Economic institutions and institutional change in Turkey during the neoliberal era

Izak Atiyas

Abstract
In the last three decades, the Turkish economy has become much more open and market-oriented. This paper provides an account of the changes in the underlying economic institutions that have accompanied this transformation. In particular, it assesses whether or not new economic institutions have emerged that constrain the discretionary powers of the executive in the area of economic policy and whether institutional change has resulted in a more rule-based and transparent policy framework. The story that broadly emerges is that the first two decades of the neoliberal era were predominantly a period of increased discretion at the expense of rules. By contrast, after the crisis of 2000-2001 one witnesses a substantial delegation of decision-making power to relatively independent agencies, and the establishment of rules that constrain the discretion of the executive. But this transformation is not uniform across sectors, and there are divergences between the de jure rules and their de facto implementation. Moreover, there are also examples that do not fit the general trend, especially in the case of the construction industry. Finally, recent signs suggest that the government may be having second thoughts about the “excessive” independence of regulatory and policy making bodies.

Keywords: Economic institutions, institutional change, independent regulatory agencies, delegation, rules vs. discretion, transparency.

Izak Atiyas, Faculty of Arts and Social Sciences, Sabanci University, 34956 Orhanlı, Tuzla-Istanbul, Turkey, izak@sabanciuniv.edu.

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Institutions are rules that govern social interactions. These may be self-enforcing norms of behavior or explicit rules enforced by third parties, such as laws and regulations enforced by the state. A very useful distinction is typically drawn up between *de facto* and *de jure* institutions, in which the gap between the two may result from an insufficient enforcement capacity, or from a distribution of political power that is at odds with the intentions of the forces that instituted the formal rules in the first place.

*De jure* economic institutions most often result from deliberate interventions by those who hold the authority and power to establish or change the rules of the game. The rules of the game may entail laws and regulations or arrangements that confer rule/decision-making authority on particular bodies, perhaps accompanied by procedures for decision-making. In such cases, institutional change entails the design and enforcement of new rules so as to change the incentive structure faced by current and future economic actors. However, in what follows, it may often be the case that the *de facto* rules of the game are different from the *de jure* rules. Hence, while a law may invest an agency with rule-making authority, and perhaps also a set of procedures to develop competition in a particular industry, in reality the agency may, through action (or inaction), delay the development of competition. For example, while formal rules may envisage agencies' political independence from ministries, in practice there may be various channels of influence that a ministry can use to shape agency decisions. Moreover, decisions by rule making bodies may have unintended consequences because of uncertainty, unforeseen contingencies, lack of technical capacity or sheer mistakes. Thus, any analysis of institutional change has to pay particular attention not only to formal rules, but also to how those rules are shaped and implemented in reality.

In the last three decades (henceforth called the neoliberal era), Turkey has been transformed from a closed economy subject to widespread state intervention into an economy which is much more integrated into the global economy and in which the market mechanism plays a more prominent role in the allocation of resources. This paper attempts to provide an account of the changes in the underlying economic institu-

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1 The definition provided by North is seminal and seems to be widely accepted: “Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.” Douglass C. North, *Institutions, Institutional Change, and Economic Performance* (New York: Cambridge University Press, 1990).

tions that accompanied or even gave rise to this transformation. In so doing, it focuses on one important and controversial dimension of institutions and institutional change; that is, rules versus discretion. The key questions posed by this paper therefore relate to the following: first, the extent to which the Turkish transformation been accompanied by new institutions that constrain the discretionary powers of the executive in the area of economic policy; second, whether economic policy is applied in a transparent and non-discriminatory way, or rather allows the executive to act in a selective and clientelistic manner—for example, to transfer public resources to particular firms or groups in exchange for political support; and finally, whether or not institutional change has resulted in a more rule-based policy framework.

Within these broader questions, the paper will pay particular attention to two specific themes. The first relates to institutions of monetary and fiscal policy. Fiscal policy is a primary determinant of macroeconomic stability, and it is generally believed that fiscal policy is closely determined by the nature of fiscal institutions. In the area of monetary policy, the institutional feature emphasized in the literature is the independence of the central bank. This is a significant dimension of the rules vs. discretion debate as the degree to which the central bank is independent determines, for example, the ease with which governments can rely on it to finance budget deficits, with obvious negative implications for macroeconomic stability. The second theme concentrates on a specific form of institutional change; namely, the delegation of decision making power to independent regulatory agencies. A large number of regulatory agencies have been established in the last decade, and this paper interrogates the extent to which this trend represents a convergence towards a "regulatory state," a model that is believed to describe the governance structure of high-income capitalist democracies.

The story that broadly emerges from the case of Turkey is that the first two decades of the neoliberal era by and large were a period of increased discretion at the expense of rules. By contrast, in the decade after the crisis of 2000-2001 one witnesses a substantial amount of institu-

4 Giandomenico Majone, Regulating Europe (London: Routledge, 1996). Clearly, these themes cover only a subset of economic institutions that affect the performance of an economy. For example, the list leaves out the judiciary, other institutions of contract enforcement, and other areas of economic policy, such as those that relate to inequality and poverty or the provision of public services like health and education. In all of these areas, whether or not rules are applied in an equal, objective and non-discriminatory manner would be an important ingredient of any general evaluation of the nature of institutional change. While such an evaluation is very important, it is beyond the scope of this paper.
tional change, entailing delegation of decision-making power to relatively independent agencies, and the establishment of rules that constrain the discretion of the executive. Overall, this transition has increased the level of transparency in the policy-making process. But this transformation is not uniform across sectors, and there are divergences in both the de jure rules and their de facto implementation. Moreover, there are also examples that do not fit the general trend, especially in the case of the construction industry, where a key public player has emerged with enormous discretionary power and massive economic resources that can be deployed in a non-transparent manner.

Transition to a more rule-based form of economic governance and delegation of discretionary power to agencies not directly controlled by governments are political acts. Acemoglu and Robinson warn that "...one should not try to understand or manipulate economic institutions without thinking about the political forces that created or sustain them." This warning is relevant to Turkey, particularly as the crisis of 2000-2001, the increased degree of leverage of the World Bank and the IMF immediately afterwards, and Turkey’s engagement with the European Union (EU) have all played important roles in the political decisions behind this transition. In other words, it is not yet clear whether the new institutions reflect a new political equilibrium, or whether the political forces that have shaped the economic institutions of the past still prevail; a situation that may result in further changes in economic institutions or even reversion to more discretionary patterns of policy making. As discussed below, recent indications suggest that the government may be having second thoughts about handing out decision making powers to relatively independent entities.

The paper is organized as follows: The next section discusses the nature of economic institutions in the first two decades of the neo-liberal era. This is followed by an overview of the changes in the institutional landscape after the crisis of 2000-2001. The last section concludes.

The 1980s and 1990s
The 1980s witnessed fundamental changes in Turkey’s economic policy framework. With the late Turgut Özal as Prime Minister, within a matter of a few years Turkey changed from a closed and controlled economy to one where markets played the major role in allocating resources. Barriers to international trade and finance were reduced or altogether re-
moved, domestic markets were liberalized, prices and interest rates were freed, and a host of restrictions on the banking system were eliminated.

Parallel to these changes, there was a significant degree of centralization of policy making authority, and an increased appeal to discretionary instruments. Hence, while on the one hand the scope of state intervention was reduced through liberalization, decision making within the government became more centralized. Özal faced resistance from the traditional economic bureaucracy and the status quo, who were still in favor of state controls over economic activity and were therefore against market-oriented reforms. The way Özal tried to deal with such resistance was to sidestep normal procedures and centralize policy making authority. For example, in one important move, an Undersecretariat of Treasury and Foreign Trade was established under the Prime Ministry. The Treasury was to be responsible for public debt and cash management, leaving the Ministry of Finance with the basic task of revenue collection and merely procedural management of the public budget. Another important instrument was the extensive use of extra budgetary funds (EBFs), which allowed the executive to circumvent parliamentary oversight and allocate public funds for preferred projects. By the early 1990s, the expenditures of the funds had reached about one-third of total expenditures in the consolidated budget.

Özal also saw privatization as an important vehicle for establishing a market-oriented economy. Attempts to privatize state assets were undertaken through half-baked laws and often through decrees with the force of law. This approach, continued by governments through the mid-1990s, attempted to give substantial discretion to the executive—or to specific agencies controlled by it—over the due procedures and methodologies to be followed in the privatization process. In effect, these policies would have allowed the government to pursue privatizations in unaccountable and non-transparent ways. In the end, however, most of these efforts were met with annulments by the Constitutional Court; in most cases on the grounds that the laws or decree-laws effectively transferred

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legislative authority to the executive. In other words, the Constitutional Court demanded that the details of the procedures to be followed during privatizations, the options available regarding privatization methods and the methodologies for asset evaluation be explicitly stated in law, and not left to the discretion of the executive. The constitutional court also worried about foreign ownership of strategic assets and, in the case of the privatization of natural monopolies, of inadequate safeguards and a lack of regulatory frameworks to contain monopolistic behavior. Finally, a more comprehensive privatization law was enacted in 1994, going through further changes in the late 1990s, to clarify tender and valuation methods. By the end of 1990s, a legal basis for a workable privatization policy had been established; and one which was more or less consistent with the constitutional interpretations of the Constitutional Court.

The regulation of the banking system also proved problematic throughout the 1980s and 1990s. A banking law was enacted in 1985 that made the Treasury and the Central Bank responsible for the supervision and the regulation of banks. This created a major conflict of interest since the banking system was the main holder of government debt, creating disincentives for these public institutions to intervene when the finances of the banks deteriorated. Rules governing connected lending and equity holding in affiliates were also deficient and poorly enforced. Moreover, in the regulatory process, too much discretionary power was assigned to the political stratum: critical decisions regarding banks in financial difficulty were left to the minister responsible for the economy and the Council of Ministers, who subsequently “refrained from taking unpleasant decisions.” The excessive amount of political discretion further weakened banking regulation, and an orderly exit of insolvent banks could not therefore be implemented.

The liberalization of the capital account was carried out in a similarly lax regulatory environment, without the endorsement of the Central Bank, and despite warnings that liberalizing international finance under conditions of macroeconomic instability was ill-advised. The banking sector thus expanded rapidly without a supervisory and regulatory framework that would ensure that risk-taking activities would be ade-

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quately monitored and excessive risk taking curtailed. This was particularly relevant given the availability of arbitrage opportunities provided by borrowing in foreign currency and investing these funds in domestic assets, especially government securities with high real rates of interest. Deficiencies in the regulatory infrastructure not only encouraged excessive risk-taking among banks, but also permitted several cases of gross corruption in which banks' assets were siphoned off by bank managers and owners. To summarize, in the area of banking regulation, there was insufficient insulation from the political process, rules were deficient and those that did exist were incorrectly implemented.

