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Rethinking Development Space in Emerging Countries: Turkey's Conservative Countermovement

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ABSTRACT

Despite an increasingly flexible global policy context, most emerging countries refuse to venture beyond their pre-existing development strategies. This article contends that domestic political constraints under liberalized markets might preclude policy dynamism in some cases. In particular, it draws attention to the tension between market expansion and social cohesion as a formative influence over policy patterns. This tension is sometimes addressed through a *conservative countermovement* whereby liberally-oriented governments entice sections of the poor into broad electoral coalitions by employing palliative interventions alongside market-expanding policies. Turkey's ruling Justice and Development Party (AKP) is one example. Central to the Turkish case has been the redeployment of the country's historic foreign capital-dependent pattern of growth in the service of selective redistribution and credit-fuelled consumerism. The ensuing deficit-led neoliberal populism assured stable and equitable growth in the extraordinary international and domestic context of the mid-2000s, but proved unfeasible since the global crisis. Even then, this coupling of market and social preferences has become politically so firmly entrenched in time that it now constrains the policy options to address Turkey's developmental impasse.

Keywords: AKP; development policy; double movement; emerging countries; neoliberalism; Polanyi; policy space; Turkey

INTRODUCTION

Neoliberalism and global integration, as documented in a voluminous literature, severely constrained development policy options in the South in the 1980s and the 1990s (e.g. Chang, 2002; Wade, 2003; Gallagher, 2005). Since the turn of the century, however, some developing economies, in particular large emerging countries, have enjoyed a less restrictive environment. Countries in that category typically experienced improved macroeconomic fundamentals, enhanced opportunities for foreign borrowing, and reduced dependence on multilateral lending. Their rise also coincided with continued stalemate in trade negotiations, a revised mainstream development wisdom that stressed selective rebuilding of state capacity, intensified South-South cooperation and, recently, the adoption of an array of unorthodox policy measures in both the North and the South in response to the global economic crisis. To be clear, neoliberal globalism—the notion that ever tighter integration of liberalized national markets constitutes the most optimal path to prosperity for all societies—continues to carry considerable policy weight. But for leading late developers, the disparate combination of factors listed above have attenuated the normative appeal and the institutional hold of that paradigm, carving out precious room for alternative strategies and policy experimentation.

Why, then, are countries reluctant to take advantage of their expanded policy options? Only in China (a perennial outlier in many ways, with a growing array of recent structural problems) and in parts of Latin America (where left parties have replaced the neoliberal market reformers of the previous generation) do we see clear signs of dynamism to systematically revise extant policy paths. In much of Asia, Africa, and the European periphery, transformative visions are few and far between.

Explaining the continuity of pre-existing development strategies in all these regions is beyond the remit of this article. Nonetheless, I draw attention to one factor that may have precluded policy dynamism in some cases: domestic political constraints under liberalized markets. I argue that constraints and solutions associated with earlier stages of liberalization may generate strategic preferences from which policymakers find difficult to escape. The political legacy of liberalization could go a long way in illuminating today's policy sclerosis.

Turkey is a good place to explore this dynamic. On the surface, the country is a typical emerging power, with successive Justice and Development Party (*Adalet ve Kalkınma Partisi*—AKP) governments since 2002 often credited for significant and largely equitable per capita income gains. Fiscal resilience, a healthy financial system, and marked increases in both trade volume and foreign investment round out the achievement.

However, Turkey also epitomises the puzzle described above in that it has recorded little progress in avoiding its historic developmental pitfalls. In terms of many of its structural dynamics, the Turkish economy is not radically different today than it was two decades ago. Turkish growth is still driven by domestic consumption, characterized by low savings, and is therefore dependent on foreign inflows as reflected in perennially high current account deficits (Halicioğlu, 2012; Taymaz and Voyvoda, 2012). Meanwhile, proven strategies of development, such as a firm commitment to industrial upgrading with a view to economies of scale, are always part of the policy debate but never dictate the policy repertoire. Rather, despite its developmentalist rhetoric, the AKP, now in its fourth consecutive term in office, has pursued a strategic policy matrix that has reinforced—indeed, compounded—Turkey's deficit-led, foreign capital-dependent, private consumption-oriented growth model.

This policy configuration, which I term 'deficit-led neoliberal populism', has its roots in the tumultuous 1990s. After a brief reprieve around the crisis-ridden period 1999-2002, the AKP gave this model a new lease of life, albeit in updated fashion. I argue that the interplay between two core requisites of the party's electoral appeal accounts for the persistence of this pattern. One is macroeconomic stability, defined in orthodox terms of fiscal-financial sustainability. The other is social inclusion, which entails the continuous expansion of the consumer base and heterodox initiatives of redistributive side-payments. In the extraordinary domestic and international opportunity structure of the mid-2000s, deficit-led growth provided a feasible way of reconciling these requisites. However, the positive feedback from this pattern has weakened in recent years. Large current account deficits no longer induce fast growth, whereas the welfare gains from existing forms of inclusion have reached their limit. But although government plans for a course change are voiced ever louder, the political balance that underpins deficit-led neoliberal populism renders such a transition unlikely.

While there remain severe external constraints to policy strategies in the South, the Turkish case suggests that domestic political conditions also matter, and increasingly so. In particular, it illustrates the centrality of the inherent tension between market expansion and social cohesion as a formative influence over policy paths. In some cases, this tension—succinctly captured in the Polanyian notion of 'double movement'—is addressed through social democratic settlements. But managing this tension is not the prerogative of left politics. Many countries have a history of liberally-oriented governments compensating the losers of economic transition via palliative measures. In these contexts, policy configurations that have a record of managing social dislocations while simultaneously upholding liberalized markets

can expect a lifespan beyond their economic feasibility. Such hybrid regimes tend to vascularise with existing institutions and dominant or rising interests quickly and, for electoral coalitions to the right of the centre, prove politically too valuable to abandon. They stick easily but are hard to undo. They may thus act as a prohibitive force against policy dynamism even under an otherwise opportune policy space. Yet before explicating this argument, let us first glance at the evolving policy climate in emerging countries.

FROM RESTRICTIVE TURBULENCE TO POLICY FLEXIBILITY

In the 1980s and 1990s, the literature on developing economies operated from an assumption of extraordinary times, and for good reason. In most cases, market reforms were instigated amid devastating economic crises, implemented under International Monetary Fund (IMF) and World Bank programmes, and coincided with profound political shifts. Scholars recognized the unusual conditions behind policy during these turbulent times. They drew attention to fragile reform coalitions, the role of technocratic elites, and the complications caused by simultaneous economic and political transitions (Nelson et al., 1989; Haggard and Kaufman, 1995). The string of financial crises that paralysed one major middle-income country (MIC) after another in the 1990s delayed the return to a sense of normalcy.

The turn of the century ushered in a less tumultuous context. One factor was a favourable international environment. Unprecedented increases in trade and financial flows along with improved macroeconomic conditions in most MICs facilitated exceptionally high growth rates. Between 2003 and 2007, annual GDP growth in developing countries averaged a staggering 7.3 per cent, more than twice as it was in the 1980s and 1990s (World Bank, online). Although driven by Asian performance, this growth acceleration was consistent across all regions, including Latin America and sub-Saharan Africa.

The changing objectives of economic policy were equally crucial. By the late 1990s, most economies had already committed to variants of economic liberalism. The agenda now centred on complementary adjustments in the institutional environment. This paradigm broadening, known as the post-Washington Consensus (PWC), emphasised selective institutional recalibration (Öniş and Şenses, 2005). Besides, a period of crisis-free growth had weakened the hold of international financial institutions (IFIs) over MICs. Many continued their engagement with the World Bank, although in more favourable terms. The IMF, meanwhile, ceased to be an active player in large emerging economies. Weary of heavy-handed conditionality and enjoying improved fiscal conditions as well as opportunities for private financing, major MICs avoided the Fund even during the global crisis. For most emerging countries, the age of crisis-induced, IFI-led comprehensive reform was no more.

