

TURKEY IN THE GLOBAL ECONOMY

2000-2020



This seminar is on the political economy of Turkey in the first two decades of the 21st century. I would like to focus on the period from the Turkish financial and economic crisis in 2000-01 to 2020, year of great challenges both in the region and the world. The same period, when the Turkish economy experienced significant growth, witnessed major changes in the world economy, namely a shift in the hegemonic structures of the world economy, a shift away from North America and Western Europe to the emerging economies of, primarily, Asia, but also of Latin America and Africa. The process of decline of the 'hub-and-spoke' system of global imperial governance built under the hegemony of the USA binding together Europe, North America and Japan/ Australasia, began in the late 1960s and early 1970s, but became much more obvious during the last two decades¹. The leading role of the US had first been eroded with the decline in gold stocks, competitive trade and US

¹ The 'hub-and-spokes' alliance systems were cultivated by the United States in all key regions of the world after the end of the World War II -- the United States as a 'hub', and its regional allies as 'spokes'. The structure is made of political-military and economic system of discrete, exclusive alliances between the United States and its regional allies, and allowed the US to exercise effective control over its smaller regional allies. These were presented publicly as systems of cooperative security amongst equals, but at the same time, the system's power structure was unipolar, not collegial, and Washington, as the hub of each alliance relationship, had the right to take unilateral decisions, if necessary, on the big political issues facing the security zones under its protection. (Peter Gowan, 'Triumphing toward International Disaster: The Impasse in American Grand Strategy', <http://kropfpolisci.com/neoimperialism.gowan.pdf> (accessed in October 2019))

corporate profits in the face of the fierce economic competition of West Germany and Japan during the Cold War, when both Europe and Japan experienced very high rates of growth in the 1970s. Later from the 1990s onward, the hegemonic position of the US came to be seriously undermined by the rise of China, India and other emerging economies, including Turkey. This shift has been more visible since the beginning of the current century as China, India, Russia, Brazil, South Korea, Mexico, South Africa and Turkey are certainly on the move, and power is undeniably flowing away from the West.

I will analyse the dynamics between Turkey's domestic political-economic transformation in the 21st century and its active involvement in its neighbourhood on one hand; and the impact of long-term global shifts/ trends in creating right conditions for medium-sized regional powers, like Turkey, to increase their share and influence regionally and globally for the time frame of the first two decades of the current century. In other words, this is an account of how Turkey fits into the global system as an emerging middle power. My analysis in this volume will be based on a holistic theoretical proposition about the changing structure of the global economy and the rising position of medium-sized emerging powers in this process. My main premise here is that since the beginning of the 1990s, there is a fundamental power shift to the global East (China, India, Russia, Brazil and a number of other middle range emerging powers including South Africa, Turkey, Mexico and Indonesia). With the rapid rise of these emerging economies, the relative weight of the United States and West European economies are plainly declining. As an integral part of this process, Turkey has emerged as an important regional and global middle power in this period, within the subset just below the BRIC economies (Brazil, Russia, India, and China). Therefore, it makes sense to look at Turkey's political economy transformation within the context of the broader global political changes and systemic shifts of the last 20 years. That is why one central aim of this book is to examine the extent to which and channels through which the global developments affected the Turkish economy.

There are many useful accounts of Turkey's economic performance in this period, majority being journal articles. There are some books too looking at various aspects of Turkish economy during the AKP period. All these accounts provide useful data and some interesting analysis, which I have benefited in working for this volume. One of the major