The general lack of interest in developing the basic regulatory-legal infrastructure of the market economy was apparent in other areas of economic policy as well. Throughout the 1990s there were attempts to pursue privatizations and private participation in the telecommunication and electricity sectors, though without first establishing a proper regulatory framework to contain the exercise of monopolistic power or ensure the development of a competitive environment. With regards to the energy sector, governments tried to attract private capital through various contractual schemes entailing monopoly rights and government take or pay guarantees. However, several contracts were awarded without any competitive tender procedure at all. Furthermore, many of these contracts were subsequently investigated by the High Court of Accounts and denounced for high costs, possible irregularities and incompatibility with competitive markets. The contingent fiscal liabilities such contracts generated also caused concerns.

In the area of fiscal policy during the 1990s, there was a steady erosion of budgetary institutions that ensured control over public financial resources and the transparency and unity of fiscal expenditures. The political science literature on Turkey has often emphasized the importance of populism and patronage in political competition from the start of multi-party democracy in the 1950s. In terms of fiscal policy, this means that the use of public resources to nurture political support has

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15 These schemes were given different names: "Build, Operate, Transfer," "Build, Operate, Own" and "Transfer of Operating Rights."

16 Izak Atiyas, Elektrik Sektöründe Serbestleşme ve Düzenleyici Reform (İstanbul: TESEV, 2005).

been a central political strategy. This has put pressure on public finances and created a strong tendency towards public deficits. This tendency was contained throughout the Özal period, though this was primarily due to a lack of effective political competition, thanks to the ban imposed by the military government on the leaders of the political parties in existence before the 1980 coup. Once this ban was lifted in 1987, a marked deterioration in public finances followed. Budget deficits widened, and were primarily financed by public borrowing, leading to significant crowding-out because of high real interest rates.

Towards the end of the 1990s, budget "unity" broke down completely. Reflecting the discretionary excesses in the fiscal area, there were various off-budget expenditures, especially through state-owned banks in the form of support for agriculture and small enterprises. The real magnitude of these quasi-fiscal expenditures and their implied burden on the budget and public debt were neither shown at the time in official statistics, nor disclosed to the public. As mentioned above, a large amount of this public debt was held by the banking system. By 2000, the banking system had accumulated significant foreign exchange and interest rate risks which could not be contained by the government due to the deficiencies in the regulatory framework. Excessive risks in the banking system, driven by high public deficits as well as hidden public debt in state banks, eventually triggered the crises of 2000-2001.

Two initiatives during this period deserve separate attention. The first was the establishment of the Capital Markets Board (CMB) in

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19 A major portion of these off-budget expenditures were the so-called duty losses—claims by state banks on the Treasury in exchange for subsidies provided to agriculture and small enterprises. Normally, these claims would be eliminated by giving public banks so-called non-cash government securities, but, towards the end of 1990s, a large stock of unpaid duty losses accumulated. The relevant data for these quasi fiscal expenditures was collected by the IMF and published in IMF reports, but it never appeared in official fiscal statistics of Turkey. Of course, the presence of these off-budget expenditures meant that true budget deficits were underestimated in official budget statistics. See Izak Atiyas et al., Fiscal Adjustment in Turkey: The Role of Quasi-Fiscal Activities and Institutional Reform, Araştırma İnceleme Dizisi No: 22 (TC Hazine Müsteşarlığı, 1999); Caroline van Rijckeghem, Turkish Debt: How We Got There, [mimeograph] (İstanbul: TESEV, 2003).

20 Fatih Özatay et al., "Banking Sector Fragility and Turkey's 2000-01 Financial Crisis," in Brookings Trade Forum 2002, ed. Susan M. Collins and Dani Rodrik (Washington, DC: Brookings Institution Press, 2002). One could say that the emergence of corruption in the financial sector and the disintegration of fiscal institutions were expressions of a more general institutional decay in the country. This was reflected both in the emergence of putatively illegal, para-military gangs committing murders on behalf of the state, and in the Susurluk scandal, which revealed the close relationship between the state and organized crime. See, for example, Emin Özgonül and Fikri Sağlar, Kod Adı Susurluk 'Derin' İlişkiler Bir Kamyon Bin Kaset (İstanbul: Boyut Yayınevi, 2001).
1982 to develop and regulate securities markets in Turkey. The CMB was the first independent regulatory authority (RA), and, as discussed by Atiyas and Ersel,\textsuperscript{21} it was evident that, since it entailed delegation of significant rule-making authority away from the government and ministries, it represented a counter-example to the centralization of policy making authority that characterized most of the 1980s and 1990s. One possible explanation for this move is the rapid and uncontrolled growth of non-bank financial institutions from 1980-81, which subsequently resulted in the “bankers’ crisis” of 1982, and lead to a loss of popular confidence in the non-bank financial system. CMB was seen as necessary to restore the confidence without which capital markets could not develop. The development of capital markets was seen in turn as a necessary component of the economic transformation the country was going through in the post-1980 period.

The second initiative was the enactment of a competition law in 1994 and the establishment of the Competition Authority in 1997. These moves can be explained by Turkey’s commitments under the Customs Union with the EU in 1996. Indeed, in the aftermath of the 2000-2001 crisis, the response to crisis, the path towards EU accession and pressures from international agencies such as the IMF and the World Bank all played major roles in the evolution of Turkish economic institutions.\textsuperscript{22}

The 2000-2001 crisis and its aftermath

The program that was launched after the crisis of 2000-2001 entailed a number of institutional measures that addressed some of the problems described above. In a way, the program adopted the “second generation reforms” proposed by international organizations such as the IMF and the World Bank, but by and large the reforms also coincided with those that Turkey had to pursue as a country in the process of accession to the European Union. Many of these reforms were part of the recovery program launched in May 2001. The design and the execution of the program were initiated by a team led by Kemal Derviş, who was at the time a Vice President at the World Bank, and was called in as Treasury Minister to lead the implementation of the post-crisis economic program.

\textsuperscript{21} Atiyas and Ersel, “The Impact of Financial Reform.”

In a CEPS paper by a group of authors that included Derviṣ,23 the environment prior to the crisis was described as:

a rent-seeking political economic system, with governments promising to distribute more resources than they were able to raise, and with the private sector spending much time and resources trying to capture rents; resources which could have been spent on real production and the development of markets and technology.24

The paper went on to describe the recovery program in the following terms:

The objective of these reforms has been to build the legal and institutional infrastructure of a modern competitive market economy, where transparency reduces the scope for rent-seeking and corruption and where entrepreneurial spirit can be devoted to production, rather than securing privileged access to monopoly positions or state contracts. The reforms also aimed at creating a leaner and more efficient state, while strengthening the regulatory capacity of state institutions and the quality of the social safety net.25

Most of these reforms were subsequently adopted or continued with little change by the Justice and Development Party (AKP) government that came to power after the elections of November 2002.

**Monetary and fiscal policy**
One important step undertaken in the reform program was the introduction of the *de jure* independence of the central bank, through an amendment to law in 2001. The Central Bank was given the primary task of maintaining price stability and was left free to choose its own instruments. Furthermore, the amendments prohibited the Bank from granting advances and extending credit to the Treasury or other public entities. The Central Bank has experienced significant institutional development in the last decade. It has started to publish regular reports on inflation and financial stability and has undertaken other measures that have increased the transparency of its operations. After ensuring that proper preconditions were in place, it eventually moved to Inflation

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23 Marc Airaudo et al., *Stabilising Stabilisation*, EU-Turkey Working Papers No. 7 (Center for European Studies, 2004).
24 Ibid., 21.
25 Ibid., 21-22.
Targeting in 2006. During this period, inflation dropped dramatically to single digits, from crisis peaks of 70-75%. The success of this monetary policy was also aided significantly by a supportive fiscal policy stance in the form of significant non-interest surpluses in the overall budget.  

Another important area of reform was fiscal policy, and initial attempts at reform were undertaken by the Derviş team. For example, as early as 2001, public banks were banned from incurring any duty losses unless they were budgeted in advance. However, it is also clear that successive AKP governments after 2002 saw fiscal control and macroeconomic stability as major political objectives. The Public Financing and Debt Management Law adopted in 2002 subjected all central government borrowing and guarantees to strict rules and imposed reporting requirements on all debts and guarantees. The Public Financial Management and Control Law (PFMCL) was passed in December 2003 and, with some minor exceptions, it extended the coverage of the budget and financial accounts to include all sectors of the government, in line with international standards. Relative to the 1980s and 1990s, these measures meant that expenditures outside the budget were better curtailed. It also meant that the transparency of public expenditures increased, and that the government could exercise tighter control over public expenditure.

The PFCML went even further. It introduced a 3-year budgeting/planning framework, and envisaged a transition to performance budgeting whereby line ministries would publish strategic plans including performance targets. Their budgets were henceforth to be based on performance plans and explicit performance targets. The key idea here was that performance budgeting would provide better incentives and increase the operational efficiency of spending ministries, or, put differently, increase the efficiency of fiscal expenditures. To date, even though public entities have started to publish strategic plans, other important ingredients for the transition to performance budgeting have not yet been developed.

There is general agreement that the outcomes of fiscal policy have been successful; in particular, with respect to the goal of achieving primary surpluses in the general government budget and a reduction of public

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26 For a detailed discussion, see Hasan Ersel and Fatih Özatay, "Inflation Targeting in Turkey" (paper presented at the Workshop: "Monetary Policy and Inflation Targeting," Tunis, Tunisia, October 24-25, 2008).
27 An essential feature of multi-year budgeting frameworks is that they provide spending ceilings for ministries. However, these ceilings have not been met in practice, and significant deviations have occurred.
However, it is not easy to determine to what extent this was the result of an institutional change, or simply the consequence of political determination by the AKP governments. In any case, if one were to summarize institutional changes in finance, one could say that the new institutions increased governmental control over public expenditures and reduced discretion to the extent that non-transparent off-budget expenditures were restricted. Yet, at the same time, reforms aiming to increase overall efficiency in public administration and accountability in public expenditure have not been followed through.