Global trends have also evolved to free up policy space. The PWC focus on market regulations and social sustainability signalled a departure from the extreme state minimalism of the neoliberal orthodoxy. At the same time, some countries, especially in Latin America, began re-emphasising state-directed industrialization—an orientation dubbed ‘new developmentalism’ (Khan and Christiansen, 2011; Ban, 2013). The Great Recession has reinforced this trend towards the re-emergence of state activism, however selective (Öniş and Güven, 2011a). Part of this dynamic was associated with initiatives engineered in the North, such as ‘emergency Keynesianism’ (Hall, 2013). The IMF also displayed a ‘productive incoherence’ with a narrow focus on stabilization, freeing policy space for borrowing governments (Grabel, 2011). More important, many developing states stepped up their industrial policy efforts (Aggarwal and Evenett, 2012; Wade, 2010). In fact, the long-term trend suggests that, in response to ever constraining multilateral rules, countries in the North

as well as South learn to use more effectively whatever policy room they have left to foster their domestic industries (Block, 2008; Natsuda and Thoburn, 2014; UNCTAD, 2014: 95ff).

None of this suggests a radically expanded policy space comparable to the postwar decades. The rules and interests associated with neoliberal globalism continue to constrain policy in the South in various ways. Some would also argue that the recent good economic fortunes of large MICs will likely prove to be a historical aberration, cutting short the incipient sense of policy flexibility some governments have enjoyed over the past decade.¹

These caveats aside, it is noteworthy that until now few countries have taken advantage of this window of opportunity to initiate a course change. Pronounced policy dynamism is observable mainly in China, with its quest for a more sustainable trajectory, and in parts of Latin America, where left governments have combined redistributive policies with a renewed commitment to developmentalism (McNally, 2012; Grugel and Ruggiero, 2012).² Meanwhile most countries have displayed either piecemeal efforts towards reorientation (e.g. Russia; Rutland, 2013) or, as in Turkey, a broad persistence of pre-existing policy paths.

A CONSERVATIVE COUNTERMOVEMENT?

What accounts for policy continuity in many emerging countries despite their expanded options? Although no single factor can explain all such cases, I maintain that domestic political constraints associated with liberalization offer clues. Of crucial importance is the perpetual tension between the economic processes and social outcomes of market opening, as depicted by Karl Polanyi's notion of 'double movement.' Neoliberalism has been around long enough for countries to experiment with various ways of coping with this tension.³ Policy regimes that have evolved to also accommodate that constraint will be resilient. This resilience may in part explain the lack of appetite for course change in some countries even when they enjoy an opportune policy space.

Polanyi argues that the 'movement' towards self-regulating markets is socially so disruptive that it inescapably leads to a 'countermovement'; attempts at 'disembedding' markets will result in their protective 're-embedding' within society and politics. In the nineteenth century, economic liberalism and social protection were the two rival organizing principles (ideas) behind the movement and the countermovement, respectively; distinct interests (e.g. class forces) and institutions (e.g. gold standard, poor laws) crystallized around these principles. This clash between liberalism and protection 'led to a deep-seated institutional strain', culminating in a catastrophe by the 1930s (Polanyi, 1944: 134).

One interpretation of the 'double movement' suggests two mutually exclusive social projects embodied in different actors and institutional arrangements. From this perspective, various forms of regulatory interventionism, typified by the Keynesian welfare state, had arguably re-embedded markets in advanced economies in the postwar decades (Ruggie, 1982), whereas the neoliberal turn of the 1980s signified a renewed movement towards self-adjusting markets, now pursued at a global scale. The double movement thus represents the successive phases of a continual pendulum swing between periods of socially destructive

¹ Growth in emerging countries has slowed down since 2012, with most observers expecting this trend to worsen. See, for example, Financial Times (2015).

² Even in these cases there is significant continuity in pre- and post-global crisis policy orientations (Schmalz and Ebenau, 2012).

³ Neoliberalism here is understood as an economic policy stance that "entails belief in competitive markets enhanced by global free trade and capital mobility, backed up by a pro-market, limited state" (Schmidt and Thatcher, 2013: 6). The real-world policy instruments of market-orientation would of course vary across contexts—in a way, this article is about a distinct variety of this tendency.

market autonomy and of re-embedding of markets through regulation and redistribution (Dale, 2012). Bringing this reading to date, the alter-globalization movement clearly qualifies as a countermovement (Evans, 2008), while the global crisis again proves the destructive potential of self-regulating markets. Out of the recent calamity one could thus expect a pendulum swing back to market re-embedding (Gills, 2008; cf. Crouch, 2011; Cahill, 2014).

Conceiving of movement and countermovement as pendular forces is one reading. Surely there are processes that tilt the balance towards either scenario as the determinant flavour of the times. Yet this does not mean the recessive tendency altogether subsides. A complementary reading of the double movement would consider it ‘an inherent but potentially manageable tension’ in capitalism (Sandbrook, 2014: 10). Polanyi is clear on how the movement sparks social resistance, but the opposite is also true.⁴ Since markets produce as generous opportunities for wealth creation as grave dangers of social dislocation, there will always be forces pulling in different directions regarding the scale and modalities of market freedom. As such, if the pendular reading of the double movement depicts a Newtonian world of opposing forces that produce a neat, vectorial motion, imagining the double movement as an inherent tension would point at a quantum universe of complexity and unpredictability.

Politicians have to navigate this tension, which is a difficult task in an open (or even semi-open) polity when the movement towards freeing markets is ascendant. The dilemma is obvious: How can popular consent be secured when economic change undermines the relative interests of the majority? One way to address this dilemma is to methodically resist the pendulum swinging too much towards market supremacy. This middle position is social democracy, which involves institutionalised redistribution of wealth and comprehensive interventions in the workings of the market without choking the innovative spirits of entrepreneurship (Dale, 2010). This subordination of markets to social needs requires a fine political balance difficult to sustain under neoliberal globalization. Still, social democratic principles did guide some economies in the South in recent decades and have remained an integral component of the policy repertoire especially in Europe (Berman, 2006; Sandbrook et al., 2007; Sandbrook, 2011; Smith, 2014). In fact, social democracy has been flourishing in parts of Latin America over the past decade (Huber and Stephens, 2012; Sandbrook, 2014).

But if it were only parties of the left that could manage the inherent tension embodied in the double movement, how do rightwing, liberally-minded parties win elections and, as in the Turkish case, remain in government for extended periods? One qualification is that people do not vote solely on the basis of economic well-being; other electorally salient issues such as cultural identity and national security are often claimed effectively by parties of the right. Yet there is more to rightwing politics under neoliberalism. Centre-right and conservative parties otherwise committed to economic liberalism can sustain their appeal by also granting significant material benefits to the losers of the pendulum swing towards markets.

Five mechanisms, some of which are shared by left parties as well, can be identified. First, especially in the South, resource transfer through clientelism and patronage can be deployed to create pockets of popular support for parties of any political persuasion (Roniger, 2004). Second, economic populism can be used to court targeted social strata—measures varying from tax breaks for small business to hikes in public sector salaries fall under this category. Third, most parties on the right today would accept PWC-style inclusive liberalism, mainly, poverty alleviation via basic social protection, as well as the continued use of extant welfare provisions, though with limitations (Porter and Craig, 2004). Fourth, parties on either side of the political spectrum can be committed to improving the quality of social services

⁴ For example, although welfare state builders enlisted the support of capitalists (Swenson, 2002), the universal corporate enthusiasm for liberalization illustrates big business often has a built-in aversion to comprehensive regulations and social redistribution.

and public goods, such as education and infrastructure (while they often diverge on the cost of accessing these services). Fifth, and at the most general level, the rapid growth of financial markets and availability of consumer credit might have positive (if temporary) welfare effects, with consequences that often benefit liberal economic policies in normal times.