weaknesses of these studies is that majority of them tend to focus, for most part, internal political and economic developments and policy decisions, and do not give enough credit to the impact of the global movements and influences. They tend to ignore or underplay existing power structures and the hegemonic shifts/ changes in the global economic system of which the Turkish economy has been an integral part. Majority of the accounts do not see the economy of Turkey as an important part of a global system. They rather look at the economy of Turkey in isolation with minimum credit given to outside/global influences on it. Many studies concentrate on specific national policies and the level with which various governments' reliance or failure to follow the advice given by international organisations, while ignoring the deeper structural forces that play a determining role in shaping the way Turkish economy was being incorporated into the global system in this period. For instance, a 2009 European Commission book, written by Mihai Macovei, is a good example to this common tendency among the authors writing on Turkey's economy in this period. Almost all troubles, crises and weaknesses of the economy in this period are explained almost exclusively by internal factors, such as 'primarily the result of policies', or 'inadequate macro-economic policies ... weak institutional and regulatory environment', or 'inward-oriented economic policies', or 'lack of fiscal discipline'². In a similar way, institutionalist writers put the emphasis on internal political dynamics, like Acemoglu and Robinson in their prize-winning book, *Why Nations Fail*, claim that domestic politics is at the basis of economic development and growth because 'prosperity and poverty are determined by the incentives created by institutions, and ... politics determines what institutions a nation has' (title of chapter three), and with the right institutions development and growth are assured.(Acemoglu & Robinson, 2012; Acemoglu and Ucer, 2015)

As a historian of global politics, I am interested in connections, comparisons and long-term trends. The existence or lack of institutions in many parts of the world, particularly in the developing countries was not exclusively a domestic problem but the result of the global political economy in which the countries, economies are located. They are embedded within the broader macro-structures of the global political economy as well as grounded in the prevailing geographical structures of the real world. The macro-structures of the global

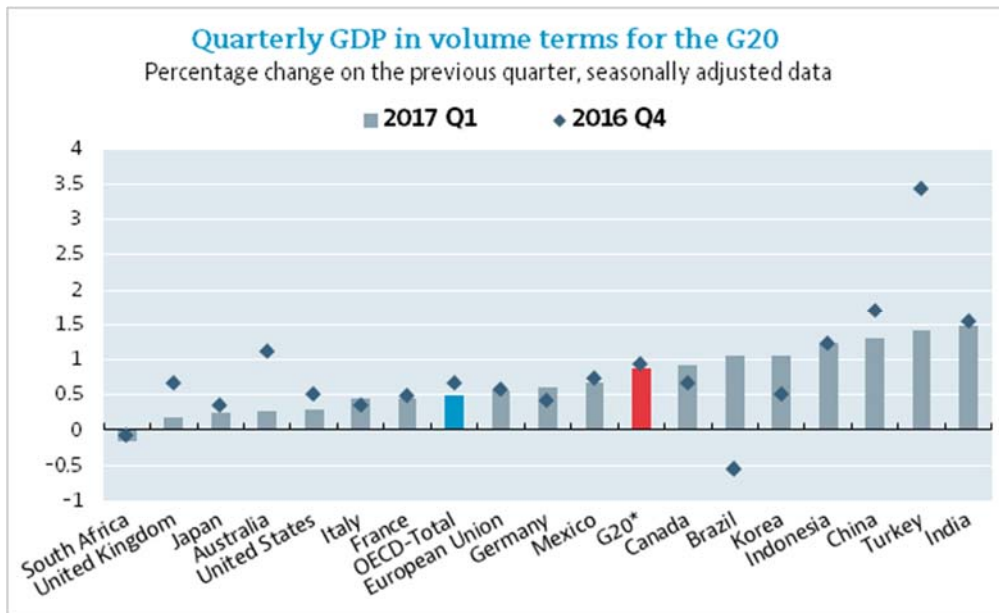
² Mihai Macovei, *Growth and economic crises in Turkey: leaving behind a turbulent past?*, European Commission: Economic Papers 386, October 2009, pp.1-5.

economy are the institutions, conventions and rules of the market system, all exist within the hierarchical structure on the world inter-state system. During the past half-century or so a 'thickening web of multilateral agreements, global, and regional institutions and regimes, and transgovernmental policy networks and summits' (Held and McGrew, 2007; 137) has emerged and interlinked all such actors, national or transnational, tightly to each other through connections of activities and through flows of both material and non-material phenomena into circuits and networks. Geographically, during the past several decades the global economy has become increasingly multi-polar, with new centres of production have emerged in parts of what had been, historically, the periphery and semi-periphery of the world system. The existence and the quality of institutions are direct results of Turkey's historically and geographically specific position in the international division of labour, global inter-state system.

