as early as June 1.

With President Joe Biden set to meet Republican House Speaker Kevin McCarthy and other leaders on Tuesday, here is what could happen if Congress does not raise or suspend the debt limit in time:

## Abu Dhabi accounts for 14% of global IPOs in Q1 2023

ABU DHABI: Abu Dhabi has accounted for 14 percent of all initial public offerings worldwide in the first quarter of 2023, an indication of the strength of its capital markets amid a challenging global IPO market, a new study has found. The UAE capital attracted \$3 billion worth of IPO proceeds in the three months ended March, placing it third worldwide, consultancy EY said in the latest edition of its Global IPO Trends report.

## Lulu Hypermarket launches summer fashion promotion

KUWAIT: Lulu Hypermarket Kuwait, one of the leading retail chains in the country, has launched its summer fashion promotion, featuring discounted garments and footwear from top fashion brands. The promotion, which will run from May 6 to May 16, 2023, is available at all Lulu Hypermarket outlets in Kuwait, both online and offline.

The promotion was launched on May 6, 2023, at the Lulu Hypermarket Al-Rai outlet, in the presence of major fashionistas from the town. The launch event also featured a kids' fashion show with a summer theme, with over 100 kids participating. All participants received consolation prizes, while the first, second, and third prize winners received valuable gift prizes.

Lulu Hypermarket Kuwait is proud to partner with own top fashion brands, including Debacker, Eten, Marco Doneitelli, Cortigiani, and Tom Smith, to offer customers a wide range of summer garments and footwear. The promotion offers customers the chance to purchase high-quality fashion items at discounted prices, making it the perfect opportunity to update their summer wardrobe.

The promotion also featured fashionistas who provided customers with trial demos of summer garments, as well as tips and advice on how to style them. Fashion vloggers were also present to explain Lulu Hypermarket's latest trends and fashions to customers, which they shared on their social media platforms. Lulu Hypermarket Kuwait is committed to providing its customers with

### What happens after June 1?

The United States could run out of funds to meet all its financial obligations by June 1, or in the weeks after then, said Treasury Secretary Janet Yellen. If that happened, it is likely the Treasury would follow the contours of a contingency plan it had in 2011, when the country faced a similar situation, said Wendy Edelberg, senior fellow in economic studies at the Brookings Institution.

Under this plan, there would be no default on Treasury securities, and the Treasury would continue to pay interest on those securities as they come due. "As securities mature, Treasury would pay that principal by auctioning new securities for the same amount," thus not increasing the overall stock of debt held by the public, she added.

But other payments—such as to agencies, Social Security beneficiaries, or Medicare providers—would likely be delayed unless Treasury could meet all such obligations due on a given day.

A government shutdown is unlikely, although

The top 10 was dominated by Asian markets, which took six spots. China's Shenzhen and Shanghai took the top two, accounting for 22 percent and 20 percent, respectively, and raising \$4.7 billion and \$4.3 billion. Abu Dhabi was followed by the tech-heavy Nasdaq Composite in New York, attracting \$2.1 billion for 10 percent of the market, making the top four and the only bourse to record double-digit shares. The top 10 was rounded out by Indonesia, Hong Kong, Tokyo, Beijing and Italy's Borsa Italiana and AIM.

The New York Stock Exchange, Germany's Deutsche Borse and Switzerland's SIX were all tied for 10th place. Other exchanges accounted for 12 percent, with a value of about \$2.9 billion. Overall, about \$21.5 billion was raised through 299 IPOs globally in the first quarter of the year. However, these are

down from the year-ago figures: proceeds dropped 61 percent from \$54.6 billion and the number of IPOs declined 8 percent from 326, it said.

The challenging IPO environment comes as investors are prioritizing value over growth, as IPO windows are "fleeting and funding conditions getting tougher" amid persistent macroeconomic and geopolitical uncertainty, Paul Go, EY's global IPO leader, wrote in the report.

The sector is also being exacerbated by stress in the global banking system, which is rooted in troubles in the US and Credit Suisse, he said. "IPO-bound companies need to focus on building sustainable businesses with strong fundamentals to be well-positioned in a volatile environment and meet the challenges and opportunities of going public," Go said. —Agencies



the best possible shopping experience, and the Summer Fashion promotion is a testament to that commitment. Customers can take advantage of

the exciting offers and discounts, both in-store and online, to make the most of the summer fashion season.

federal workers' paychecks could be delayed.

### Are there further consequences?

Even without a debt default, such a situation "would be very disruptive to markets and the economy," said economist Nancy Vanden Houten at Oxford Economics. Moody's Analytics economist Bernard Yaros drew parallels to the 2008 financial crisis, when Congress failed to pass a major bailout plan for banks—the failure sparked a selloff in stock markets that pressured lawmakers.

And interest rates would spike, especially Treasury yields and mortgage rates, Yaros told AFP.

"That would lead to higher borrowing costs for consumers, for corporations," he said. "Long-term interest rates would just be permanently higher, especially Treasury yields, because investors would demand compensation for the risk of another future breach," he added. In the long haul, the value of the dollar could be lower too.

Households or businesses who fail to receive federal

payments owed would likely pull back on near-term spending due to their loss of income, while consumer confidence may worsen, hurting the economy, Yaros said. On Wednesday, the Council of Economic Advisers warned that if the US government stops meeting its financial obligations, resulting economic shocks could cause over eight million job losses this summer and around a six percent drop in GDP.

### When does a debt default occur?

A country is considered in a payment default when it does not meet its financial obligations such as to another country, or to investors who bought its bonds. A default is considered partial when a country fails to repay just a portion of its debt, and a government can declare itself in default by announcing it will not repay its debt.

A ratings agency can also announce a default, after the end of an automatic 30-day grace period following the payment due date. Or, a private borrower can say publicly that a country has not paid up. —AFP