This last point is important. Financial inclusion, embraced emphatically by orthodox neoliberal as well as Third Way policymakers, offers welfare gains especially in terms of accelerated home ownership, serving as a populist lever (Polilo, 2011). It also replaces fiscal spending with private debt as the principal mode of stimulating the economy, a process Crouch (2008) terms ‘privatised Keynesianism.’ These trends now also increasingly apply to emerging economies, with implications for mass politics. In particular, high levels of private indebtedness render low- and middle-income households vulnerable to fluctuations in liquidity and interest rates, thereby creating a popular demand for macroeconomic stability. This in turn produces public hypersensitivity to potential short-term costs of radical policy shifts regardless of their likely long-term benefits. Debt breeds economic conservatism.

In fragile polities where progressive forces fail to articulate the popular discontent against market liberalism, conservative projects can fill the void and employ the mechanisms outlined above to expand their support base. Compared to the class-based solidarism of the left, these projects will be more amenable to using existing social cleavages, including ethno-religious and regional grievances, as a political lever. Such grievances can also be deployed to distance the project from the cosmopolitan economic and political elites associated in the public imagination with the suffering caused by the movement towards liberalized markets.

Populist leadership is a handy ingredient in such projects. An early example was Thaksin Shinawatra’s Thai Rak Thai (TRT) party, which mobilized the frustrations of indebted farmers and small business in the north and east Thailand as the main catalyst of an anti-elite movement (Phongpaichit and Baker, 2008; Hewison, 2014). Putin has been able to appeal to Russia’s heartland not only through his nationalistic rhetoric; he also sustained a large patron-clientelistic network and, more important, bolstered the living standards of Russia’s downtrodden masses via improvements in public services and salary and pension increases (Sutela, 2012; Treisman, 2011). In Hungary, Orban’s anti-elite, nationalist stance has been embraced by low-income voters not just due to its cultural appeal, but also given its commitment to state interventionism and social welfare (Richter, 2011; Knutsen, 2013).⁵

A final point, on policy coherence and sustainability: Whereas social democracy is a ‘push-back’ approach against the pendulum swing towards market supremacy, conservative countermovements seek a ‘cushioning effect’ in response to electoral strains caused by the movement. In pursuing that goal, rightwing parties will be reluctant to compromise market expansion. Instead, they will rely on existing compensatory mechanisms or devise ad hoc measures suitable to the electoral terrain. Many such parties are also wilfully ambivalent and internally divided over the tools and extent of redistribution. This pragmatism will be advantageous to gain allies. But in the long run, it will be a burden. The accumulation of diverse political commitments will create a policy mix sustainable only in good times. In other words, the ability of such a government to attenuate distributive strains will exceedingly depend on the economic juncture—in particular, on continuously high growth rates. Loaded down with multiple policy and political commitments, governments that run on conservative countermovements may therefore lack the agility to change course even when they hit an

⁵ It is noteworthy that over the past decade public expenditure towards social protection in Hungary has been consistently higher than in most other transition economies in Europe. Between 2002 and 2012, Hungary spent more of its GDP on social protection than Czech Republic, Poland, Slovakia and the Baltic republics. See Eurostata at <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tps00098&plugin=1> (accessed 28 January 2015).

economic dead end, exposing their susceptibility to a mismatch between political resilience and economic feasibility. This is roughly the stage at which Turkey finds itself.

THE STABILITY-GROWTH-INCLUSION NEXUS

Turkey's market opening stretches back to the early 1980s. Yet in the following two decades, furthering liberalization and keeping social tensions at bay proved to be irreconcilable tasks. The 2000-2001 crisis exposed the problem starkly, with three formative consequences. First, it underlined the significance of macroeconomic stability. Throughout the 1990s, a succession of weak coalition governments addressed the distributive strains by reinstating old-school economic populism. The resultant fiscal expansion was financed through government borrowing via an increasingly internationalised but poorly regulated domestic banking system. The outcome was chronic instability manifested in unsustainably high fiscal deficits, soaring inflation, and the accumulation of excessive risks in the financial sector, together culminating in policy paralysis and eventually the biggest meltdown in the country's postwar economic history. The crisis illustrated the perils of some enduring habits of Turkish economic governance: a propensity to care-free redistribution, the absence of a sound institutional infrastructure to insure policy coordination, and an aversion to regulatory vigilance (Cizre-Sakallioğlu and Yeldan, 2000; Öniş and Rubin, 2003).

Second, the crisis ushered in a period of technocratic policy making under successive IMF and World Bank programmes. The IFIs had played a central role in Turkey's initial liberalization process in the 1980s, but had been largely absent from the scene since then. Their return introduced new dynamics. On the one side, and reflecting the emergent PWC, Fund and Bank programmes included sweeping institutional reforms in various domains (Güven, 2012). On the other side, this new phase of restructuring empowered the liberal-minded elites within the economic bureaucracy. Notable in this regard was the rise of the Treasury as the headquarters of the reform initiative led by Kemal Derviş, a former World Bank Vice-President called on duty when the crisis erupted. The turf of liberal bureaucrats extended well beyond the Treasury, and included the Central Bank as well as several independent regulatory agencies (IRAs) from the Capital Market Board to the crucially important Banking Regulation and Supervision Agency (BRSA).

Third, the crisis resulted in a fundamental reshuffling of party-political balances. The main centre-right and centre-left parties had already been diminished by corruption scandals and relentless sectarianism throughout the 1990s. Economic collapse of an unprecedented magnitude eliminated whatever little credibility these parties had left in the eyes of the Turkish electorate, leaving the political space open to new initiatives. The conservative AKP rose to power in this extraordinary context (Öniş and Keyman, 2003).

These three major outcomes of the crisis—the non-negotiability of macroeconomic stability, a comprehensive reform programme implemented under IFI tutelage, and the vacuum at the centre of the Turkish political landscape—were the main factors that shaped the AKP's strategy during its first term in office (2002-2007). This was a context marked by limited policy space, yet ample room for political strategising. Recovery on a path of IFI-led reform was an immovable constraint (Patton, 2006). The optimism surrounding Turkey's EU bid and the accompanying efforts towards political and regulatory harmonization constituted an additional external anchor (Öniş and Bakır, 2007). Yet despite these external policy constraints, conditions were ripe for striking a broad-based domestic electoral coalition.

The selective implementation of the post-crisis reform programme offers insight into how the party successfully juggled external constraints with the requisites of expanding its electoral base. In areas implicated in the crisis and were hence deemed crucial for attaining

macroeconomic stability, the AKP stuck with Derviş's programme, displaying an unwavering reformist attitude. Thus, it remained committed to the consolidation of ongoing Treasury and public financial management reforms while conforming to IMF-set primary surplus targets (mainly, fiscal surplus *before* interest payments on public debt). It also defended central bank independence despite opposition from within the party, and furthered the financial regulatory reforms through a new banking law in 2005. Given its precarious position in power during its first term, the AKP's commitment to these reforms aimed at fiscal-financial sustainability was crucial in securing the endorsement of the IFIs and the Istanbul-based conglomerates.

Yet the party was unmistakably reluctant towards reform items potentially detrimental to its political fortunes. Elements of the conservative countermovement were visible from the outset. One example was the World Bank and OECD-supported anti-corruption regime and in particular the novel public procurement system, which, if implemented properly, would have severely curtailed the AKP's control over the allocation of public resources in infrastructure projects that were critical for smaller business groups close to the party. A more important element was agricultural subsidy reform. The World Bank-designed Agricultural Reform Implementation Project (ARIP) of 2001 had aimed to dismantle Turkey's antiquated mechanisms of redistribution in the countryside, ranging from price supports to credit subsidies. However, given the indispensability of rural voters to the party's fortunes, the AKP from 2004 onward diluted the reforms by reinstating old support instruments to formulate a hybrid subsidy regime and later, by 2006-2007, fully subverted the reformist initiative (Güven, 2009). These anti-reformist moves did not oppose market expansion in general, but helped retain public control over strategic areas for discretionary resource allocation.

