

# WHAT MAKES THE OLD CITY STICKY? RETHINKING THE ECONOMIC GEOGRAPHY OF ISTANBUL'S JEWELLERY SECTOR

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## Abstract

This paper examines the structure of Istanbul's jewellery industry and its locational dynamics. It focuses on the old city jewellery cluster which is one of the oldest and the largest urban industrial districts in the city. This cluster is characterized by large number of small scale artisanal producers relying on outworkers for almost all stages of production. The paper illustrates the vital role of place in jewellery making by examining the extent to which agglomeration within the old city contributes to this sector's creativity, competitiveness and sustainability. The paper also provides some policy implications within the context of various threats and opportunities in the jewellery sector.

## 1. Introduction

Jewellery industry has frequently been regarded in economic geography as a noteworthy exemplar of the complex relations between spatial clustering and economic performance. A classic study of the jewellery quarter in Birmingham provides substantial support for the significance of local linkages between firms and the specialized urban-industrial concentrations (Wise, 1949). Most of Wise's observations were echoed in a series of more recent works. A group of researchers led by Lisa De Propris in Europe, for instance, have investigated the structure of the jewellery industry under the umbrella of the debate on the link between the governance of local production systems and the development of localities (Propriis and Wei, 2007; Propriis and Lazzeretti, 2007; Propriis and Lazzeretti, 2009). Across the Atlantic, we have been witnessing that this sector has been discussed in the context of the social bases of industrial agglomeration (Scott, 2000). Since the re-discovery of clusters as a competitive advantage in the mid 1990s and as an inevitable response to the so-called cultural turn in economic geography in the early 2000s, the jewellery industry has received considerable interest from various disciplines (Carnevali, 2003; Pollard, 2004a; Pollard, 2004b; Wood et.al., 2004; Bagwell, 2008).

The common message from the vast writings in economic geography literature on jewellery industry seems to be that this sector has a craft-based and labour-intensive

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character and as in the cases of Birmingham, London, Los Angeles and Bangkok, the production occurs in dense networks of interfirm linkages underpinned by social and cultural settings (Scott, 2000). Furthermore, producers tend to locate in geographic space in the form of localized urban-industrial districts and these industrial districts are in or close to the centre of most cities.

Nevertheless, there is no single deterministic relationship between particular forms of organization of production and their geographies as Hudson (2000) rightly contends. In this context, more empirical evidence from relatively less explored localities will improve the present structure of jewellery making. Bearing these issues in mind, this paper examines the structure of Istanbul's jewellery industry and its locational dynamics<sup>2</sup>. The paper is structured as follows. Part 2 sets out the theoretical concern of the paper. It provides a review of the literature on the spatial organization of jewellery making. Particular emphasis, here, is placed on clustering. The following part provides a background to the empirical study by focusing on the significance of the jewellery industry to Istanbul's local economy and its changing structure. Part 3 discusses the role of place in jewellery making. It examines the extent to which agglomeration within the old city contributes to this sector's creativity, competitiveness and sustainability. The paper concludes with the main discussion point of this research and provides some policy implications within the context of various threats and opportunities in Istanbul's jewellery sector.

## **2. Spatial organization of jewellery making: lessons from the clustering literature**

Why do jewellery producers cluster in cities and why they do so in inner city areas? This has been, not just in the context of jewellery making of course, perhaps one of the most popular debates in the economic geography literature. Let us begin with the conventional view of agglomeration, which is based on the concept of external economies of scale or scope that flow from firms locating in the same area. This is originally Alfred Marshall's (1890) view of agglomeration and it indicates that by co-location firms reduce their costs with respect to the accessing of specialist skills, supporting industries and knowledge spillovers. Furthermore, firms overcome the limitations of short term contracts by developing personal relations and engaging in active cooperation.

According to Dicken, the subsequent growth and cumulative development of a localized economic cluster tends to be based upon two sets of agglomerative forces, namely traded interdependencies and untraded interdependencies (Dicken, 1998: 11). The former represents the desire of firms performing different but linked functions in

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a production chain to reduce their transaction costs by locating close to each other. The latter represents the less tangible and mainly socio-cultural benefits derived from geographical clustering. These are face-to-face contact, social and cultural interaction and the enhancement of knowledge and innovation. This is the socio-cultural basis of agglomeration as Dicken puts it, enabling firms to maintain trust, establish partnerships, develop rules of behaviour, track innovations and thus provide rapid responses to changes in demand patterns.