Recently, the Turkish government has resisted pressure by the IMF to consolidate fiscal institutions in two important directions. First, the IMF’s insistence that the government’s tax collection activities be organized by an independent revenue agency has been rejected. In fact, this was reportedly one of the reasons that Turkey did not renew a standby arrangement with the IMF at the peak of the global crisis. Second, plans to adopt more stringent fiscal regulation surfaced in 2009-10, but were subsequently shelved. Specifically, a Draft Law on Fiscal Rule was accepted by the relevant parliamentary commission, but was later withdrawn, apparently because of objections from the line ministries. More generally, the implementation of the new fiscal system has also been problematic, and observers have identified a significant number of slippages.

Privatization
Privatization is another area in which Turkey has undertaken a significant break from the past. By the end of the 1990s, the legal infrastructure for privatization was almost complete. In effect, the executive had been forced to reduce the degree of administrative discretion and establish more transparent and accountable procedures for privatization. In

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30 Although an evaluation of the nature of the fiscal adjustment is beyond the scope of this paper, the absence of public sector reform may also cast doubts on the quality of the fiscal adjustment achieved in the post-crisis era: ibid. Fiscal adjustment has mainly occurred on the revenue side, thanks to economic growth, high privatization revenues and more enforcement in tax collection. This has allowed a more than 50 percent increase in overall expenditure in real terms between 2005-2011: OECD, *OECD Economic Surveys: Turkey 2012* (Paris: OECD, 2012). 22. This revenue increase has been accomplished without any serious tax reform, and the share of indirect taxes in tax revenues continues to be very high.

31 Emin Dedeoğlu, *How Does the Fiscal Rule Work? First The Public Financial Management System Shall Be Adapted to Fiscal Rule*, TEPAV Policy Note (TEPAV, 2010). The Draft Law on Fiscal Rule contained articles that were designed to address some of these problems.

32 This section draws on Atiyas, “Recent Privatization Experience.”
addition, by 2001 legal regulatory frameworks had also been established for the deregulation and privatization of industries hitherto dominated by public monopolies; namely telecommunications and energy. While privatization revenues generated before 2000 had been below $9 billion, more than $30 billion was raised between 2001-2010. Among the privatized assets were large enterprises in industries such as petrochemicals, petroleum refinery, telecommunications, electricity distribution, banking, and alcohol and tobacco products.

Overall, privatizations in Turkey have been revenue-driven. The problem with revenue-driven privatizations is that the governments tend to overlook competition problems, or indeed may permit enterprises to be privatized with monopoly rents in order to maximize privatization revenues. The Competition Authority has been involved in the privatization process, and has been able to influence some privatization transactions, ensuring measures have been taken to reduce the competition problems that may arise once assets are turned over to private ownership. For example, during the privatization of Türk Telekom, the Competition Authority required that the provision of internet services be organized as a separate legal entity, and that the cable TV infrastructure be separated from Türk Telekom. However, international experience suggests that, in industries characterized by natural monopoly segments, such interventions by the Competition Authority have limited influence on market outcomes. The evolution of market structure ultimately depends on the existence and effective implementation of a regulatory framework that protects competition, ensures access to network facilities by new entrants and prevents exclusionary and discriminatory behavior by incumbents.

However, as discussed below, the competition-enhancing aspects of institutional change in industries characterized by competition problems have been weak in Turkey.

Regulatory reform
The purported objective of privatization is to reduce or eliminate the inefficiencies associated with government ownership, political influence and lack of competition. It is well known, however, that whether privatization achieves these objectives or not depends critically on whether the legal and institutional environment addresses market failures. More generally, a well-functioning market economy requires a legal and insti-

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tutional infrastructure that addresses a host of market failures such as externalities, asymmetric information, and inadequate competition.

In most high-income countries—and certainly in the European Union—these regulatory tasks are separated from any operational activities organized under ministries (such as those associated with public enterprises providing public services), and have mostly been transferred to relatively independent regulatory authorities (RAs). Several justifications have been given for this institutional innovation, which has also been diffused to emerging markets in the past three decades. The main logic is one of delegation: by delegating the authority to design and enforce regulations to a relatively independent authority, it is argued, the executive solves a credibility problem. In particular, the delegation of regulatory authority is expected to insulate the regulatory process from political influence—that is, from the possibility that regulatory decisions are affected by clientelistic objectives or by calculations of short-term political gains—and that they will instead be shaped by the objectives of developing competition and encouraging innovation and new investment. In turn, the belief that regulatory decisions will be protected from political influence and guided by well understood principles of efficiency and equity, and that the rules of the game will not be manipulated in a discretionary manner, is expected to encourage the private sector to invest in these industries.

Hence, RAs are given financial autonomy (their budgets often rely on earmarked revenues), and their decisions cannot be overturned by the ministries, but are subject to well-defined appeal mechanisms, often through judicial review.\(^{34}\) In addition, while the executive may play a role in appointments to the decision making bodies of the agencies, these appointments cannot be recalled unless there is some evidence of impropriety. Undoubtedly, should the model work as intended, it would entail significant transfer of decision-making power from the politicians to administrative agencies over which politicians have less control. The desirability of this type of delegation has been contested by some on grounds of causing “democratic deficits.”\(^{35}\) The response to these concerns is that policy itself is still undertaken at the political level, and any excesses by the RAs can always be corrected by changes to the constituting laws.\(^{36}\)

Turkey has seemingly adopted this regulatory model. The Capital Markets Board had already been established in the 1980s. Following the

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\(^{34}\) In the case of Turkey, this review is often undertaken by the Council of State (Danıştay).

\(^{35}\) Democratic deficit is said to arise when unelected officials, not directly accountable to voters, are given substantial policy making authority.

\(^{36}\) Majone, *Regulating Europe.*
crisis of 2000-2001, the economic recovery program included measures to establish a "truly independent" regulator for the banking system, to implement liberalization and privatization in the telecommunications and electricity industries, and to establish RAs in these sectors.

The Banking Regulation and Supervision Agency (BRSA) was established in 1999 as part of an anti-inflationary program that was punctuated by the crisis. However, as mentioned below, the BRSA did not become operational until August 2000, some 8 months after the onset of the anti-inflation program. Even though this was a period when banks had strong incentives for excessive risk-taking due to the arbitrage opportunities mentioned above, the BRSA was significantly delayed in its oversight of the banking system because appointments could not be made due to political haggling. This delay significantly increased the cost of restructuring the banking system after the crisis.

Subsequently, the powers of the BRSA were strengthened as part of the post-crisis recovery program. Generally, it is regarded as one of the strongest RAs, with sufficient regulatory tools to ensure capitalization and the stability of the banking system. In fact, the resilience of the banking system in Turkey during the recent global crisis is often attributed to the high quality of supervision and regulation executed by the BRSA. At the same time, though, there is also some evidence that, while the BRSA has been successful in ensuring financial stability, it has been less concerned with consumer protection and competition. For example, banks have been accused of very high charges in the rapidly expanding credit card market.37

In the telecommunications industry—at the risk of oversimplifying—the story is one of substantial influence by the incumbent fixed line operator. The purported objective of reform in the telecommunications industry was to develop competition. The Telecommunications Authority (now the Information and Communications Technologies Authority, or ICTA) was established in 2001, and Türk Telekom was privatized in 2005. Privatization has resulted in a significant increase in productivity for Türk Telekom: employment was reduced by almost 50 percent after privatization, reflecting the extent of politicization and over-employment under state ownership. However, the company maintains dominance in the broadband internet services market (87 percent market share) as well as in the telephony service markets (85 percent market share). Until very recently, Türk Telekom was protected from competition by high interconnection rates, delays in the licensing of new

37 Bakir and Öniş, "The Regulatory State."
entrants, and delays in the introduction of services that would allow new
entrants greater command over the range of services that could be pro-
vided over the fixed line network.

To most observers, these outcomes reflect Türk Telekom’s influence
on the Ministry of Transport and, by consequence, on the RA. While
the telecommunications laws contained standard measures that have en-
sured ICTA’s de jure independence, the RA’s de facto independence was
significantly curtailed. By contrast, the ICTA’s stance in the mobile
industry has been much more pro-competition; reflected in intercon-
nection charges that are among the lowest in Europe. This is perhaps
explained by the fact that Türk Telekom’s subsidiary is a new entrant in
the mobile telecommunications markets. Thus, at the very least, Türk
Telekom has had no reason to resist a more pro-competition stance in
the mobile markets. The interesting point here is that, if the ICTA’s
more aggressive pursuit of competition in the mobile industry can in-
deed be explained by political economic factors, this stance was carried
out through the established rules of the game (i.e., lower interconnec-
tion rates) rather than by more coarse and discretionary interventions.
This suggests that perhaps the new rules did have some bite after all.

The international—and especially European—experience suggests
that deregulation in the electricity industry is also susceptible to anti-
competitive and exclusionary behavior by vertically integrated, incum-
bent enterprises. In Turkey, the story in the electricity industry is rather
different. The restructuring process started with the adoption of the
Electricity Market Law in 2001, which envisaged the unbundling of dis-
tribution, transmission and generation assets, the establishment of non-
discriminatory access to the transmission and distribution networks and
the formation of the Energy Market Regulatory Authority (EMRA); the RA
responsible for electricity, natural gas and oil industries.

Turkey thus adopted a highly competitive and decentralized model
for restructuring its electricity industry, inspired by the New Electricity
Trading Arrangements (NETA) of the UK. The restructuring process
has been driven by privatization. Privatizations themselves have been
structured so as to generate maximum possible revenues for the gov-
ernment. As a result, competition and consumer welfare have taken a
secondary role, since there is a danger that high prices paid during priva-
tizations will eventually reflect themselves in higher consumer prices.

38 Izak Atiyas and Pinar Dogan, “Class half empty? Politics and institutions in the liberalization of the
fixed line telecommunications industry in Turkey,” in Understanding the Process of Economic Change in
39 Ibid.
A universal problem with restructuring in the electricity industry has to do with the fact that competitive electricity markets are much more complex than markets in other industries. There are strong externalities, and problems arising in one segment of the market can quickly afflict other segments. The existence of reserve capacity is crucial, but reserve capacity itself has public good characteristics, and may not be forthcoming in a completely liberalized market system. Resolving these problems may require the design and creation of specific markets (e.g., capacity markets) that are unlikely to emerge by themselves and require specific public engagement and intervention. In all countries that have deregulated their electricity industries, being consistent in market design and ensuring that market rules both encourage investment and deliver product innovation and low prices for consumers have turned out to be formidable tasks.