Seen this way, the AKP's strategy appealed to a wide range of popular and elite interests. As for the groups that were not specially targeted (notably labour and financial interests), the improvement in macroeconomic indicators, detailed in Table 1, provided cause for not openly opposing this broad policy coalition. Crucial here was not only the growth rates averaging 7 per cent during 2003-2007. The half-decade preceding the global crisis had been kind to most countries in the South; if anything, Turkish rates trailed behind developing and emerging countries as a group.⁶ The doubling of the GDP in dollar terms is not impressive either given the substantial real appreciation the lira in 2002-2007 against a globally weak dollar. Rather, what was remarkable about Turkish economic performance was the rapidity of improvement in other core indicators, in particular the fiscal balance, public debt, and inflation.

These figures represented the consolidation of the 'stability imperative' in policy making. Stability here is conceived in standard neoliberal terms of fiscal sustainability, low inflation, and a prudentially regulated financial sector resilient to external shocks. From 2002 to 2007, the Turkish economy was characterised by high levels of primary surplus, a rapid decline in inflation, and a booming banking sector with high capital adequacy ratios. The gains in the specific international and domestic context of the mid-2000s were manifold. For one, given a global environment of high liquidity, stability was the ticket to foreign inflows. Case in point was the boom in foreign direct investment (FDI) in 2005-2007 compared to the years prior. Most of this went into foreign acquisitions in the banking sector and some into a new wave of privatizations (Öniş, 2011). Investment also recovered thanks to increased foreign financing for large firms and the steadily rising assets of the banking sector.

If stability facilitated growth, growth in turn enabled the AKP to underline its centrist credentials by committing itself to social inclusion. As the pendulum swung towards market supremacy, the AKP was aware its electoral fortunes relied on numbing the socially

⁶ During 2002-2007, low-income and middle-income countries as a group grew at an annualised average rate of 7.33 per cent whereas Turkey grew by 6.79 per cent. See World Bank (online).

Table 1. Turkey: Selected Indicators (2002-2014)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
GDP (US\$ Billions)	232.5	303	392.2	483	530.9	647.2	730.3	614.5	731.2	774.8	788.9	823.3	799.5
GDP Per Capita (US\$)	3,571	4,587	5,856	7,117	7,727	9,310	10,382	8,624	10,112	10,584	10,646	10,975	10,530
GDP Growth (%)	6.2	5.3	9.4	8.4	6.9	4.7	0.7	-4.8	9.2	8.8	2.1	4.2	2.9
Investment (% GDP)	16.7	17.0	20.3	21.0	22.3	21.4	19.9	16.9	18.9	21.8	20.3	20.3	20.1
Savings (%GDP)	18.6	15.5	16.0	16.0	16.6	15.5	16.8	13.2	13.5	14.4	14.5	13.4	14.9
Imports (US\$ Billions)	51.5	69.3	97.5	116.8	139.6	170.1	202.0	140.9	185.5	240.8	236.5	251.7	242.2
Imports (%GDP)	22.2	22.9	24.9	24.2	26.3	26.3	27.7	22.9	25.4	31.1	30.0	30.6	30.3
Exports (US\$ Billions)	36.1	47.3	63.2	73.5	85.5	107.3	132.0	102.1	113.9	134.9	152.5	151.8	157.6
Exports (%GDP)	15.5	15.6	16.1	15.2	16.1	16.6	18.1	16.6	15.6	17.4	19.3	18.4	19.7
Current Account Balance (%GDP)	-0.3	-2.5	-3.7	-4.6	-6.1	-5.8	-5.5	-1.97	-6.2	-9.7	-6.1	-7.9	-5.8
FDI (US\$ Billions)	0.6	0.7	1.1	8.1	17.0	18.4	14.7	6.2	6.2	14.2	10.1	9.3	8.5
Fiscal Balance (%GDP)	-11.4	-8.8	-5.4	-1.2	-0.6	-1.6	-1.8	-5.5	-3.6	-1.3	-2.0	-1.2	-1.3
Primary Balance (%GDP)	3.4	4.0	4.7	5.8	5.4	4.2	3.5	0.0	0.7	1.9	1.4	2.0	1.5
Total Public Debt (%GDP)	70.9	63.5	57.8	52.2	46.4	40.4	41.2	47.7	44.4	41.2	38.8	38.8	35.9
Domestic	43.4	43.5	40.9	38.5	33.8	30.9	29.7	35.6	32.9	29.1	28.0	26.6	24.3
Foreign	27.4	20.0	16.8	13.6	12.6	9.5	11.5	12.2	11.5	12.1	10.8	12.2	11.6
Public Foreign Debt (US\$ Billions; exc. CBRT)	64.5	70.8	75.7	70.4	71.6	73.5	78.3	83.5	89.1	94.3	104.0	115.9	117.7
Private Foreign Debt (US\$ Billions)	43.1	48.9	64.1	84.9	120.8	160.7	188.5	172.3	191.4	200.3	227.9	268.0	282.3
Financial Firms	12.3	15.8	23.9	39.2	58.6	68.8	75.9	67.1	88.9	94.6	116.3	150.1	164.8
Non-Financial Firms	30.7	33.2	40.1	45.7	62.2	91.9	112.6	105.1	102.5	105.7	111.6	117.9	117.4
Banks' Assets (%GDP)	60.7	54.9	54.8	62.7	65.9	69.0	77.1	87.6	91.7	93.8	96.7	110.7	113.1
Banks' Loans (%GDP)	13.6	14.2	17.4	23.7	28.9	33.9	38.7	41.2	47.9	52.6	56.1	66.9	70.3
Consumer Loans (%GDP)	1.9	2.8	4.7	7.2	9.1	11.3	12.3	13.6	15.7	17.3	18.8	21.2	20.2
Banks' Capital Adequacy Ratio (%)	25.1	30.9	28.2	23.7	21.9	18.9	18.0	20.6	19.0	16.6	17.9	15.3	16.3
Unemployment %	10.3	10.5	10.3	10.6	10.2	10.3	11.0	14.0	11.9	9.8	9.2	9.7	9.9
Consumer Inflation %	45.0	18.4	9.4	7.7	9.7	8.4	10.1	6.5	6.4	10.4	6.2	7.4	8.2
USD/Turkish Lira (year-end)	1.65	1.40	1.35	1.35	1.42	1.17	1.52	1.51	1.55	1.92	1.79	2.14	2.32

deleterious effects of this process. Part of this inclusive orientation was explicit. Behind the improvement in fiscal balance was not only fiscal discipline, but increased tax revenues under fast growth and the reduced cost of debt financing due to declining interest yields. This permitted targeted redistributive outlays towards selected groups without putting fiscal balances at risk. The principal mechanism to do so was the expansion of social programmes. Turkey's first-generation reformers had already established a national system of social assistance in the 1980s, and the pro-Islamist parties of the 1990s had gained much electoral success in local government through charitable assistance targeting the urban poor. The AKP drew on both channels of social compensation to reach the poorest sections of society left behind by the formal welfare system (Buğra and Keyder, 2006). The jump in minimum wage in 2004-2005 contributed to that record. Other attempts to ease distributive tensions included the return to classic agricultural subsidies and improvements in public salaries from 2004 onwards. The result of these selective measures was the emergence of a pattern of 'controlled populism' (Öniş and Güven, 2011b; Öniş, 2012; cf. Bozkurt, 2013; Dorlach, 2015).

Yet inclusion operated in less voluntaristic ways, too. Growth during this period trickled down equitably. In a high-growth economy, the slight improvement in the income shares of the bottom two quintiles led to a dramatic gain in poverty reduction, with poverty (calculated at the national poverty line) declining from about 28 per cent in 2003 to 17 per cent in 2007.⁷ An additional factor for popular fortunes was the rapid rise in household consumption due not simply to higher disposable incomes but more so to financial inclusion. As the financing of government debt became less profitable due to lower interest yields, Turkish banks turned their attention to traditional banking. High-interest, high-fee consumer loans were particularly lucrative. From 2003 to 2007, assets climbed slowly, from about 55 per cent to 70 per cent of GDP; however, consumer loans, including credit card spending, increased more than five-fold during to reach nearly 8 per cent of the GDP. This was still low by international standards, but it made a difference in the spending habits of ordinary citizens, especially middle and lower-middle classes. Seen in terms of distributive politics, the fiscal expansion of the 1990s was replaced in the 2000s with credit-based financial inclusion.