My perspective here is unashamedly globalist and comparative in the sense that 'we need a global perspective to appreciate, understand, account for, explain – in a word, perceive –' the rise of Turkey as an emerging economy in the 21st century. We live in a world where to understand the current situation requires analysing the interrelationship between security, economy and politics. Without considering these three aspects together it would not be appropriate to analyse or fully understand the world, and this requires a globalist perspective. This globalist perspective is essential because 'without looking at the global jigsaw puzzle map, we cannot find the rightful place or comprehend the real functional relations of any of its pieces' (Frank, 1998: 4), in my case the economy of Turkey.

... old geographies of production, distribution and consumption are continuously being disrupted and that new geographies are continuously being created. In that sense, the global economic map is always in a state of 'becoming'; it is never finished. But the new does not simply obliterate the old. On the contrary, there are complex processes of path dependency at work. What already exists constitutes the preconditions on which the new develops. (Dicken, 2007: 32)

We have had a couple of hundred bad years, but now we're back. (Clyde Prestowitz quotes a Chinese friend (<https://www.economist.com/special-report/2006/10/07/nightmare-scenarios>) (OECD, <http://www.oecd.org/economy/g20-gdp-growth-first-quarter-2015-oecd.htm>))



(OECD, <http://www.oecd.org/economy/g20-gdp-growth-first-quarter-2017-oecd.htm>, accessed in September 2017)

While Turkey is not a great power, it is considered by majority of sources as an emerging middle power on the basis of the fact that it has considerable ability to act independently, resisting pressure from great powers and exerting serious influence in regional matters³. Turkey has significantly increased its presence in international politics in the last decade and sought to extend its global outreach. Since the end of the Cold War, Turkish policy-makers have portrayed Turkey as an emerging middle power to play a pivotal role in a newly forming world order to shape global politics⁴. With fast economic growth, rising populism at home and the Syrian civil war at its borders, Turkey and its relations with the rest of the world are more in need of analysis than ever before⁵.

³ Emel P. Dal, *Middle Powers in Global Governance. The Rise of Turkey*, Palgrave Macmillan, 2018.

⁴Ziya Öniş and Mustafa Kutlay, 'The dynamics of emerging middle- power influence in regional and global governance: the paradoxical case of Turkey', *Australian Journal of International Affairs*, 71,2, 2016, DOI: 10.1080/10357718.2016.1183586, d seminarp.164-183.

⁵ Z. Öniş and M. Kutlay, 'The dynamics of emerging middle-power influence in regional and global governance: the paradoxical case of Turkey', *Australian Journal of International Affairs* 71 (2), 2017, pp. 164-83.