Indeed, in the case of Turkey, inconsistency between government pricing policies and market design resulted in a dearth of private investment until 2006; a problem which was only resolved when the government finally launched a “balancing market” that started to act as a wholesale spot market. Even now, the evolution of the market has diverged significantly from the model initially envisaged in the Energy Market Law; while the prescribed model was one of bilateral contracts supported by a balancing mechanism, in the current market structure, truly private bilateral contracts constitute only a small fraction of electricity consumed. In addition, 11 years after the launch of the restructuring program, truly competitive power producers make up only 25 percent of the capacity in generation.

Turkey has recently concluded an agreement with the Russian Federation to build a nuclear station at Akkuyu in the Mersin Province. It is well known that building and operating nuclear power stations entail a multitude of risks. There is a sizable literature discussing whether nuclear plants are financially viable without any government subsidies

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40 Private providers faced stiff competition from retail prices, which were regulated and repressed by the government for apparently political reasons. This meant that private generators, whose costs had increased due to rising natural gas prices, were not able to sell their electricity without making losses, even though demand was increasing rapidly and there was clearly positive demand for their capacity. The establishment of a wholesale market allowed the emergence of prices that reflected the interplay between supply and demand, and allowed private generators to sell electricity without making losses. For a detailed analysis, see Izak Atiyas et al., Reforming Turkish Energy Markets (New York: Springer, 2012), Chapter 2.

41 Ibid.

and what type of financing models can generate an effective distribution of these risks. The Akkuyu agreement is interesting, in that most of the financial risks are shifted to the supplier company, with minimum support from the Turkish government. The problem is the strong likelihood that, under this kind of a risk-sharing arrangement, the company will have strong incentives to cut costs through, among other things, watering down safety and security measures. The implication is that the risk-sharing mechanism adopted in the Akkuyu model puts additional burdens on Turkey’s regulatory apparatus, which is especially weak in the area of nuclear plants. It seems that the policy makers have not taken sufficient notice of what the risk sharing properties of the agreements imply.

In general, these developments in the electricity markets reveal an important gap in the making of good public policy which cannot simply be filled by greater reliance on market forces. This gap is aggravated by lack of cohesion, coordination and consistency between the Energy Ministry and the EMRA. The problem will likely be compounded when the privatization of distribution and generation assets is completed. Public policy and regulation will need to be much more effective then, having to face formidable actors in pursuit of high prices and profits. This would be a radically different situation from the one we have now, especially if we recall that half of the current supply of electricity is generated by a state owned company, which is politically motivated to keep electricity prices low. 43 It should thus be clear that the creation of an EU-style regulatory framework does not obviate the necessity for a comprehensive and consistent overall energy policy.

However, these shortcomings should not overshadow an important achievement of the new rules: since 2008, a significant amount of new private generation capacity has been added to the system. This has been accomplished on a competitive basis, without resort to any special contractual arrangements that would hinder competition and confer special benefits on private investors in the form of purchase guarantees, as was typical in the 1990s. 44 Moreover, even though the government has used its power to influence the determination of regulated retail prices, the establishment of a wholesale market—in which prices are determined without any intervention by the government or the regulatory agency—acts as a restraint on the government’s ability to use its discretionary

43 It is well known that problems of unilateral exercise of monopoly power are much more severe in wholesale electricity markets, relative to other industries. This has led many countries to seek additional measures beyond competition law to deal with problems of market power and institute special mechanisms for monitoring and control. Such measures have not yet been discussed in Turkey.
44 Atiyas et al., Reforming Turkish Energy Markets.
power to influence market outcomes for clientelistic objectives. Yet it remains to be seen whether this model will prove sustainable in the face of a rapid increase in energy demand in the future.

Another important component of regulatory reform of industries such as telecommunications and electricity in the EU is to ensure universal service; that is, to ensure that poor households have access to public services at reasonable tariffs. However, in Turkey, the distributional objectives of regulatory reform have been largely overlooked. A universal service law for the telecommunications industry exists, but is not implemented properly. In energy, there are no safeguards to prevent energy poverty. In fact, it is expected that the development of the market mechanism is likely to increase the cost of energy for poor households.

Nevertheless, it should be emphasized that, relative to other public administrative bodies, RAs function in a more transparent manner. Draft regulations are often put on agency web sites for public consultation. The decisions of the governing boards of the RAs are routinely published in an official gazette as well as on RA websites. Again, there are differences between agencies in these respects, and there are many additional steps that could be taken to further increase transparency. For example, comments received during public consultations are not published. An important measure that would enhance transparency and accountability would be to require the governing boards of the RAs to provide reasons and justifications for their decisions. Only a small number of RAs are required to do so.

**Competition law and policy**

One area where the delegation model has worked relatively well is in competition policy. Competition law in Turkey is inspired by the European Union model. Overall, the Competition Authority is recognized to be a professionally competent and relatively independent agency, not only by domestic stakeholders, but by international peers as well.45 The decisions of the Competition Board are required to be publicly available and published with justifications. This increases the transparency and accountability of the agency, and may also have created an added source of discipline, improving its performance. It may also have been easier for the board to maintain its independence as it functions across many industries, and does not deal with a specific enterprise or groups of enterprises; a situation that might have facilitated influence or capture.46

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46 One should point out that most observers single out another important factor that may help explain the degree of professionalism of the CA: the high quality of the bureaucrats who were initially ap-
These successes, though, do not mean that there are no shortcomings: there are instances of favoritism towards state owned enterprises, inconsistencies in decisions between cases or over time, insufficient or sometimes deficient economic analysis, excessive formalism, and the like. Nevertheless, such shortcomings do not change the basic fact that overall the authority’s decisions are seen to be free of systematic bias and to meet a respectable level of quality.

Discretion in the Extreme: The housing market and the case of TOKİ
All of the instances examined above have entailed the transfer of some rule making authority to a relatively autonomous entity, as well as a reduction in the discretionary powers of the government in favor of more rule-oriented approaches. However, the case of the Housing Development Administration (TOKİ) represents an opposite trend. TOKİ is unique in many respects. It is directly attached to the Prime Ministry. It builds public housing jointly with private contractors on public land, to which it has free access. It has been given powers to develop plans on lands over which it has control. It can develop urban regeneration projects in cooperation with local government and has the authority to evaluate and price the land that is to be purchased. TOKİ is also given a free hand in its financial transactions, and is exempt from the procurement rules which usually apply to public entities (specified in the Public Procurement Act). While this exemption was originally limited to procurement for public housing projects, in 2011 it was extended to all construction undertaken by TOKİ. TOKİ was originally under the scope of the PFMCL, but was exempted in 2005, and is thus no longer bound by budgetary rules either. According to Balaban, the vast discretionary authority given to TOKİ is part of a wider set of legal arrangements which are:

intended to guarantee a fast-track planning process for sectoral investments like housing and tourism investments by transferring the authority concerning urban planning from local authorities to sectoral ministries or administrations at the national level.  

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The OECD (2010) reports that the value of TOKİ's assets have reached about 2 percent of GDP, yet adequate financial information about the activities of TOKİ is impossible to find because it does not publish its income statements or balance sheets. Furthermore, it is audited by the High Audit Board (Yüksek Denetleme Kurulu), which is attached to the Prime Ministry, implying that the financial transactions and activities of TOKİ are not being audited by an independent body. In effect, then, TOKİ is both a policy maker, a regulator and a service provider; a situation that is contrary to the basic philosophy which has led to the development of RAs in the last three decades. In effect, TOKİ has been given tremendous power to appropriate and redistribute urban land rent. Moreover, it can do this in a non-transparent manner.

Second thoughts?
The literature on Turkey has emphasized that RAs have fitted uneasily into the country's overly centralized governance structure, and have been viewed with suspicion by both politicians and the bureaucracy. Recently there have been signs that the AKP government may be having second thoughts about the "excessive" independence of regulatory and policy making bodies. In August 2011, the government passed a new law, which authorized line ministries to "inspect" the activities of the agencies associated with them. This clause has been interpreted by the media and many independent observers as another way of weakening the financial and administrative independence of RAs. This may however be an exaggeration because the clause does not give ministries the authority to change or overturn RAs' decisions, or to intervene in their management. However, it does give ministries the authority to intimidate or exert moral suasion on the agencies by subjecting them to inspections—though one would expect that such inspections would need to concentrate primarily on procedural and not substantial issues. At the same time, the desire for the capacity to influence the RAs may reflect the government's general uneasiness with the act of delegation, and should be interpreted as a threat to the RAs not to deviate too far from the preferences expressed at the political level.

50 Most RAs are audited by the High Court of Accounts (Sayıstat), which carries out audits on behalf of the parliament. TOKİ was removed from Sayıstat's audit in 2005.
51 For a recent review, see İsik Özel, "The Politics of De-delegation: Regulatory (In)dependence in Turkey," Regulation & Governance 6, no. 1 (2012).
More evidence of the government’s second thoughts comes from the area of financial stability or macro-prudential regulation. In the aftermath of the crisis of 2008-2009, the government was in search of a mechanism to monitor and respond to the risk of macro-financial instability.\textsuperscript{52} Instead of a model that would ensure some degree of political independence, the government chose to establish a Financial Stability Committee, chaired by the minister responsible for the Treasury. As emphasized by Ersel, this is a solution that puts government in complete control of the decision making process, in contrast to solutions found in the US and Europe, which entail independence from it.\textsuperscript{53}

Conclusion

In Turkey over the last three decades, markets and private actors have acquired a much larger say in the allocation of resources. This paper has argued that the economic institutions underlying this transition have evolved through two main stages. Until the crisis of 2000-2001, economic policy making was centralized and the discretionary powers of the government increased. Furthermore, the governments of this period did not see establishing a legal and regulatory infrastructure to address the market failures of a capitalist economy as a priority. In the post-crisis period, there has been a move towards a more rule-based form of governance. Many of the new rules of the game that reduce the discretionary powers of the government were established in the immediate aftermath of the crisis. The AKP governments that came to power after 2002 have stuck to these new rules, and even added new ones in some areas (especially fiscal policy). Yet this trend has not been uniform across markets and policy areas, and in some instances there have been significant divergences between \textit{de jure} and \textit{de facto} institutions. In the construction industry, the trend has been in the opposite direction. The Housing Development Administration attached to the Prime Ministry has been given wide decision-making powers, enormous resources and discretion to spend them in a non-transparent manner.

\textsuperscript{52} A macro-financial risk may arise, for example, if there is excessive credit growth in the banking system. This is generally seen as an area that lies outside of the traditional scope of central banks, which typically focus on price stability, as well as of the banking regulators, which typically focus on risks at the level of individual banks.