Turkey's stability-growth-inclusion nexus of the mid-2000s provided the archetypal instance of what I described earlier as the 'conservative countermovement': On the one side, the period was one of relentless market expansion, from the revitalization of mass privatization and the removal of the remaining state monopolies to a considerable increase in FDI inflows, the rebuilding of the banking system and an unprecedented, credit-fuelled growth in private consumption. This was accompanied by a process of constructing market-friendly regulatory regimes under IMF and World Bank programmes (Öniş, 2009). On the other side, fast growth rates, targeted distributive interventions and financial inclusion ensured that popular interests would not be undermined by Turkey's accelerated transition to a market-based economy. To the contrary, poorer segments of society emerged as relative winners of Turkey's second-generation neoliberal reforms under a conservative government.

Crucially, this virtuous cycle was made possible only with the steady retreat of the Turkish economy towards its historic foreign capital-dependent pattern of growth. The ratio of exports to imports declined throughout the period as high current account deficits hovering around 5 to 6 per cent became a persistent feature of the economy. More worrisome was the rapidly rising foreign obligations of private sector firms, quadrupling from 2002 to 2007. This could be explained in large part with the absence of any real recovery in savings. Put differently, investments driven by increased demand came to hinge on foreign inflows, while part of that demand itself stemmed from rising household debt. In the end, as economists were becoming increasingly apprehensive about the global risks associated with the payments

⁷ See World Bank (online).

imbalances dividing current account deficit economies from surplus ones (e.g. Eichengreen, 2006), Turkey was one of few emerging countries entrenched deep in the deficit camp.

THE RESTORATION AND EXHAUSTION OF DEFICIT-LED GROWTH

Several factors rendered the years 2007-08 a turning point for Turkish economic policymaking. The 2007 elections resulted in the AKP's continued ascendance with a significant increase in voter support (from 34 to 46.5 per cent). In 2008, the party managed to thwart another existential hurdle as the Constitutional Court narrowly rejected a closure case against the AKP based on its alleged anti-secular activities. Meanwhile, formal external policy constraints were weakening. The conclusion in May 2008 of the third consecutive IMF stand-by agreement removed the IFI anchor that had guided policy since 1999. In addition, the start of Turkey's EU accession talks in 2005 was followed by a period of mutual apathy, manifested in reform reluctance on the part of the Turkish government (Patton, 2007).

Most important was the global crisis. Turkey's GDP contraction of 4.7 per cent in 2009 was one of the deepest among emerging countries. The social consequences were severe: wages fell dramatically and unemployment skyrocketed. One reason for this grievous impact was Turkey's dependence on foreign inflows and the troubled European market. A more critical factor was the government's policy response (Özatay, 2010). Most emerging economies confronted the crisis either with a fresh injection of official funds through IMF and World Bank programmes or with vigorous fiscal stimulus packages. By contrast, Turkey dismissed the multilateral financing option early on. And the stimulus package it adopted was not just considerably delayed but small in size, piecemeal in nature, and too conservative in its aims (Öniş and Güven, 2011b). Rather than actual spending, it relied on foregone revenue via tax cuts. Its social component was also modest, with the emphasis placed not on income recovery but entrepreneurial supports, such as investment subsidies and export promotion.

On the whole, the government's weak response to the crisis illustrated a continued commitment to fisco-financial prudence. That Turkey entered the global turbulence in a sound fiscal context and with a robust banking sector was considered an advantage that had to be defended at any cost—including a sharp GDP contraction. After all, stability defined in these terms was imperative for 'inclusive growth'. For foreign asset holders to continue financing its deficit-led growth pattern, Turkey had to remain a financial safe harbour.

The prognosis of Turkish policymakers was largely proven as the economy recovered at a remarkable pace in 2010 and 2011. Yet the dynamics of recovery were all too familiar: rapid deterioration of the trade balance, with the ratio of exports to imports declining from 72 to 56 per cent from 2009 to 2011; recovering investment despite record low levels of savings, which meant continued reliance on foreign inflows; and rapid credit expansion including consumer loans coupled with a sharp increase in the foreign obligations of financial firms. Together, the import-export gap, the savings-investment gap, and savings-loans gap translated into unprecedented levels of current account deficit, nearing 10 per cent of the GDP in 2011. Turkey's post-crisis recovery was made possible only through an unsustainable amplification of its deficit-led, consumption-driven pattern of growth.

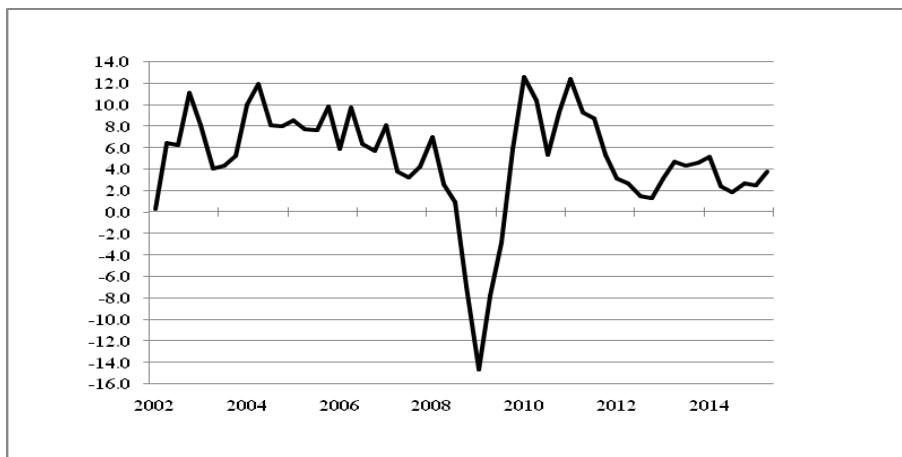
Exchange rate dynamics were crucial in this regard. Substantial appreciation of the Turkish lira in 2002-07 (Table 1) had been central to the AKP's deficit-driven growth-inclusion nexus: Strong lira had made imports and foreign borrowing cheaper, playing an important part in Turkey's credit-led consumption boom. It also served as political capital for AKP leaders, who frequently boasted about the economic 'miracle' the party engineered with per capita income tripling from \$3,500 to over \$10,000 in a few short years. The limited jolt the lira suffered in 2008 and its re-appreciation in 2009-10 greatly facilitated the restoration

of deficit-led populism driven by cheap imports and cheap credit. And with no income decline in dollar terms to report as of 2010, the government was able to promptly return to its narrative of economic resilience and success. On the flip side, of course, were strong incentives for continued foreign borrowing along with persistent constraints upon domestic industrial value added under fierce import competition.

If the turn of the decade represented the restoration of deficit-led growth, post-2011 developments illustrate its unmistakable exhaustion. By 2011 there emerged a consensus that the economy was overheating; the question was whether policymakers could avoid a crash and pull off a soft-landing instead (IMF, 2012). Figures support they managed to do just that, with growth rates averaging 3 per cent for 2012-2014, well below Turkey’s historic range. Meanwhile, per capita income has been stuck since 2008 at around US\$10,000, meaning the catch-up window of the mid-2000s has been firmly closed despite the post-crisis rebound.