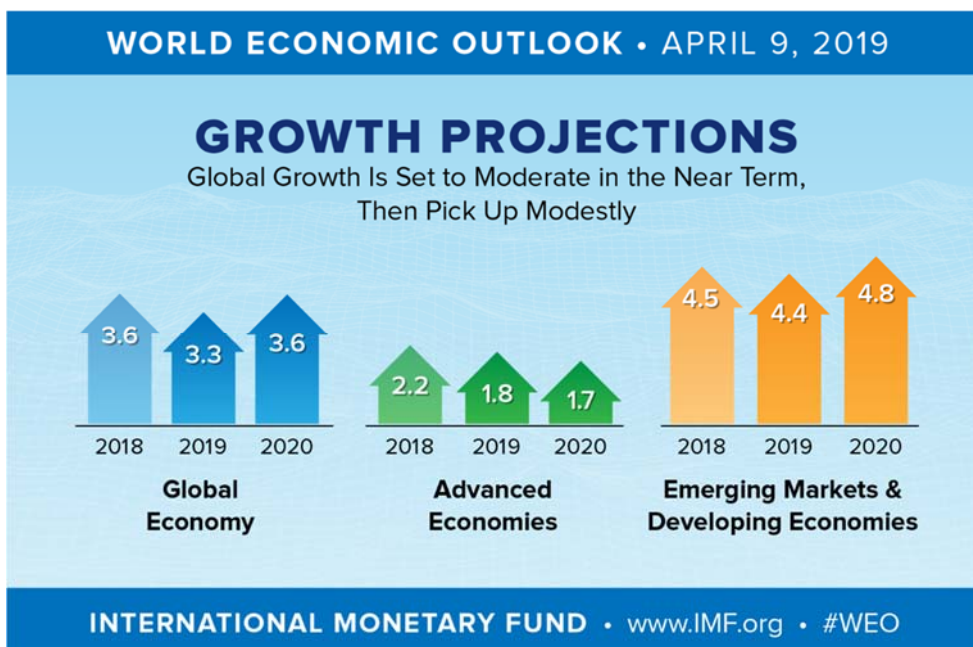
Free Zones in Turkey

Authoritarian neoliberalism does not represent a wholesale break from mainstream neoliberal practices, yet it is qualitatively distinct due to the way in which neoliberalism's authoritarian tendencies—such as the increasingly punitive nature of penal and criminal policy—the conceptual parameters of authoritarian neoliberalism. Authoritarian neoliberalism as a mode of governance that operates on twin principles: (1) establishing a disciplinary statecraft which closes off key decision-making processes to popular pressures, public input and non-partisan auditing mechanisms, particularly with a view to protecting the process of capital accumulation; and (2) deploying the coercive, legal and administrative state apparatuses to marginalise any opposition and dissident social groups.⁶ Under authoritarian neoliberalism dominant groups are less interested in neutralizing resistance and dissent via concessions and forms of compromise that maintain their hegemony, favouring instead the explicit exclusion and marginalization of subordinate social groups through the constitutionally and legally engineered self-disempowerment of nominally democratic institutions, governments, and parliaments and security apparatus. The intensification and interaction of crisis-tendencies of different kinds in different phases and changing forms of resistance leads to an increasingly authoritarian statist form of neoliberal regime, characterized by a state of permanent austerity that requires increased surveillance and policing to maintain it.

⁶ Ian Bruff and Cemal Burak Tansel, 'Authoritarian neoliberalism: trajectories of knowledge production and praxis', *Globalizations*, Vol 16, 2019, issue: 3, pp. 233-244.

SHANGHAI COOPERATIVE ORGANISATION			
Members	Observer states	Dialogue partners	Guest attendances
China	Afghanistan	Armenia	ASEAN
Kazakhstan	Belarus	Azerbaijan	CIS
Kyrgyzstan	Iran	Cambodia	Turkmenistan
Russia	Mongolia	Nepal	UN
Tajikistan		Sri Lanka	
Uzbekistan		Turkey	
India			
Pakistan			

R.T. Erdogan: The EU wants to forget about us, but hesitates, and cannot really forget. But if it said what it truly feels, we would be only relieved. Instead of wasting our time, it should be open and explain, so that we can go about our business. You sit and talk with them, but they can't really speak convincingly. When things go so poorly, you inevitably, as the prime minister of 75 million people, seek other paths. That's why I recently said to Mr. [Vladimir] Putin: "Take us into the Shanghai Five; do it, and we will say farewell to the EU, leave it altogether. Why all this stalling?" (Baydar, 2013)



(IMF, World Economic Outlook, April 2019,

<https://www.imf.org/en/Publications/WEO/Issues/2019/03/28/world-economic-outlook-april-2019>)

Turkey is facing an acute set of economic challenges that emerged in 2018. Triggered by a sharp depreciation of the lira and a fall in investor confidence, domestic demand has collapsed. By the end of 2018, Turkey had entered a recession, with high levels of foreign exchange debt, particularly in the private sector. In 2018, the Turkish Lira depreciated close to 40% against the U.S. dollar. Inflation has topped 16%, and investors are concerned that President Erdogan's regime lacks a clear plan to restore fiscal discipline and has yet to convince markets that his economic policies can assure a soft landing. Growth in 2018 fell to 2.7 percent, with a contraction in economic activity in the last two quarters.⁷