\textsuperscript{53} Hasan Ersel, “Finansal İstikrarn Sağlanması İçin Nasıl Bir Mekanizma Tasarlanabilir?,” \textit{İktisat İşletme ve Finans} 27, no. 315 (2012). In another rather striking example, an AKP parliamentarian was quoted as complaining about multiple authorities in the energy industry, and suggesting that EMRA should be “connected” to the Ministry of Energy: \textit{Dünya}, January 24, 2012. For additional indications of this tendency towards “de-delegation,” see Ozel, “The Politics of De-delegation: Regulatory (in)dependence in Turkey.”
It is clear that Turkey has been successful in maintaining fiscal discipline in the post-crisis period, especially relative to the late 1980s and 1990s. It can also be said that there have been a number of important institutional changes that were designed to improve fiscal control. It is unclear, however, whether the success on the fiscal front was due to these institutional changes, or was simply a consequence of political preferences or will. This question can be restated in the following way: are the effected institutional changes robust enough to constrain future governments, or even an all powerful AKP government that showed less preference for fiscal restraint? If political competition increases in the future, or if checks-and-balances weaken in the system, would these changes prevent future governments from using public resources to create a competitive advantage in the struggle for political power? My expectation is that the institutional changes implemented so far would not have sufficient bite. The current regime contains critical gaps, and has not yet been fully and consistently implemented.

Fiscal control requires coordination between a multitude of players, and if pressure from political competition increases, centrifugal forces may become quite strong. The Draft Law on Fiscal Rule mentioned above was one attempt to fill some of the gaps in the current structure, but so far the government has seemed unenthusiastic about carrying it through, which may indicate a desire to retain discretion, especially in the spending ministries. Hence, in fiscal policy, political dynamics and preferences will likely continue to shape policy choices and outcomes, and the impact of institutional constraints will thus remain weak.

In Competition Law, a well-designed *de jure* system has been reinforced by years of more or less well managed implementation, and a culture of professionalism has emerged. The CA is already immersed in an international network of professional peers, and the domestic legal community is also quite sophisticated. The fact that the decisions of the Competition Authority are subject to judicial review also helps to insulate competition law enforcement from political or private sector influence.

Regarding the new institutions in the area of network industries, the assessment is mixed. In the telecommunications sector, the independence of the RA was impaired from the very beginning, and the market outcomes testify to the fact that the regulatory framework has not been effectively implemented. In electricity, the quality and intensity of policy design and regulatory intervention has been insufficient to match the complexities of the restructuring process underway. On the other hand, the new rules appear to have achieved some degree of success in attracting new generation capacity on a competitive basis.
Overall, then, this overview of institutional change in Turkey provides a mixed picture: even though there has been significant movement in the direction of a “regulatory state”—a model used to describe economic institutions observed in most high-income capitalist democracies—this movement is by no means uniform, and the process is far from complete. Recent indications also suggest that the government may be having second thoughts, reminding us of Acemoglu and Robinson’s warnings about the political determinants of economic institutions. As indicated in the introduction, the changes in economic institutions occurring over the last decade were predominantly a result of economic crisis on the one hand, and international influences on the other. It remains to be seen, therefore, whether these changes will survive the complex political dynamics of the country.

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Ziya Öniş

Department of International Relations, Koç University, Rumelifeneri Yolu, Sarıyer, Istanbul, Turkey

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The Triumph of Conservative Globalism: The Political Economy of the AKP Era

ZIYA ÖNIŞ
Department of International Relations, Koç University, Rumelifeneri Yolu, Sarıyer, Istanbul, Turkey

ABSTRACT The Adalet ve Kalkınma Partisi (AKP), following its third successive electoral victory appears to be far more entrenched than its earlier center-right counterparts in Turkish politics. This article highlights the key political economy fundamentals that have rendered the AKP experience unique within the Turkish context. Accordingly, strong economic performance in context of “regulatory neo-liberalism” helped by a favorable global liquidity environment in the early parts of the decade was a key contributor to the party’s continued electoral success. The party also made effective use of a variety of formal and informal redistributive mechanisms, which is referred as “controlled neo-populism” in this article, to enlarge its electoral coalition. Furthermore, the fact that Turkey did not suffer a typical old-style economic crisis in the context of the global turmoil of 2008–2009 was important for the AKP’s electoral fortunes. Concomitantly, the AKP government was quite effective in managing the global financial crisis politically and it took advantage of its assertive “new” foreign policy approach. Finally, this study argues that the AKP also benefited from the fragmented opposition.

Introduction

Center-right, conservative parties have dominated Turkish politics in the post-1950 era. Judged by the standards of earlier center-right parties, however, the case of the Justice and Development Party (AKP, Adalet ve Kalkınma Partisi) appears to be rather unique. The AKP has managed to win three successive general elections in 2002, 2007 and 2011, increasing its share of the vote on each occasion. The AKP’s victory was decisive in the latest election of June 2011, with the party claiming 50 percent of the vote compared to its share of 34 percent in November 2002 and 47 percent in July 2007. This is clearly an exceptional performance by any standard and clearly contradicts any notion of governmental fatigue, which leads to a decline in the electoral performance of political parties after many years in office. The only party in the Turkish context, which comes close to replicating the performance of the
AKP during the last decade, is the Democratic Party (DP, Demokrat Parti) of the 1950s under the premiership of Adnan Menderes. The DP also managed to win three successive general elections in 1950, 1954 and 1957. However, its popularity was clearly on decline during the course of the decade. By the late 1950s, the DP’s electoral hegemony was increasingly challenged by rising economic and political instability. The economic crisis of the late 1950s and the military intervention of 1960 marked the end of the DP era. In the current context, the AKP’s electoral hegemony appears to be firmly entrenched, as argued, among others, by Güneş Tezcür in this volume. The possibility of an economic crisis in the foreseeable future, even though there exists elements of fragility in Turkey’s recent growth strategy, looks rather remote. Furthermore, the striking decline in the power of the military and the changing context of civil–military relations in the post-2007 period rules out the possibility of a direct military challenge to the AKP’s electoral hegemony, reminiscent of the DP experience in 1960.

Although key segments of the Turkish population, such as middle-class secularists, ultra-nationalists and the Kurds, remain deeply suspicious of the AKP’s policies, the opposition continues to be highly fragmented. None of the opposition parties are close to mounting a serious challenge to undermine the AKP’s electoral dominance. An examination of the electoral results also points toward an interesting pattern. First, the party increased its popularity in its traditional stronghold in central and eastern Anatolia. Second, the party’s dominance at the national level has increased over time with the striking outcome that there are few electoral districts in the country where the party has failed to emerge as a clear winner (Figures 1 and 2). Based on this evidence, Turkey might be moving in the direction of a one-party dominant political system in the style of the Liberal Democrats in

![Figure 1. AKP’s Landslide Electoral Victory.](http://www.ysk.gov.tr/ysk/index.html)
While long-term prediction is a risky business, at least one can argue that the AKP is likely to remain as the dominant force in Turkish politics over the course of the next decade. Turning Şerif Mardin’s “center-periphery” characterization of Turkish politics on its head, the AKP has moved from the periphery to establish itself as the hegemonic force at the center of Turkish politics.

What makes the AKP experience unique by the standards of earlier center-right parties in the Turkish context? How could the durability of the AKP at a time when the world economic conditions have drastically changed in the aftermath of 2008 be explained? This article explains the extraordinary electoral success and resilience of the AKP from a political economy perspective. In brief, the following constitute the key elements of the explanatory framework. Strong economic performance in the context of “regulatory neo-liberalism” helped by a favorable global liquidity environment in the early parts of the decade was a key contributor to the party’s continued electoral success. The party also made effective use of a variety of formal and informal redistributive mechanisms not only to sustain, but also to enlarge its electoral coalition. The ability to use redistributive politics as a tool for electoral support was no doubt facilitated by an environment of strong economic growth and an international environment conducive to the practice of “social neo-liberalism.” In this context, the AKP style “controlled populism” made a sharp contrast with the policy of center-right parties of the previous vintages whose policies were typically accompanied by boom-bust cycles, economic crises and the inevitable encounter with the International Monetary Fund (IMF). The fact that Turkey did not suffer a typical old-style economic crisis in the context of the global turmoil of 2008–2009 was important for the AKP’s electoral fortunes. The AKP government was also effective in managing the global financial crisis politically. Additionally, the AKP benefited from its assertive, new foreign policy approach which highlighted
Turkey’s growing regional and global role and paid significant dividends in the realm of domestic politics. The AKP also was able to take advantage of fragmented opposition. Indeed, none of the principal opposition parties was able to build the kind of broad-based, cross-class electoral coalitions to be able to mount any kind serious challenge to the AKP’s electoral supremacy. The AKP, in spite of its continued electoral success, however, faces major challenges notably in the realms of democratic consolidation and achieving sustained and equitable economic growth. One should not rule out the possibility that the ability of the “conservative globalists” to deal effectively with these challenges may lead to the erosion of the party’s popularity, at least from a medium- to long-term perspective.

The Economic Foundations of the AKP’s Electoral Success

The durability of the AKP’s electoral success is firmly rooted in the strong economic performance of the Turkish economy in the post-2001 period. The improvement in economic performance was particularly striking in comparison with the second decade of the neo-liberal era, namely the 1990s (Figure 3). The 1990s was associated with low and volatile rates of economic growth in the midst of chronic macroeconomic instability. Indeed, the Turkish economy experienced three crises within the space of less than a decade, in 1994, 2000 and 2001. This last crisis was the deepest one in Turkey during the neo-liberal era. It was costly in terms of collapse of output, growth in unemployment and its negative distributional consequences. Yet, the crisis also paved the way for a new wave of regulatory reforms under the strong pressure of external actors such as the IMF and the European Union (EU). The starting point of the new wave of these reforms was the coalition government of the 1999–2002 period, which initially had shown a certain reluctance to

![Figure 3. Inflation vs. Growth in Turkey. Source: IMF, World Economic Outlook Database, September 2011.](image)
implement reforms. The 2001 crisis proved to be a decisive turning point, which clearly changed the attitude of the coalition government in favor of reform. The “strong economy” program implemented in 2001 under the leadership of Kemal Derviş, the newly appointed Minister of State responsible for the economy, was a major step for Turkey’s encounter with “regulatory neo-liberalism” in the context of the emerging post-Washington consensus. Important steps were taken in this context to establish fiscal and monetary discipline coupled with strong regulatory measures aimed toward the banking and the financial system.