More worrying is the persistence of several destructive trends that were once considered tolerable side-effects of the country’s growth performance (Figures 1 through 4). Chief among those is the current account deficit. In the mid-2000s, deficits ranging from 4 to 6 per cent of the GDP sustained 7 to 9 per cent growth rates, whereas since 2012 deficits of similar or higher magnitude can attain less than half that growth. In addition, and as a sign of partial recovery, as of 2014 the ratio of investments to GDP was still lower than in the mid-2000s whereas the national savings rate remained at abysmally low rates. Yet as savings eroded, loans rocketed. Despite the crisis, the increase in private indebtedness continued apace, with the ratio of consumer loans to GDP more than doubling from 2007 to 2014. This was achieved on the heels of a similar development at a grander scale, that is, the doubling of the foreign obligations of financial firms (read, banks) from \$69 to \$165 billion. The rapid depreciation of the lira against the dollar in 2014 and 2015 has added an extra layer of risk to this inflated foreign exposure. In other bad news, the financial system is less robust now as banks’ capital adequacy ratio has kept sliding from its height in the mid-2000s, and foreign direct investment remains at about half the level it was before the crisis. In brief, Turkey’s deficit-led growth has now degenerated into deficit-led stagnation under inflated foreign indebtedness of the private sector and domestic indebtedness of households.

Figure 1. Turkey: GDP Growth (2002-2014) (Quarterly % Change in Constant Prices)



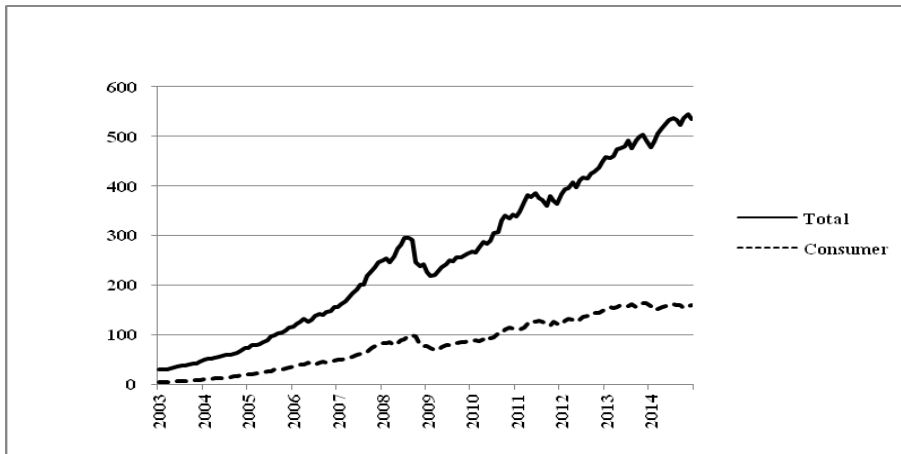
Source: TURKSTAT

Figure 2. Turkey: Current Account (2002-2014) (Monthly Balance; US\$ Millions)



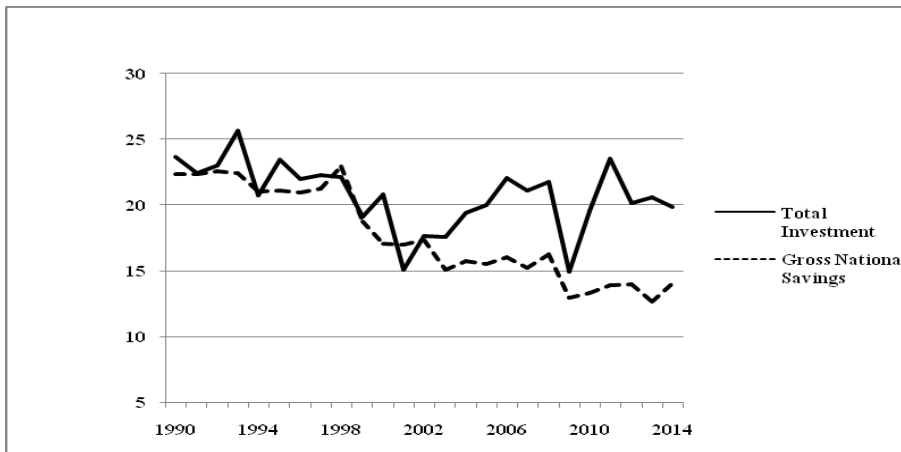
Source: Central Bank of the Republic of Turkey (CBRT)

Figure 3. Turkey: Bank Loans (2003-2014) (Monthly Stock; US\$ Billions)



Source: Banking Regulation and Supervision Agency (BRSA)

Figure 4. Turkey: Investment and Savings (1990-2014) (% GDP)



Source: Ministry of Development

What went wrong? On the one hand, Turkey's growth deceleration is consistent with the overall slowdown trend across emerging economies since 2012. Among the main factors underpinning this trend are expectations of monetary tightening in the North, a sharp decline in commodity prices, and distinct domestic vulnerabilities in leading economies of the South, most crucially in Brazil, China and Russia (IMF, 2015). In addition, Turkey has been adversely affected by regional dynamics, such as the Syrian migrant crisis and persistent troubles in its main export markets (Europe, Russia and the Middle East).

On the other hand, most observers agree Turkey's problems run far deeper than a less forgiving international context or transient imbalances. Rather, there is a near-consensus that Turkey is now stuck in a *middle-income trap*, structurally unable to move into the high-income range (Yeldan et al., 2013; World Bank, 2014). Perhaps the core indicator here is labour productivity, which had recorded an average annual growth of nearly 6 per cent in 2002-2007, only to flat-line after the crisis to a mere 0.24 percent in 2008-2014. In fact, in 2012-2014 Turkey experienced negative productivity growth despite modest GDP increases (OECD, online). Thus, at the other end of growing foreign dependence (as reflected in high current account deficits, increased foreign obligations and declining foreign investment) is a domestic production profile that simply lacks a growth momentum.

The picture is particularly disappointing given that the post-2007 period has been characterized by an expanded policy space for Turkey, according the government ample room to address the structural weaknesses of the economy. International trends that provided policy flexibility for emerging countries were already discussed. Turkey has additionally benefited from a fortuitous context of its own. As noted before, as of 2008 the IMF constraint no longer applied. More critically, the AKP won a third general election in a landslide in 2011, consolidating its power within all reaches of the executive. Besides, there has been increased flexibility in government finances to shift around priorities. Despite these favourable conditions, the post-2007 period has been marked by a decline in reformist incentives even in widely agreed upon items such as incongruities in the tax regime and addressing the informal sector, let alone an ambitious attempt to ameliorate foreign capital-dependence. To many economists this reform fatigue is the main culprit in Turkey's current economic woes (Acemoğlu and Üçer, 2015).

It is noteworthy that Turkey's structural problems have been fully acknowledged by the government. However, policy has concentrated on short-term fixes and background constraints. Measures over the past few years included attempts to stem excessive credit expansion through new personal loan and credit card regulations, an emphasis on upgrading energy infrastructure to lower the import bill, and incentives aimed at export market diversification, especially towards Middle Eastern, African, and Asian markets.

In the meantime, the underlying problems of Turkish industrial profile—from the sluggish pace of productivity growth to the weak R & D infrastructure and the import-dependence of the main exporting sectors—are well-known, but are not considered worthy of a radical reshuffling of resources. The regional investment support schemes introduced as part of the 2009 stimulus plan, for example, were comprehensive on paper, yet the vast majority of supports went to low-tech industries such as mining, textiles, chemicals, glass and cement (Ministry of the Economy, 2013: 20). A notable step taken was a bureaucratic reorganization in 2011 that saw the age-old State Planning Organization transformed into a Ministry of Development, and the remorphing of the Ministry of Industry and Trade into the brand new Ministry of Science, Industry and Technology to coordinate a joint strategy of technological and industrial upgrading. Consider, however, that the first Industrial Strategy Document under the AKP was announced only in 2010, a full eight years after the party came to power. And the technological upgrading initiative is yet in its infancy, with the implementation of the Science and Technology Strategy Document scheduled for 2017

(Ministry of Science, Industry and Technology, 2012: 20). Finally, in 2014 a series of ‘priority transformation plans’ were announced in line with the Tenth Development Plan, comprising some 90 components and nearly 1,300 individual measures, yet as of Autumn 2015 they remain a laundry list of vague targets.⁸ Based on the government’s record to date, it is difficult to imagine a radical shift in policy to follow from this initiative either.