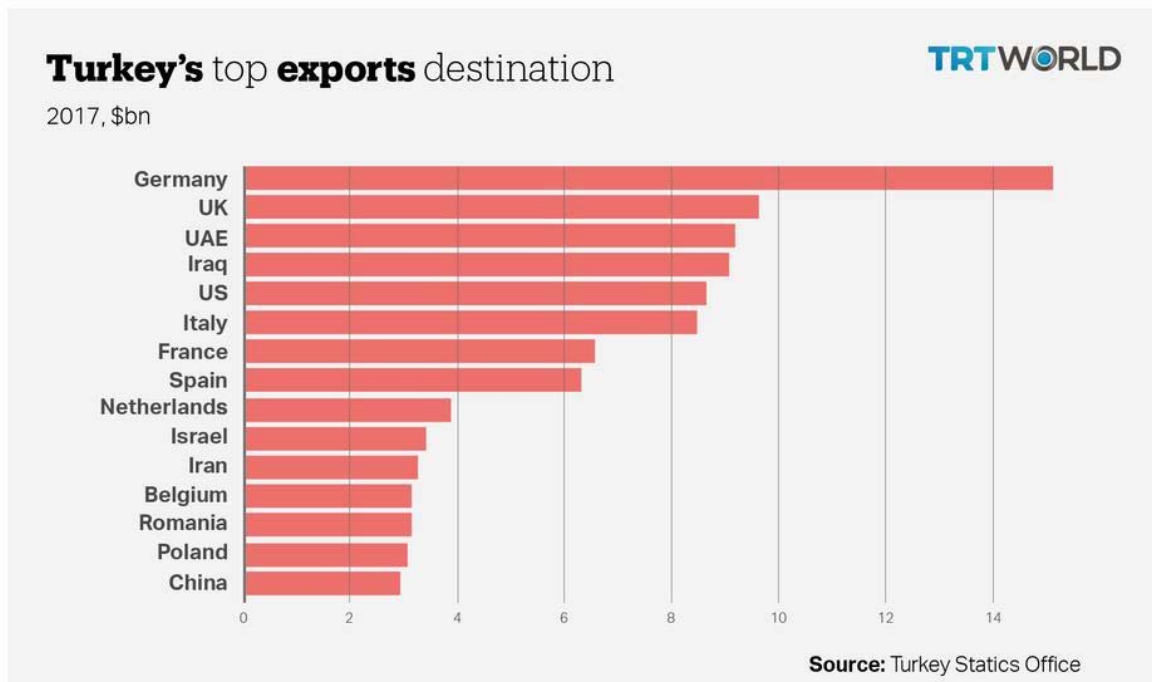
A World Bank press release of 4 June 2019 stated that regional growth is expected to firm to 2.7% in 2020 from a four-year low of 1.6% this year as Turkey recovers from an acute slowdown. UN Conference on Trade and Development singled out Argentina and Turkey as crisis-hit countries as a result of global vulnerabilities, in particular resulting from the US-led trade wars⁸. A Reuters poll involved more than 40 economists showed the Turkish economy shrinking 1.5% this year, according to the median forecast. The poll sees growth of 2.4% in 2020 and 3.4% in 2021. Turkey's economy last contracted on an annual basis in 2009, by 4.7%. From 2010 to 2017, its compound growth rate was 6.6% thanks to a construction boom driven by cheap capital following the global financial crisis.⁹ The Global Wealth Report, organised by Credit Suisse and considered the most comprehensive and up-to date survey of household wealth, put Turkey among the countries that saw major losses in wealth in 2019. The erosion happened mainly because of the Turkish lira's slump against the dollar, which led to the decrease in the GDP and the decline in the price of real estate, which represents the backbone of wealth. According to the Credit Suisse report, the richest 1% in Turkey saw their share of total wealth fall from 54% in 2018 to 42.5%.¹⁰

⁷ The World Bank in Turkey. Country Snapshot, April 2019, <http://pubdocs.worldbank.org/en/188761555342422504/Turkey-Snapshot-Spring-2019.pdf> (accessed in September 2019)

⁸ Ibid, p.8.

⁹ Reuters, 17 July 2019, <https://uk.reuters.com/article/us-turkey-economy-poll/turkeys-economy-to-contract-in-2019-limited-growth-ahead-reuters-poll-idUKKCN1UC0Z6> (accessed in November 2019).

¹⁰ The Global Wealth Report 2019, *Credit Suisse*, October 2019, <file:///ufs.intr.keele.ac.uk/homes/Downloads/global-wealth-report-2019-en.pdf> (accessed in November 2019).