In retrospect, the major economic crisis of 2001 proved to be critical to the subsequent fortunes of the AKP in two important respects. First, it created the basis of economic reforms that the AKP could subsequently capitalize upon to maintain its broad-based, cross-class coalition of support in a high growth environment. Second, the economic crisis of 2001 effectively led to the demise of the coalition government in the ensuing general elections of 2002. Unlike the case of Argentina, where the crisis of 2001 was associated with massive social protests, the reaction in Turkey to a crisis of a similar magnitude was comparatively subdued. Yet, it was the ballot box that effectively penalized the three parties: the Democratic Left Party (DSP, Demokratik Sol Parti), the Nationalist Action Party (MHP, Milliyetçi Hareket Partisi) and the Motherland Party (ANAP, Anavatan Partisi) were virtually wiped out in the November 2002 elections, with the electorate clearly attributing the responsibility for gross mismanagement of the economy to the members of the coalition government. This left the AKP in a much stronger position in the post-2002 context. In sharp contrast to the fragmented coalition politics of the 1990s, the AKP enjoyed a comfortable majority that allowed it to continue with the reform process in an uninterrupted fashion.

There is a debate in the Turkish context regarding the extent to which the new wave of regulatory reforms should be attributed to the AKP. There is no doubt that the process pre-dates the AKP government. At the same time, contrary to the initial fears, the party did not indulge in old-style populist practices. Especially in its early years, it demonstrated a firm commitment to the reform process, both in the economic and democratization realms. In spite of its Islamist roots, the party also appeared to be firmly committed to the goal of EU membership, with the EU proving to be a key long-term external anchor for the implementation of a series of important political and economic reforms. Turkey during the early years of the AKP period experienced one of its best phases of economic growth since 1950. Furthermore, it was inflation-free growth, with inflation having been reduced to single digit levels for the first time over a period of nearly three decades. The AKP was fortunate in the sense that its early years in government coincided with an unusually favorable global liquidity environment that enabled Turkey to attract large inflows of short-term and long-term foreign capital.

Yet, it is also clear without a favorable domestic environment, Turkey’s ability to benefit from a favorable global context, especially in terms of attracting long-term external capital, would have been far more limited.

The fact that inflation was reduced to single digit levels was a singularly important development (Figure 3). One has to recognize that inflation is a regressive tax with
negative income distributional consequences. High and chronic rates of inflation, the type that Turkey experienced during the 1980s and the 1990s, typically penalize the poor. A low inflation environment was clearly advantageous from the point of view of the AKP’s electoral fortunes. It helped the party to enlarge its electoral coalition by including wider segments of middle and lower income groups. Low inflation also rendered the growth environment more robust and sustainable.

In this respect, one can observe an obvious contrast with the old-style populist cycles. Again the DP experience of the 1950s presents an interesting counterpoint. The growth boom of the early 1950s could not be sustained during the later part of the decade due to uncontrolled fiscal expenditures, rising inflation and an unsustainable balance of payments situation. This produced an inevitable economic crisis, which ultimately led to the demise of the DP itself. A similar pattern was evident in the initial decade of Turkish neo-liberalism, the 1980s. Turgut Özal’s ANAP managed to win two successive elections in 1983 and 1987, but could not maintain its popularity in the midst of rising instability and chronically high rates of inflation. In both cases, two major parties in the center-right tradition were the victims of uncontrolled populism. There was one notable difference in otherwise similar trajectories of the DP and the ANAP. The DP era came to an end with a military intervention. The ANAP’s downturn was much more the outcome of the electoral process, with the 1989 local and 1991 general elections proving to be crucial turning points in this respect.

One factor that has worked in the AKP’s favor is that economic growth in a low inflation environment has significant trickle-down effects. GDP per capita has improved dramatically over the AKP period; it increased from $3492 in 2002 to $10,067 in 2010. In relative terms, Turkey’s per capita wealth also grew closer to the EU average. For example, if the EU-27 average is fixed to 100, Turkey’s relative GDP per capita in terms of purchasing power parity was 37 in 2002, increasing to 48 as of 2010. This means that even if one takes into account measurement errors related to official statistics, the economic growth still represents a considerable achievement. The rate of poverty also decreased from 27 percent in 2002 to 18 percent in 2009 according to TUIK data (Table 1).

<table>
<thead>
<tr>
<th>Category</th>
<th>2002</th>
<th>2003</th>
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<th>2006</th>
<th>2007</th>
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<th>2009</th>
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<tr>
<td>Food poverty</td>
<td>1.35</td>
<td>1.29</td>
<td>1.29</td>
<td>0.87</td>
<td>0.74</td>
<td>0.48</td>
<td>0.54</td>
<td>0.48</td>
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<tr>
<td>Complete poverty (food + nonfood)</td>
<td>26.96</td>
<td>28.12</td>
<td>25.60</td>
<td>20.50</td>
<td>17.81</td>
<td>17.79</td>
<td>17.11</td>
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</tr>
<tr>
<td>Below $1 per capita per day</td>
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<td>0.01</td>
<td>0.02</td>
<td>0.01</td>
<td>–</td>
<td>–</td>
<td>–</td>
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<tr>
<td>Below $.2.15 per capita per day</td>
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<td>2.39</td>
<td>2.49</td>
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<td>Below $4.30 per capita per day</td>
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<td>8.41</td>
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</table>

“Social Neo-Liberalism” and Redistributive Politics

Many analysts tend to consider the AKP a typical center-right political party—or a center-right party with a conservative/Islamic face—with a true commitment to neo-liberal economic policies.\textsuperscript{11} There is clearly an element of truth in this statement. During its period in office, the party had displayed a vigorous commitment to many aspects of the neo-liberal policy paradigm.\textsuperscript{12} Indeed, privatization on a massive scale has been a notable characteristic of the AKP era. In retrospect, however, the AKP’s neo-liberalism was much more in the spirit of post-Washington consensus style neo-liberalism that recognized the regulatory and social failures of free-market liberalism based on the logic of Washington consensus. In fact one of the strengths of the AKP lay in its ability to employ both informal and formal redistributive tools to enlarge its base of electoral support. Redistributive mechanisms have been critical to its ability to bring the winners and losers of neo-liberal globalization into the orbit of one single, broad-based, cross-class electoral coalition.

Again there is a striking debate in this context. Critics of the AKP argue that the AKP’s approach to redistribution has been fundamentally in line with the neo-liberal style redistribution, which emphasizes private compassion and informal networks at the expense of formal, state-based forms of redistribution as the primary mechanism for helping the poor and the underprivileged segments of society.\textsuperscript{13} The problem with this approach is that it is a particularistic form of redistribution that by definition favors insiders close to the party’s informal networks. In this context, access to social welfare is not a universal right, but depends on being part of the club, namely membership of the party’s associations and informal networks. This form of redistribution is also exclusionary in the sense that those segments of society, which fall outside the scope of these informal communities or networks would fail to receive entitlement to these benefits. Again there is a strong element of truth in this criticism that the AKP, building on the experiences of its predecessors, the Welfare and the Virtue Parties of the 1990s, has made effective use of local-level mobilization and informal mechanisms for redistribution.

What this critique misses, however, is that redistribution through formal channels also assumed significant proportions during the AKP era, with large increases in government expenditures in the realms of health and education. This was no doubt facilitated by the high growth trajectory of the Turkish economy, notably during early boom years of the AKP government. The AKP’s ability to increase social expenditures in these critical areas and its ability to improve the provision of public services, both at the level of the local and national governments, made a visible impact on the living standards of the middle and poorer segments of society and not surprisingly contributed to the party’s steadily rising electoral fortunes.

As seen in Table 2, the composition of public expenditures under the AKP changed remarkably in favor of lower segments of society. Over the AKP period, while the share of military expenditures in terms of GDP decreased from 3.9 to almost 2 percent, the share of health expenditures in total GDP increased from 3.72 percent
to more than 5 percent in 2009. Similarly, the share of education expenditures increased from 3.18 to 3.7 percent over the same time span.

In retrospect, it should be recognized that there are differences between the AKP-style neo-populist response to neo-liberalism, which is of the conservative, center-right variety, and the Lula-style left of center neo-populism in Brazil with its massive public expenditure programs targeted toward the poorest and the most underprivileged segments of society. At the same time, we should not over-exaggerate the differences between the two different styles of “neo-populism.” The AKP’s approach also deviated sharply from the classical neo-liberal paradigm, with its relentless and single-minded emphasis on the benefits of free-market capitalism. The AKP’s strategy was a kind of communitarian, a “third-way” response to neo-liberal globalization. This, in part, was a reflection of the spirit of the new age, as “social and regulatory neo-liberalism” was increasingly embraced at the global level and promoted by key international financial institutions such as the IMF and the World Bank. The deepening relations with the EU during this period also provided an important and natural context for the implementation of a modified neo-liberal agenda with an explicit social and regulatory component. The party’s Islamist heritage, and the importance it attaches to social rights, was also an important ingredient of the AKP-style third way politics. What is important in the present context is that the AKP’s “social neo-liberalism” allowed it to transcend the boundaries of class politics and construct broad-based cross-class coalitions of political support which would not have been possible under the old-style, Washington Consensus based neo-liberalism.

Managing the Global Financial Crisis

The ability of the AKP to maintain and even increase its electoral appeal in the face of a severe downturn in global economic environment constitutes one of the striking puzzles of the political economy of the 2002–2011 period. A cursory examination of the macroeconomic data clearly reveals that Turkey was negatively affected by the global financial crisis, in spite of a famous statement by Prime Minister Erdoğan on the crisis passed tangent by the Turkish economy. The growth rate in 2009 was negative (Figure 3) and the evidence from the emerging markets as a group suggest that Turkey and Mexico were the countries that experienced the
sharpest declines in the rate of economic growth. Naturally, negative growth and the resultant increase in unemployment to almost 14 percent in 2009 represented an important setback to the achievements during the golden age of economic growth during the 2002–2007 period. An explanation to this puzzle requires highlighting a number of important and interrelated influences. The crisis that the Turkish economy experienced in 2008–2009 was not a crisis in the conventional sense. In the Turkish case, the typical crises of the past were results of populist cycles. Such crises were the outcome of gross domestic mismanagement leading to large fiscal deficits, chronically high rates of inflation, an unsustainable balance of payments situation, falling international reserves and the inevitable encounter with the IMF. Intervention on the part of external actors was needed to restore equilibrium in an environment where the domestic political actors were the primary contributors to the crisis. In contrast, the 2008–2009 contexts were quite different. The fiscal situation was under control. Inflation was at single digit levels. Turkey enjoyed a comfortable international reserves position and the banking system, unlike the case during the 2001 crisis, appeared in highly robust shape. Indeed, unlike many of its counterparts in the European periphery, Turkey did not experience a single bank failure in 2008–2009.