POLITICAL CONSTRAINTS TO POLICY CHANGE

Turkey needs an ambitious industrial policy drive, with a focus on diversification and technological sophistication. Globally, there is still scope for what Robert Wade calls ‘developmental state Mark II’ (Wade, 2014: 793). Some countries such as Brazil have also succeeded in retooling age-old industrial policy instruments such as credit activism to today’s upgrading challenges (Hochstetler and Montero, 2013). In similar fashion, Turkey has a broad range of instruments in its policy arsenal; even the revised incentive system post-2012 offers a wide variety of tools.⁹ There is, however, need for further sectoral selectivity, greater transparency in decision-making, greater coordination, decentralization and impact evaluation (Atiyas and Bakış, 2013). Any upgrading drive must also be couched in radical improvements in human capital and the institutional environment, especially via reforms to the labour market, the tax system, the judicial system and education (Sak and Inan, 2015). Yet despite a fortuitous context, the continued appeal of deficit-led neoliberal populism for the AKP precludes a fundamental reorientation and coordination of policy along these lines.

What explains the resilience of this policy matrix, then? The underlying dynamics are in part ideational, but more importantly political. On the ideational side, the centrality of orthodox fiscal-financial stability has already been discussed. This was inherited from Turkey’s post-2001 crisis programme, and has been embodied in a few technocratically-oriented ministers (such as the former Deputy PM Ali Babacan and his successor Mehmet Şimşek) and high bureaucrats. In recent years this younger wing within the party has grown critical of Turkey’s fragile, deficit-led growth pattern and mildly supportive of industrial upgrading. However, while keeping the redistributive-populist impulses of the old guard in check, these figures also militate against major course changes that might disturb the status quo. From that perspective policy items such as investment subsidies and credit activism could be allowed only in moderation and never at a scale to threaten fiscal sustainability. Obviously, such a firm constraint constitutes a powerful disincentive against implementing a far-reaching industrial strategy.

The political dynamics are more complex, and can be grouped under three themes— one relating to popular interests, the other to the party’s relations with capitalist factions, and a third stemming from the wider political juncture. The key factor behind the appeal of the current policy *status quo* concerns the AKP’s conservative countermovement, which requires maintaining a consumption-oriented, continuously growing, financially stable economy with a degree of fiscal flexibility. For a right-wing populist, pragmatic neoliberal party such as the AKP (Aytaç and Öniş, 2014), the allure of the stability-growth-inclusion nexus of the mid-2000s cannot be overemphasised: it generated noticeable income gains for the poor without much fiscal sacrifice while also facilitating a growth spurt beyond the four-year electoral cycle amid continued liberalization.

That treasured connection is no more, as we have seen. Yet an alternative formula for fiscally-benign inclusion has not emerged either. In its political instinct to take credit for

⁸ See <http://www.kalkinma.gov.tr/Pages/ODOP.aspx> [accessed 15 January 2015].

⁹ For an optimistic assessment of recent Turkish industrial policy, see Öniş and Kutlay (2013: 1420ff).

success, the party has categorically de-emphasised the role of the extraordinary global conditions behind the growth performance of the mid-2000s and again the brief post-crisis overheating of the Turkish economy in 2010-2011. In actuality, rapid growth had been the main catalyst for aligning social protection and fisco-financial conservatism without compromising either, while in a stagnating economy such alignment is difficult to achieve. The conundrum is therefore this: the stability-inclusion settlement is coming apart at the seams, yet the government's continued simultaneous investment in both goals constrains policy options, thereby precluding fundamental change.

The core problem is that welfare gains through the party's preferred forms of inclusion are not feasible under sluggish growth. Financial inclusion, with the exception of housing loans, produces an illusory welfare effect that wears off rapidly; nearly 4 million people have been prosecuted for non-performing credit card and consumer loans between 2009 and 2014 (Turkish Banks Association, 2015). Persistent personal credit growth in a context of stagnating incomes is not sustainable. In fact, between economic slowdown and measures implemented in 2013, consumer credit declined in real terms in 2014.¹⁰

The likely impact of growth deceleration on fiscal space due to reduced tax receipts is another problem. Improvements in public infrastructure and services, from motorways and high-speed rail to extended public health care, have contributed to the party's electoral popularity, and directly rely on fiscal performance. More important still are social transfers to the poor. What identifies the AKP as a distinctly right-wing populist party is its general passivity in industrial relations, and strong preference instead for non-labour market-interfering forms of compensation that rely on political discretion rather than collective rights. The emphasis here is on 'support through assistance in kind, clientelism and charity activities' (Buğra and Candaş, 2011: 526) that create layers of economic dependence on the political centre. From 2006 to 2012, the scope of this centrally-coordinated social assistance to the poor grew considerably, from 0.89 to 1.28 per cent of the GDP (Yentürk, 2013: 456).

Yet rather than produce corresponding improvements in income distribution, these protective measures, often laced with Islamic notions of solidarity, have been barely enough to contain deterioration. Income inequality had declined persistently between 2002 and 2007 with little direct provisioning, but it remained constant in 2007-2011 despite a significant increase in fiscal transfers (Selim, Günçavdı and Bayar, 2014). The danger is obvious: Under sluggish growth, social protection has come to hinge on continually increased discretionary transfers that now take a toll on public expenditures. A recent estimate suggests that as of late 2014 more than 3 million households (or about 13 million people that belong to Turkey's poorest quintile) were receiving regular direct payments in social assistance, with the poorest households (a family of 4 or 5) conservatively receiving around \$250 per month (Radikal, 2014). At this rate continued stagnation will eventually pit social inclusion against fiscal prudence in a return to the redistributive double bind of the 1990s, ever constraining whatever little fiscal space there currently exists to finance a strategy of industrial upgrading. In fact, the recourse to an uncharacteristically dense agenda of economic populism in early 2016, which followed from the party's Fall 2015 re-election promises and included a dramatic 30 percent jump in minimum wage along with a significant rise in public pensions, indicate that AKP leaders have little faith in existing mechanisms of social assistance alone to secure the acquiescence of poor voters. When faced with stiff electoral competition, the

¹⁰ Nominal increase in consumer credit in the 12 months between November 2013 and November 2014 was 7.38 per cent, meanwhile consumer price index for the same period rose by 9.15 per cent. See Turkish Banking Sector Interactive Monthly Bulletin at <http://ebulten.bddk.org.tr/ABMVC/en> (accessed 12 January 2015) and Turkish Statistical Institute, News Bulletin No. 16136, 03 December 2014, at <http://www.tuik.gov.tr/PreHaberBultenleri.do?id=16136> (accessed 12 January 2015).

AKP's controlled populism readily degenerates into antiquated mechanisms of universal populist redistribution with damaging fiscal consequences.

The second political dynamic behind policy status quo is the overly politicized nature of state-business relations. Arguably the biggest symptom of Turkey's current developmental impasse is its premature tendency to deindustrialize. Industry's share in GDP has declined steadily, from around 27 to 19 per cent between 1998 and 2013 (TURKSTAT). The share of manufactures in merchandise exports have also fallen since 2004 (IMF, 2014). Manufacturing is a relative loser under deficit-led growth. By contrast, the rising real sectors under the AKP are mining, energy, and construction that are frequently implicated in grim offences reminiscent of early Victorian capitalism—large-scale land speculation, massive environmental degradation, and a sheer disregard for labour rights and workplace safety—as seen most tragically in the Soma disaster in 2014 where 301 miners perished.

But who will spearhead a transformation drive? Although a few conservative groups did join the ranks of Turkish big business over the past decade, the AKP's political base still mainly comprises small and medium-sized Anatolian entrepreneurs (Buğra and Savaşkan, 2013). These firms typically rely on informal labour, and benefit from the diffuse system of limited investment supports that accords significant discretionary powers to the government. The exporting ones focus on low-tech products and rarely target the competitive Northern markets in finished goods. There is also a large conservative capitalist segment specialising in non-tradeables, from retail and commerce to construction and various other services, for which government tenders remain a key source of revenue. Even the biggest groups often find it easier to concentrate their activities in sectors such as energy and construction with relatively quick investment recuperation times and safe profits, rather than try and compete in risky world markets. The general point is that, capital factions close to the AKP do not have much to gain from a radical shakeup in development strategy towards high-tech, high value-added, export-oriented industrialization. To the contrary, they stand to lose if a new and ambitious industrial policy proceeds along the time-honoured strategy of 'picking national champions'—an idea that is gaining new currency (e.g. Falck, Gollier and Woessman, 2011).