The image shows Turkey's top exports destinations by country. March 16, 2018. (TRTWORLD)

While it was still possible to label Turkey a flawed or illiberal democracy before mid-2015, the developments since the June 2015 election and particularly after the July 2016 coup attempt (and counter-offensive) have led more observers to opt for sub-categories of authoritarianism instead. In the eyes of many observers, as a result of these significant steps towards a more authoritarian and conservative control, the AKP regime lost all its initial reputation of being a reformist and democratising party and turned into a conservative reactionary political entity with a hard-line Islamist ideology: it has concentrated power in its own hands by stifling parliament, denouncing its opponents as traitors to the nation, displacing critics in its own ranks, and purging all non-partisan (non-AKP) civil servants. This was typical of a right-wing demagogic nationalist populist authoritarian leader securing his power-base through quasi-democratic means and making sure that he cannot be removed. Erdogan's AKP, in this second period, made its survival dependent on authoritarian control and increasing level of fear, instilling a siege mentality among its followers. The political process as a whole is now so tilted towards Erdogan's authoritarian rule that it will be extraordinarily difficult to remove him. Patrick Cockburn of the *Independent* explains this as 'this is a feature of the 21st-century type coup: once in office, leaders are proving more difficult to evict than a junta of military officers a century earlier'. (Cockburn, 2019)

These two images/ periods of AKP rule in Turkey, however, should be understood, not as diametrically opposed regimes/ ruling styles with inherently contradicting modalities of management, but as two interlinked nodes on the spectrum of an inherently authoritarian neoliberal conservative governance. This period of twenty years reminds us that the journey of Turkish political economy followed quite closely a globally rooted typical neoliberal restructuring process. The state's economic policies and domestic politics, as well as its fast changing foreign relations were mostly opportunistic reactions to changing international situation and responses to the requirements and pressures of global neoliberal governance in the inter-state world system. From its first election victory in 2002, the AKP regime followed a standard neoliberal economic programme with a populist cushion that made it possible for the party to keep and even increase its electoral support. During the first 5-6 years this was achieved with no difficulty by the introduction of a new welfare regime with a range of social assistance programmes and by greater financial inclusivity (making consumer loans available to the poor). To support such programmes in health, education and housing was only possible when there was constant inflow of capital into the country and the economy was growing continuously based on this foreign investment. After the US Federal Reserve scaled back its easy money policy, alongside an interest rate hike, as a policy response to the 2008 global financial crisis, inflow of foreign capital slow down and stopped, and this put downward pressure of Turkish growth, and all this made it increasingly more difficult for the regime in Turkey to continue its populist neoliberalism. Neoliberal economic model continued but with a much more weakened level of populist cushion: many of those social welfare programmes as well as the expansion consumer loans slowed down after 2008 and ended a few years after. However, the regime still managed to keep its support among the poor by providing a little more, timed carefully just before the elections.

All of those critical incidents, from the sharply increased pressure upon press freedom in 2011 with dozens of media professionals being detained under vague anti-terror laws to 2013 Taksim Gezi Park protests, and to the 2016 failed coup attempt, took place in the context of global economic slowdown and continuing financial and economic crisis. At the political level, the years following the aftermath of the 2008 global crisis has witnessed

increasingly an authoritarian surge, not only in Turkey but in many parts of the world from India to Latin America, and from Eastern Europe to north America.

It is obvious that the current juncture represents a particularly dismal chapter in the history of Turkey, displaying all the traits of economic crisis and political exhaustion. The problem is not only the AKP or its leader, Erdogan. The popular appeal, 'anyone but Erdogan', sounds clear and straightforward, but it is not only simplistic but misleading, reducing Turkey's deep structural problems into a simple personal one. The problem for Turkey at this critical point in history is structural and historical. The current state of the Turkish economy and polity should be understood in the context of the global rise of right-wing authoritarianism which is itself a consequence of neoliberal restructuring and global shift. Successful resistance to this toxic mix in one place, in Turkey, should start with learning from the experience of other nations similarly damaged and not only looking at one country's experience in isolation.