Maskell and Lorenzen (2004), however, conceptualise clusters as market organizations, arguing that geographical proximity is derived from firms' efforts to achieve resource efficiency, especially under the conditions of uncertainty. According to this view, if markets, or more precisely customers, suppliers and products are unstable, firms tend to form clusters by engaging in two main types of interaction with each other, both of which can also be considered as distinctive agglomerative forces. The first one is, as Maskell and Lorenzen name it, project relations and it arises if ambiguity in industry prevails and firms regularly need to redefine the specifications of their products. The second one is flexible relations established by firms which frequently need to expand or reduce their output or adjust their product range to provide variety due to high levels of industrial uncertainty (Maskell and Lorenzen, 2004: 995). In both cases geographical proximity between firms sharing the same value chain is a prerequisite for their survival.

Indubitably, the above-said explanations in clustering literature provides a useful theoretical stepping stone for understanding the locational dynamics of jewellery producers. Nevertheless the importance of urban dimension in clustering, more precisely the role of inner city areas, deserves a closer look since geographical concentration of this sector in urban industrial districts is the norm not the exception. In this respect, Porter (1995) identified four key advantages of the inner city. These are strategic location, local market demand, integration with regional clusters and human resources, all of which make the city centre attractive for various economic activities. According to him, inner city areas are surrounded by central business activities, an entertainment zone and well-established logistical infrastructure. These areas are the places in which close linkages are shared between different businesses, the local market can hardly be saturated and residents eager to work for relatively low wages.

Lorenzen and Frederiksen (2008), on the other hand, refer to the concept of urbanization economies to explain the tendency of creative sectors to locate in cities. 'Urbanization economies' denotes the gains acquired by firms from being located in a city. These positive externalities, as Lorenzen and Frederiksen argue, arise from the regional diversity in cities. First of all, cities are the places in which co-ordination between unrelated knowledge bases can take place. In other words, by locating in cities firms producing different products can get the opportunity to establish temporary collaborations and create novel products. Secondly, urban areas are the places of overlapping labour markets. These rich skill pools underlie innovation and competitiveness. Finally, cities accommodate a wide palette of institutions and

infrastructures both of which serve as pipelines to global markets and knowledge networks.

### **3. Jewellery industry in Istanbul: an overview**

For over 500 years Istanbul has been one of the most important centres of Turkish jewellery production. The key trigger to sectoral development in the city was the granting by Byzantine Emperors of tax exemptions to jewellery makers (Akın, 2008). However, it is argued that the placement of Armenian manufacturing jewellers in the Istanbul's old city and the establishment of the Grand Bazaar by Fatih Sultan Mehmed II in the mid 15<sup>th</sup> century were the two most important milestones in the history of jewellery making in Istanbul. Thanks to palace demand for jewellery products and the interest shown by several Ottoman Sultans (e.g. Yavuz Selim and Süleyman the Magnificent) in jewellery making, the sector grew continuously in this period. This laid the foundations for Istanbul, the historical peninsula in particular, to become the primary centre of jewellery production in Anatolia.

At present, the Istanbul sector comprises 79% of manufacturing firms and 85% of all employment in the Turkish jewellery sector. It has been estimated that more than 18,000 people are employed in approximately 5,000 workplaces in Istanbul. Furthermore, the local jewellery sector in Istanbul generates 96% of national jewellery value-added (Köroğlu et.al. 2010). In 2009 the total value of exports realised by 733 Istanbul-based jewellery producers was 931 million dollars, which is around 95% of all jewellery exports in Turkey in that year. It is clear from these figures that Istanbul has indubitably played a key role in the Turkish jewellery sector becoming, in 2008, the world's third largest global producer after India and China, with 183 tons of jewellery made.

Over the past two decades Istanbul's jewellery sector has experienced a structural transformation from small-scale artisan production to mass production (Evren, 2010). The changing conditions of the Turkish jewellery market and intensified competition in the global jewellery sector have encouraged some local producers to standardise their products and use vertical integration strategies in order to realise economies of scale. We have also witnessed the internationalisation of the local jewellery sector; several large scale producers have set up their own retail stores abroad or established liaison offices and offshore production facilities in order to penetrate various international markets such as China, Russia and the United States (Gereffi, 2007).