The AKP’s policy-making elite effectively capitalized on the fact that the crisis was primarily an externally generated phenomenon—a crisis of the global center—over which they had very little control. The severe downturn in the real economic conditions was the natural outcome of influences that stemmed from the unfavorable conditions in industrialized countries. The Turkish economy was inevitably affected by the downturn in the capital inflows and falling demand, notably in the euro zone area, for Turkish exports. What was crucial and often stressed by the policymakers was that the Turkish economy, reflecting the impact of the regulatory reforms implemented in the earlier part of the decade, proved to be highly resilient in the face of an extremely unfavorable global economic environment. The policymakers made frequent references to the robustness of Turkey’s banking and financial system, again effectively highlighting the point that a robust financial sector constituted the natural outcome of the type of regulatory reforms that were by and large implemented in the context of the AKP government.

The AKP government was also effective in managing relations with the IMF during this period. Although government resumed negotiations with the IMF, in line with the demands of big business interests represented by organizations such as Turkish Industry and Business Association (TÜSIAD), the government often publicized the point that Turkey was no longer in need of the IMF. Indeed, after a long round of negotiations, the AKP government decided not to sign an agreement with the IMF. This move was once again publicized as a sign of national strength and autonomy, very much in line with the pro-active and assertive foreign policy approach. Turkey now had the economic strength to go alone without the IMF, something unique and unusual for anyone who was vaguely familiar with the trajectories of Turkey’s previous economic crises. This clearly appealed to the nationalist sentiments of wide segments of the Turkish electorate.
The changing nature of Turkey–IMF relations also pointed toward shifting power relations in Turkey’s domestic political economy. The AKP, with its much stronger position at the center of the Turkish political system, could choose to act quite independent of the demands of major conglomerates represented under the umbrella of TÜSİAD. Indeed, the AKP’s approach in 2008–2009 was much more in line with the demands of its core constituencies, notably the rising Anatolian business elites represented by institutions like Independent Industrialists and Businessmen’s Association, which have traditionally maintained a more critical stance toward the IMF.20 Stated somewhat differently, in the early years of the AKP government, a much stronger convergence in the approaches of the AKP government and TÜSİAD, on issues relating to IMF programs and commitment to the process of EU membership, was observed. During 2008–2009, in contrast, the positions of the AKP and the TÜSİAD appeared to diverge on both counts. The TÜSİAD indicated a clear preference in favor of an IMF program, especially in the immediate aftermath of the global crisis, and maintained its strong commitment to EU membership. The AKP government, in contrast, displayed much less enthusiasm in both respects.

From an economic perspective, certain aspects of the AKP’s handling of the economic crisis can be questioned. The response was delayed and policies that were implemented lacked a certain degree of coherence. The focus was on restoring consumption and demand, but it lacked the more interventionist and long-term oriented measures such as a major public infrastructure investment drive associated with key Brazil, Russia, India, China (BRIC) countries. The only pro-active element in the armory of Turkish policymakers appeared to be the export market diversifying strategy in line with the new and more assertive style policy-making.21 In spite of these criticisms, the AKP’s pragmatic approach and its reluctance to lose fiscal discipline, which had taken quite a long time accomplish in the Turkish context, arguably helped to avoid a crisis of magnified proportions. The fact that Turkey managed to recover swiftly in 2010, recording the second highest rate of economic growth in the OECD area, was well publicized by the AKP and clearly constituted a positive element in sustaining the party’s electoral appeal as Turkey headed toward the general elections of 2011.

Engagement with the Global: The Electoral Appeal of the “New” Foreign Policy

A major ramification of the global financial crisis of 2008–2009 was to accelerate the power shifts that had already started to occur in the pre-crisis era.22 With the Western/Northern economies in a state of stagnation, key economies from the East/South increasingly asserted themselves as vocal actors in an increasingly multi-polar global order. In the spirit of the BRIC, Turkey, as a rising power in its own right, increasingly asserted a more assertive and independent foreign policy during the later years of the 2000s. The new foreign policy approach of the AKP was clearly a product of a number of different influences.23 In part, it reflected the disappointment in relations with the EU, following the stalemate in the formal negotiations for full-
membership. The golden age Europeanization, the 2002–2005 period, was increasingly forgotten as accession negotiations experienced a deadlock over the Cyprus problem. The questioning of Turkey’s European identity in core states such as Germany and France also resulted in a nationalistic backlash in domestic politics, dampening enthusiasm for EU membership both at elite level and public at large. Shifts in Turkish foreign policy also reflected changes in Turkish domestic politics. This can be seen as a subtle shift of cultural axis in Turkish domestic politics. With the AKP increasingly occupying a central stage in Turkey’s political life, its conservative-religious identity was no doubt important in its attempts to play an increasingly active role in the Muslim Middle East and North Africa. The fact that Turkey was now included in the enlarged coalitions of global governance, such as the G-20, raised the confidence of foreign policymakers even further and intensified the desire to play not only a regional but a global role. The “new” foreign policy was also a reflection of Turkey’s rising economic strength and its search for new trade and investment. Leadership was a critical element too, with Ahmet Davutoğlu, formerly a chief advisor to the AKP and more recently, starting from May 2009, the Foreign Minister, making a deep impact on Turkey’s new style, pro-active foreign policy behavior.

In a globalized world, the line between foreign policy and domestic politics is increasingly blurred. Certain aspects of the new foreign policy approach could be the subject of criticism from a longer-term perspective. What is crucial in the present context is that the pro-active foreign policy approach helped bolster the AKP government’s popularity in the sphere of domestic politics. For example, the fact that Prime Minister Erdoğan could stand up and confront the West for the Palestinian cause had a deep impact not only in the wider Muslim world but also among the vast majority in Turkish society. The new foreign policy was based on the notion of soft power, using economic and diplomatic ties to build better relations with all neighboring countries as part of, in Davutoğlu’s terminology, a “zero problems with neighbors” strategy. Underlying the new foreign policy approach was the image of a “strong Turkey” which could play an increasingly constructive role in regional and global affairs, working in a co-operative spirit but also acting independently on occasions if the situation so necessitated. This approach clearly had a broad appeal in domestic circles, including those with a more nationalist orientation. Moreover, the new foreign policy embodied a social and humanitarian dimension, with a concern for the problems of the weak and the underprivileged with a special focus on the problems of the least-developed Sub-Saharan African countries and questions of development aid. The image projected was that of a “strong and caring Turkey,” a country not only concerned with social and redistribution questions at the local and national levels, but that was also willing to stand up for the rights of the weak and the underprivileged at the international level. All these elements appeared to have a massive appeal in domestic politics.

The key point to emphasize is that globalism and nationalism should not be conceived in a simple dichotomous or binary oppositional terms. The AKP’s globalism involves a different kind of nationalism compared with the nationalism of earlier
defensive nationalists ideology which was based on politics of confrontation and fears of fragmentation. The AKP’s style nationalism is an outward-oriented nationalism, where integration into global markets and building co-operative links at the regional and global level could bring about significant benefits, clearly consistent with a broader understanding of “national interest.” Stated somewhat differently, in the AKP context globalism and nationalism do not constitute contradictory terms in the sense that the AKP’s globalism signifies effective management of globalization process in line with a more nuanced understanding of national interests. In the conservative globalist schema, nationalism of a different kind together with the traditional recourse to conservative-religious discourse constitute the very tools to build the broad-based, cross-class electoral coalitions. Conservative globalism, in other words, appealed to the wider nationalist sentiments of the Turkish electorate by skillfully combining a progressive and integrationist approach to globalization with a different style and understanding of nationalism, which, in retrospect, helped to swing the pendulum in Turkish politics further away from the control of the old-style defensive nationalists.

A Fragmented Opposition and the Uneven Electoral Contest of 2011

The AKP entered the general elections of 2011 in a much stronger shape compared to July 2007. The July 2007 election took place in the context of a fierce conflict between “conservative globalists” and “defensive nationalists.” Identity conflicts relating to secularism were also very much at center stage at a time when the military was still a critical actor in Turkish politics. The backlash created by the military’s “e-intervention” in reaction to the election of Abdullah Gül as the new President, indeed helped to bolster the AKP’s electoral support in 2007. A similar backlash was generated by the Constitutional Court case to close down the AKP during 2008, which proved to be ultimately unsuccessful only by a narrow margin. Together with the Ergenekon trials following the failed military coup attempt which involved a coalition of senior military officials and their civilian associates, these developments helped to shift the balance of power in Turkish politics decisively away from defensive nationalists to conservative globalists. Having avoided party closure in January 2008 and gaining a significant victory in the constitutional referendum of September 2010, the AKP increasingly occupied a central and largely uncontestable position in Turkish politics. There is no doubt that the party’s rule over a period of almost a decade had brought about significant power shifts in Turkish politics and society. The AKP strengthened its stronghold in key layers of the state and the bureaucracy with a parallel increase in its control over the media. In the economic realm, the rising economic elites from Anatolia, forming the backbone of the AKP, became increasingly more powerful, especially in a period where they enjoyed greater access to state resources.

Unlike the case of 2007, identity issues no longer appeared central to the electoral contest. The AKP’s election manifesto was firmly centered on concrete economic achievements highlighting the gains that had been made by all sections of society
during the period of the AKP rule. Furthermore, the program was forward-looking and publicized ambitious projects notably in the realms of transport, communications and defense industries in line with the image of a “strong Turkey” as Turkey looked ahead to celebrate the centennial anniversary of the formation of Turkish Republic in 2023. Notably, the AKP’s emphasis was not on redistribution per se, but on redistribution in the context of a rapidly growing economy from which all sections of society would benefit. The election strategy with its emphasis and concrete achievements, of which the distribution of textbooks without charge to all primary school children is a rather striking example, appeared to pay handsome dividends. Previously emphasized issues of democratization appeared to be on the sideline. The AKP’s approach to democratization in 2011 largely centered on the promise of a new constitution, with the hope that constitutional engineering would by and large help to resolve Turkey’s pressing democratization dilemmas. In retrospect, the AKP’s success in managing the economy and the concrete gains in living standards that this represented for large segments of the electorate appears to be at heart of the party’s extra-ordinary electoral success.