Under this scenario, the primary winners will be the large, mainly Marmara-based old industrial conglomerates that already have a technological edge over their conservative rivals and possess market penetration in advanced economies (although limited in global standards, which sums up the broader issue). They also attract the best educated segments of the Turkish workforce, holding an advantage in human capital. Yet these 'captains of industry', which originally flourished under Turkey's import-substituting-industrialization decades and are represented within the Turkish Industry and Business Association (TUSIAD), have fallen out of favour in recent years. Strong supporters of the AKP during its first term when it embraced IMF programmes and Turkey's EU-led democratization initiative, they have grown sharply critical of party policy—its declining reformist appetite, overt favouritism towards conservative groups, and lately Erdoğan's autocratic tendencies. In turn, they have lost their pull with the government, and are often publicly chastised. A policy reorientation that will benefit these elite segments of Turkish industry will be politically undesirable.

Third, the wider political juncture also renders a structural policy shift unlikely. Rapid institutional deterioration has been the defining characteristic of Turkish politics in recent years. To continue from above, today the AKP's hegemonic ambitions are articulated in close-knit patron-clientelistic networks from the bottom to the very top. The party's efforts to nurture conservative groups large enough to challenge the Istanbul conglomerates have progressively degenerated into murky alliances with a select few energy and construction firms. Reliant on credit from public banks for large-scale projects such as the third Istanbul airport, these contractors came to also control numerous outlets in the Turkish news media, used in turn for unquestioned peddling of the party line and persecution of all opposition—

including the AKP's former partner, the Gülen movement, members of which have orchestrated the exposure in late 2013 of a large corruption scandal involving ministers. In short, once the voice of the underprivileged Anatolian capital, Turkey's dominant party now embodies a vast machine of patronage and rent-seeking that has effectively supplanted formal mechanisms of interest intermediation. As in a hegemonic regime, only unions and associations organically linked to the party seem to wield any semblance of institutionalised bargaining power. Such a power structure, which seems unable to extricate itself from a culture of nepotism and graft, cannot be expected to produce long-term strategic selectivity and rational resource allocation.

Extreme partisanship has been wreaking havoc across the breadth of the Turkish economic bureaucracy and the judiciary as well, undermining the long-standing traditions of what used to be a fairly capacious and transparent state in developing country standards with regards economic governance (Heper, 1991). The decline of meritocracy in bureaucratic appointments, the sharp erosion of trust in the judicial process, and the government's refusal to disclose Court of Accounts reports on public spending while openly discriminating against non-AKP-held local governments in resource allocation are among the widely reported problems. The curtailed autonomy of independent regulatory agencies (IRAs) is equally instructive. The IFI-guided reformism of 1999-2002 had emphasised the IRAs to foster regulatory capacity in crucial policy domains from banking to energy (Bakır and Öniş, 2010; Sönmez, 2011). Yet especially under the AKP's third term, the IRAs have suffered severe formal and informal political interference, which stifles their impartiality and undermines their capacity (Özel 2012; Çetin et al., forthcoming). In fact, despite its well-codified independence, even the Turkish Central Bank has not been immune from government attempts at undue influence. The combined outcome of these trends is the structural weakening of bureaucratic capacity. As such, not just the willingness but the ability of the government to effect a fundamental course change is becoming increasingly dubious.

At the broadest level, Turkey's unmistakable democratic backpedalling since the turn of the decade is cause for major concern. Prospects for democratic consolidation, towards which the country was once considered to be on a definite path, are dim at the time of this writing (Özbudun, 2014; Erişen and Kubicek, forthcoming). Some critics hold that the problem is down to Erdoğan's aspiration to consolidate power for the long haul by forcing a regime change towards a Turkish-style, 'minimal checks-and-balances' presidential system. Meanwhile on the ground, the hallmark of Turkey's democratic relapse has been the violent suppression of genuine countermovements, most memorably the Gezi Park uprising in the summer of 2013 against the AKP's construction-centric, excessively consumerist, and politically exclusionary approach. Since then, Turkey has been caught in a downward spiral. The highly contentious public persecution of Gülen supporters within the bureaucracy as well as civil society, the 'quadruple elections' of 2014-15 that stoked ever deeper socio-political polarisation, intensified infringements of basic rights coupled with widespread violations of media freedoms, and the abandonment of the Kurdish peace process followed by the resumption of armed conflict in the South East together suggest that Turkey's post-2012 economic stagnation has coincided with full-blown political crisis. Such intense political turmoil is hardly conducive to a fundamental re-orientation of economic strategy regardless of the global policy context.

CONCLUSION

How liberally-oriented governments reconcile market-supporting policies with the distributive requisites of popular rule has far-reaching consequences. The way Turkey's AKP has wrestled with that challenge provides insight into why the country has failed to revamp its development strategy despite a widening policy space over the past decade. Central to the Turkish case was the redeployment of the country's historic foreign capital-dependent pattern of growth in the service of selective redistributive measures and credit-fuelled consumerism. The ensuing deficit-led neoliberal populism assured stable, fast and equitable growth in the extraordinary international and domestic context of the mid-2000s, but proved unsustainable in the aftermath of the global economic crisis. Even then, this impromptu coupling of market and social preferences has become politically so firmly entrenched over time that it now constrains the policy options to address Turkey's developmental impasse.

The Turkish case brings into sharp relief the political background of economic policymaking in contemporary late developers. In contexts where the phase of turbulent market transitions is largely complete but protective institutions are too weak to cope with ongoing social challenges, the tension captured in the Polanyian notion of double movement becomes a major force shaping the political landscape. A distinctive dynamic in this respect is that, given the intensity of the social dislocations brought about by earlier liberalization processes but also in line with shifts in global economic norms, the orthodox neoliberalism of the late twentieth century can no longer lead the economic policies of the political right in developing countries. Instead, a particularly potent concoction of our times is a conservative countermovement that seeks to restore social cohesion without abandoning market orientation. Successful variants of such a project incorporate the poor into broad political coalitions by employing a wide array of palliative interventions alongside generally market-expanding policies and often by invoking pre-existing social, cultural and class cleavages.

Erdoğan's AKP provides a good example, but comparisons can also be drawn with Thailand's Thaksin in the early 2000s, Russia's Putin, and most recently India's Modi. The pragmatist movements these leaders represent do not confine the scope of their interventions to the vouchsafed social and regulatory liberalism of the PWC—they may conveniently embrace old-school economic populism and dismiss the good governance agenda. Nor do they resemble Polanyi's 'enlightened reactionaries' (1944: 166) of the mid-19th century England who resisted self-adjusting markets on the basis of own class interests or Latin American neoliberal populists of the 1990s who rode on anti-establishment sentiments while implementing exclusive economic policies (Weyland, 2003). Instead, we are witnessing a different type of corrective right-wing politics that offers some security for targeted popular interests in an age otherwise geared towards the devastating supremacy of the market. Future research should examine the viability of this classification and, more important, the economic and political sustainability of these projects via structured-focused comparisons.

The foregoing analysis also calls for refocusing attention on the variability of neoliberal experiments in the South. Political scientists, sociologists and geographers have explored the topic, but the literature remains fairly thin (Brenner, Peck and Theodore, 2010; Fourcade-Gourinchas and Babb, 2002; Nouriddin and Rudra, 2014). Meanwhile, that the real world of economic liberalism in the South increasingly diverges from its theoretical ideal-type and incarnations in the North has growing significance. Understanding the extent of neoliberalism's adaptability will shed light on its resilience in the post-global crisis era, whereas identifying specific neoliberal variants in the South is important given the enhanced involvement of emerging countries in the making and renegotiation of global rules.

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