These developments have led to some important changes in the traditional jewellery value chain. On the one hand, small workshops, which are unable to adapt to changing conditions and therefore cannot compete against large-scale producers, have been severely affected. At present, craftsmen doing relief-work, engraving or enamelling appear to be experiencing the greatest struggle for survival in the market. Hence the number of artisan producers as such has fallen substantially. Conversely, jewellery design, which was predominantly an in-house activity of small workshops, has become a creative profession pursued by specialist designers rather than

craftsmen. The author's previous investigations indicate that there are at least six types of jewellery designer in Istanbul who differ from each other according to the size of production and power of their brands (Evren, 2011).

In some circles within the sector there is growing optimism about the possibility of Istanbul to becoming a world leader in jewellery production. Nonetheless, as far as the overall industry is concerned, the sector still fails to set new global trends and is associated with the production of relatively low value-added designs and products.

#### **4. Unpacking the old city jewellery cluster**

In Istanbul, the jewellery industry is clustered in three different localities within the metropolitan area. One of these clusters is Kuyumcukent, a recently finished complex just outside the Atatürk Airport at the western end of the city. Kuyumcukent is the largest goldsmith complex in Turkey, consisting of more than 650 small and medium-sized jewellery manufacturing workshops as well as several wholesale stores, factory-type workshops and retail stores. The other cluster is in a vast urban area stretched alongside the E-5 Highway on the European part of Istanbul between Kuyumcukent and the old city. There are about 100 large jewellery factories in this cluster, many of which utilise contemporary production technology.

Yet, the sector is predominantly located in the old city. Today the Grand Bazaar, in which the sector was first established and locally clustered, houses around 400 traditional jewellery producers (Köroğlu et al., 2009; Eceral et al., 2009). Taking other artisanal producers located within the immediate environment of the bazaar and the *District of Hans* into consideration, the total number of producers comes to around 2100. Such a figure indicates the significant clustering of small-scale jewellery production in the old city of Istanbul. Istanbul's old city is also the home to a number of jewellery-related institutions, notably İKO (Istanbul Chamber of Jewellery) and a School of Jewellery. These institutions, together with a wide palette of producers operating in different segments of the highly disintegrated value chain, and a great number of supporting cast including importers, wholesalers, retailers, designers and machinery and tool manufacturers comprise a place-specific economic diversification which lead to industrial synergies in Istanbul and a unique manufacturing culture in the old city.

In light of these comments, now we can turn our attention to the logic of agglomeration. What makes the Istanbul's old city sticky for different actors of traditional jewellery making? I will try to answer this question by providing three different views on agglomeration. In doing so, I will draw up-on over 70 in-depth interviews which I have conducted with various goldsmiths and silversmiths, designer-makers, gemstone and bullion dealers and other jewellery-related traders in Istanbul since 2009. Here I quote only three of them.

The first view belongs to a goldsmith who has been working in one of the workshops located just outside the Grand Bazaar since the early 1980s. According to him the

“glue” of the old city is its unique business ecology which allows firms producing similar products to compete and collaborate. On the one hand, co-location provides the opportunity for jewellery producers to watch their competitors closely, and thereby compare their own performances. On the other hand, the old city represents a dynamic market with full of unexpected opportunities:

“About a moth ago, a talkative friend [also a competitor] popped in my workshop. During our chat, he saw one of my latest earrings and wanted to borrow a sample. I was very busy at that time and wanted to get rid of him. So I gave him a pair to leave me alone. Two weeks later he came back and told me that he had signed a fat juicy contract that will make us both rich! Since then I have been working to meet that order day and night. You see? There is trade in downtown’s air. In every corner you run into a friend and you never know when an ordinary greeting can lead to new business opportunities.”

The second view is from a retailer who sells affordable gold-pieces for low-volume markets in the Grand Bazaar. During the interview, he talked about the advantages of locating with the same cluster with small-scale producers which are able to meet their highly fluctuating demands. In this context, the old city jewellery cluster facilitates easier and faster access to specialised inputs making it preferable to other localities in the city.

“Foreign tourists are our main customers. Normally this type of customer has limited time for shopping. This means that you have to be ready to make any kind of modification [changing the size etc.] on your products in accordance with our customers’ preferences. This requires most of us to work in close collaboration with a goldsmith nearby. In cases as such, my assistant takes the product to the goldsmith’s workshop, have it modified within minutes and brings it back. Meanwhile, my mission is to keep my customer in the store as long as possible.”