The AKP’s superiority over its principal competitors in 2011 also rested in its claim to represent the country as a whole. Indeed, the party enjoyed support across the whole of the country, and not simply in its traditional strongholds of central Anatolia. The principal opposition party, the Republican People’s Party (CHP, Cumhuriyet Halk Partisi), has been undergoing a process of change under its new leader, Kemal Kılıçdaroğlu. Under its previous leader, Deniz Baykal, the party was a clear representative of the defensive nationalist camp. In 2007, the focus of the party leadership was firmly on the issue of regime protection. The party’s regime-stabilizing role appeared to be much more crucial than building the kind of broad-based electoral support needed for electoral success, which would also necessitate much greater attention to economic and social issues. Under Kılıçdaroğlu, the CHP has been moving in the direction of a European-style social democratic party with a growing emphasis on the need to extend the frontiers of democratization. It appeared to be more sensitive, at least compared to its earlier positions, to demands relating to religious freedoms and tackling the Kurdish problem within the parameters of the democratic process.

In spite of a noticeable change in the CHP, it was not able to mount a serious challenge to the AKP in 2011. Although the party was able to increase its vote, it could only claim 26 percent of the vote, which many commentators considered to be a disappointing outcome. The CHP’s shift to class-based politics during the 2011 election campaign with its emphasis on redistribution through social programs to help the poor and the underprivileged failed to convince large segments of the electorate. It was clear once gain that an approach based on redistribution alone fails to emerge as a winning strategy in the Turkish context. The center-right parties enjoyed the upper hand in this context by linking redistribution to the poor to a strategy aimed toward overall growth and rising economic strength. The CHP’s emphasis on redistribution and anti-corruption rhetoric failed to match the AKP’s promise of growing wealth for all segments of society as part of a vision of a “strong Turkey,” which was increasingly more vocal and influential in a broader global context.
Part of the explanation for the relative failure of the CHP may be traced to its inherently fragmented base of political support. The party included both defensive nationalists/hyper-secularists on the one side and Third Way-style liberals and social democrats on the other. This led to inevitable inconsistencies. For example, the party criticized the AKP on issues relating to democratization, notably in relation to workings of the legal system and press reforms. At the same time, however, the party named individuals who were imprisoned and accused in relation to a failed coup attempt as candidates for election for the new parliament. This kind of inconsistency clearly raised question marks concerning the party’s true democratic credentials. Similarly, the party’s electoral fortunes suffered from its uneasy mix of class and identity politics. The party appeared to be a representative of the urban middle classes and secular elements on identity grounds and of the poor and the underprivileged segments of society in terms of class politics. All these factors point toward a highly fragmented base of electoral support. Given these inherent divisions, the party leadership faces a major dilemma and there are no clear-cut answers to the question of how the party could overcome the problem of its fragmented coalition and enlarge its future base of electoral support. What is obvious, however, is the continued weakness of the CHP as a source of effective opposition, in spite of a certain transformation in the recent era, helps to consolidate the increasingly hegemonic position of the AKP in the Turkish political system.

The weakness of the CHP as the principal opposition party is augmented by the fact that the remaining two parties represented in parliament, the MHP and the Peace and Democracy Party (BDP, Barış ve Demokrasi Partisi), although they receive a sizable proportion of the vote (almost 20 percent), are essentially sectarian parties, representing, respectively, ultra-national and the Kurdish elements. The BDP, in particular, is a regional party with its primary support base in the southeastern districts. This observation clearly suggests that the CHP’s role in the future will be crucial as a balancing force in Turkish politics and in preventing a lopsided democracy, given that it is the only political party in Turkey apart from the AKP which has a claim to represent wide segments of Turkish society at a broad, national level.

Looking Beyond the Electoral Triumph of Conservative Globalism

This article has highlighted some of the key influences that have rendered the AKP experience unique in the Turkish context. For several decades, Turkish politics has been dominated by a succession of center-right parties. The AKP, in spite of its explicit conservative-religious heritage, might be conceived as a natural continuation of the conservative, center-right party tradition in Turkey starting with the DP of the 1950s and continuing with the Justice Party of the 1960s and the ANAP of the 1980s. The AKP, following its third successive electoral victory appears to be far more entrenched than its earlier counterparts. Having identified the political economy foundations of the party’s extraordinary electoral success, an important question to pose is whether the triumph of conservative globalism in electoral terms will necessarily be translated into effective management of the economy and further consolidation of liberal democracy in Turkey.
On the economic front, the Turkish economy appears to be in a stronger shape compared to its position a decade ago following an important wave of regulatory reforms. Turkey compares favorably to high-flying emerging market economies such as India, and its growth in 2010 approached that of China (Figure 4). Furthermore, Turkey has been diversifying its economic relations in recent years and has been developing important trade and investment linkages with virtually all the countries in its immediate and more distant neighborhood. The growing strength of the Turkish economy has been a notable feature of the AKP era and has undoubtedly contributed to the party’s growing strength and durability. It is appears to be highly unlikely that Turkey will be confronted with a 2001-style crisis in the near future.

At the same time, overly optimistic assessments of Turkey’s economic performance during the AKP period need be qualified by the fact that the economy continues to display a number of structural weaknesses that naturally limit its ability to achieve high rates of economic growth on a sustained basis. Large current account deficits and a lopsided pattern of growth based on external capital flows, especially of a short-term variety, in the presence weak domestic savings performance are certainly among these structural weaknesses. As seen in Table 3, foreign direct investment has also dramatically fallen off in recent years. Moreover, the AKP in its second decade will have to operate in a much less favorable global economic environment with possible negative ramifications for Turkey’s medium-term economic performance.

On the democratization front, major challenges remain in terms of establishing a broad consensus among the various segments of Turkish society. A democratic solution to Turkey’s Kurdish problems remains perhaps the single most important challenge in this context, a point developed more extensively in Nil Satana’s contribution to this special volume.28 Turkish society also remains firmly divided as the
Table 3. Indicators of Economic Fragility

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<th>2002</th>
<th>2003</th>
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<th>2009</th>
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<tr>
<td>Import (billion $)</td>
<td>51.5</td>
<td>69.3</td>
<td>97.5</td>
<td>116.8</td>
<td>139.6</td>
<td>170.1</td>
<td>201.0</td>
<td>140.9</td>
<td>185.5</td>
</tr>
<tr>
<td>Export (billion $)</td>
<td>36.1</td>
<td>47.3</td>
<td>63.2</td>
<td>73.5</td>
<td>85.5</td>
<td>107.3</td>
<td>132.0</td>
<td>102.1</td>
<td>114</td>
</tr>
<tr>
<td>Trade deficit (billion $)</td>
<td>-15.4</td>
<td>-22</td>
<td>-34.3</td>
<td>-43.3</td>
<td>-54.1</td>
<td>-62.8</td>
<td>-69</td>
<td>-38.8</td>
<td>-71.5</td>
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<tr>
<td>Trade deficit/GDP</td>
<td>6.7</td>
<td>7.2</td>
<td>8.8</td>
<td>9.0</td>
<td>10.3</td>
<td>9.7</td>
<td>9.4</td>
<td>6.3</td>
<td>9.7</td>
</tr>
<tr>
<td>Current account deficit (% of GDP)</td>
<td>-0.27</td>
<td>-2.47</td>
<td>-3.67</td>
<td>-4.57</td>
<td>-6.02</td>
<td>-5.75</td>
<td>-5.25</td>
<td>-2.24</td>
<td>-6.5</td>
</tr>
<tr>
<td>FDI (billion $)</td>
<td>1.1</td>
<td>1.8</td>
<td>2.8</td>
<td>10.0</td>
<td>20.2</td>
<td>22.1</td>
<td>18.3</td>
<td>8.4</td>
<td>9.3</td>
</tr>
<tr>
<td>Unemployment (%)</td>
<td>10.3</td>
<td>10.5</td>
<td>10.3</td>
<td>10.3</td>
<td>9.9</td>
<td>9.9</td>
<td>11.0</td>
<td>14.0</td>
<td>9.4</td>
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<tr>
<td>Savings (% of GDP)</td>
<td>18.3</td>
<td>15.1</td>
<td>15.6</td>
<td>15.7</td>
<td>16.2</td>
<td>15.8</td>
<td>15.6</td>
<td>14.1</td>
<td>11.9</td>
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constitutional referendum of September 2010 clearly illustrated, and it is still an open question, one explored more fully by Burak Özpek in this volume, whether AKP-style constitutional engineering will lead to further democratic consolidation or to a new kind of illiberal democracy in the context of a dominant party system, especially in an environment where the EU is no longer the critical actor in facilitating the democratization and reform process. It thus remains to be seen whether the AKP will regain its reformist zeal of its early years of government or shift its focus toward a more technocratic style of economic management and an instrumental understanding of democracy that privileges security considerations at the expense of democratic deepening, having firmly entrenched its stronghold at the very center of the Turkish political system.

Acknowledgements

The editorial comments of Paul Kubicek and the able assistance of Mustafa Kutlay are gratefully acknowledged.

Notes


3. For more on this notion, see Tezcür (this volume).


10. Data are retrieved from Turkey’s official statistical institute, TUIK and Eurostat.
11. Aysı̈e Bugra, Kapitalizm, Yoksulluk ve Türkiye’de Sosyal Politika (İstanbul: İletişim Yayınları, 2008).
19. In the period in question many decision-makers, including the Governor of the Central Bank of the Republic of Turkey, Durmus Yılmaz, openly rejected IMF support, see “Merkez Bankası: IMF’nin parasına ihtiyacımız yok” (Central Bank: We do not need IMF’s money), Radikal, December 20, 2008.
21. A significant stimulus package has been implemented by the Turkish government, although question marks can be raised concerning its timing, coherence, and target segment of the incentives. For a critical analysis, see Ziya Önis and Ali Burak Güven (2011).
26. “Kanal İstanbul” Project obviously is one of these “exciting projects” that captured the hearts and minds of the Turkish electorate.
27. For some comments on the issue, see Aysı̈e Bugra, “CHP Neden Kaybetti?” (Why CHP Lost?), Milliyet, June 12, 2011; Tarhan Erdem, “Seçim Sonuçlarını Değerlendirme” (Evaluating Elections Results), Radikal, June 27, 2011. Some of the party members also blamed leader of the CHP, Kemal Kılıçdaroğlu, for unsuccessful election results, see “Kılıçdaroğlu geregini yapsin” (Kılıçdaroğlu must do whatever necessary), Sabah, June 13, 2011.