The third view comes from a charge hand who works for a polishing house. This interview illustrates how production and exchange within the sector are supported by complex and place-specific social settings. Behavioural patterns, norms, accepted rules, conventions and other institutional arrangements constitute the institutional dimension of the old city jewellery cluster. One of the pillars of the social bases of agglomeration is the master-apprentice relationship which requires mutual trust and dedication.

“I was ten years old when I started working in this sector. The Grand Bazaar is a kind of a school you know and we name it the University of Grand Bazaar. Your master does not only teach you the basic skills required in jewellery making but also show you a certain way of life and even how to make practical jokes... I cannot forget my first week. One day my master told me that he would teach a secret technique in polishing and asked me to bring him some minaret shadow! Some minaret shadow? He looked very serious and I was too young to believe this. After all, he was my master, you know, you have to do what he says without questioning. Anyway I walked around the Grand Bazaar for about an hour, even went to the Nuruosmaniye Mosque. I couldn’t ask to anyone of course [laughs].”

These different views indicate territorialization is a significant component in the organization of jewellery making in Istanbul. However, in 1995 the local planning authority took a decision to move the small scale workshops from the city centre to its peripheries (Evren 2012). The main reason for this decision was to reduce the so-called negative environmental effects caused by jewellery producers. Nevertheless, this decision has never been officially implemented partly because of the on-going negotiations between the local planning authority and those traditional manufacturing jewellers who are keen to continue their businesses in the old city. According to my in-depth interviews with these jewellers, the municipality's attitude to the sector's locational preferences is problematic. A silversmith commented:

“The municipality has always put the same argument on the table: jewellery makers pollute the environment! How can this be true? There is silver in our waste and we don't throw it away, we refine it in an environmentally friendly way...Look, we may be small in scale, but we are in great number. Therefore, it is not that easy to clear the old city from jewellery manufacturers. That's why the municipality always wants to show us they keep the whip hand. That's why they don't re-issue our licences... A long time ago, I received a letter from the municipality saying I have to stop production within two weeks. I did nothing about it. Two weeks later we found a seal on our main door. This was a kind of a message you know, because they sealed the door knob, not the lock! Therefore we entered our premises without breaking the seal. Look, after all those years it is still there.”

Undoubtedly, these intimidating tactics have created severe uncertainty whether the jewellery production will continue to cluster in the old city of Istanbul. Most of the producers feel the pressure of decentralization. This situation prevents them to expand their businesses in the cluster. Furthermore, the overall physical quality of the premises allocated for jewellery production is quite low and the buildings are poorly maintained.

##### **5. Some conclusive remarks on the policy implications nexus**

The jewellery production in Istanbul is agglomerated in three different urban industrial districts. The old city cluster is the oldest and the largest one which is characterized by large number of small firms, employing fewer than 10 people. Most of these producers rely on outworkers (gem setters, casters, engravers, polishers etc.) for almost all stages of production.

The case of the old city jewellery cluster indicates a wide palette of agglomerative forces on various actors of jewellery production have been at work. In other words every actor, be it a producer or a retailer, has a unique reason to locate within the old city. Producers, for instance, highlight the importance of a unique business climate in the old city, in which firms operating in the jewellery sector learn from and compete with each other. Retailers, however, emphasize the role of information flow, face-to-face relations and trust in the survival of small scale jewellery business. From this point of view, the information and communication ecology in the old city, where

firms are automatically exposed to news and recommendations, play a vital role in the sector's existence.

With respect to the conflict between the local authority and the manufacturers, we must acknowledge small scale jewellery production in the old city is an asset for Istanbul. Traditional jewellery making is a very important part of the old city's industrial and cultural heritage. The sector does not only contribute to the local economy of Istanbul, but also improves the image of the city and more importantly helps make the city centre more attractive. Furthermore, the sector nurtures a creative and innovative environment in the city. The international success of a small number of entrepreneurial jewellery designers is an example to a younger generation of up-and-coming designers, and encourages them to set up their own businesses. In this context, the old city's future in jewellery production lies in preserving the artisanal manufacturers in their own habitats, improving their working conditions and creating channels through which these small scale producers can access wider markets.

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