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POLITICAL ECONOMY

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ABSTRACT *This chapter highlights the interplay of policy regimes, external forces, institutions and crises in the evolution of Turkish political economy. Following a brief overview of Turkey's state-led development strategy in the 1950s and 1960s and efforts at liberalization in the 1980s and 1990s, the chapter focuses on the post-2002 AKP period. Initial successes during this period proved unsustainable and Turkey, once branded a leading emerging power, has over the past decade experienced intensified foreign capital-dependence, sluggish growth, institutional degeneration and recently severe macroeconomic instability. With the AKP's authoritarian brand of neoliberal populism firmly entrenched, Turkey's long-term development prospects in an ever more challenging global economic context remain bleak.*

Turkish political economy is complex, but hardly exceptional. A middle-income country (MIC) unable to consolidate its fragile democracy for the past 70 years, Turkey has been shaped by much the same dynamics and constraints as its peers in the semi-periphery of global capitalism. Four continuously interacting forces have determined its evolutionary fortunes. First, different socio-political, cross-class coalitions have underpinned distinct *economic policy regimes* in different periods, with formative implications for distributive politics. Second, *external market and policy forces* have produced powerful constraints upon economic policy. These range from shifts in international prices to patterns of market integration, the preferences of foreign investors, the rules of the global economy and direct policy constraints stemming from intergovernmental creditors. Third, the *institutional context* has proved crucial. Amongst the main items to list are the broad features of the political system such as democratic quality and bureaucratic capacity as well as arrangements governing specific sectors and policy domains. Fourth, economic performance, in particular frequent *economic crises and downturns*, have led to revisions in policy regimes and underlying coalitions, reconfigured international constraints, and inspired initiatives for institutional reform. Each of these four forces (policy regimes, external constraints, institutions, and crises) will figure abundantly in this chapter.

The point is straightforward: Despite occasional bouts of high performance, Turkey is yet to find a sustainable way of overcoming its deep-seated developmental challenges. In fact, over the past decade it has been travelling in the opposite direction, and is today ever more deeply ensnared in a *middle-income trap* coupled with growing macroeconomic

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instability that also complicates its escape from looming authoritarianism. The following section provides an overview of the trajectory of Turkey's political economy from independence to the turn of the century. Next it analyses the post-2002 period under successive AKP governments, which was initially characterized by a reformist phase with promising outcomes but later degenerated into a combination of patronage politics, electoral populism and low institutional quality typical in the global South. The chapter concludes with a brief examination of Turkey's possible futures as an emerging power in a rapidly transforming global economy.

From State-Led Development to Reluctant Neoliberalism

Political economists have often considered Turkey an important case to study various dimensions of capitalist development in the semi-periphery (Trimberger 1978; Waterbury 1993; Waldner 1999). The absence of a potentially hindering colonial legacy, the consolidated power of modernizing political elites, a relatively capacious public bureaucracy built on a long state tradition, and amicable relations with leading Western nations made the country a good candidate for successful development. Turkey did not wholly fulfil this potential, though it managed to build a respectable economic base by the end of the century.

Turkish economic policy until the 1980s relied on a mixed-economy model that afforded the state a central role. The state not only fostered private capitalist development via trade protectionism and various subsidies, but it directly participated in economic life through large state-owned enterprises (SOEs) in most sectors (banking, mining, agriculture, heavy industry from steel to chemicals, and even basic consumer goods). It is noteworthy that, on closer inspection, Turkey's state-led developmentalism did not constitute a monolithic path but comprised three different policy phases (Öniş and Şenses 2007). The *etatism* of the interwar period introduced central planning and large-scale public industrial investment. This was followed, in the 1950s, by a relatively liberal interlude during which successive Democrat Party (DP) governments aimed to integrate Turkey into the world economy principally via agricultural exports. By contrast the 1960s and 1970s saw a decisive return to planning and a concerted effort towards import substituting industrialization (ISI). The period 1962-1976 marked the golden age of the ISI, during which annual GDP growth averaged 6 per cent and living standards improved noticeably, especially in urban centers.

State-led development had wide-ranging distributional, institutional and international correlates. The transition to multiparty politics in 1946 rendered distributive politics an integral part of economic policy making, as manifested in the DP's successful effort in the early 1950s to bring together large landowners, small farmers and a fledgling private sector on a broadly market-oriented platform. The classic phase of ISI (1960s and 1970s) required a more complex coalitional setting and balanced a wider range of collective interests, including the metropolitan industrial bourgeoisie that received tariff protection and various subsidies, organised labour that enjoyed rapidly rising wages, and a growing urban, secular middle class that formed the backbone of an expanding bureaucracy (Keyder 1987). Meanwhile rural producers, in particular the electorally significant peasantry, were compensated for via an agricultural subsidy regime put in the service of populist redistribution. Also noteworthy during this period was the rapid growth of Marmara-based large conglomerates in the form of family holdings, with considerable dependence on and connections with bureaucratic policymakers in Ankara. State-business relations increasingly mattered (Buğra 1994).

Such a mixed economy entailed a stupendous state machinery, as exemplified in the large number of SOEs, and the complex web of state and parastate organizations mandated with allocating agricultural subsidies. Equally important were the emergence of an elite economic bureaucracy with some pockets of expertise, efficiency and autonomy (mainly within the State Planning Organization, the Central Bank, and the Ministry of Finance), and the steady construction of modern public services, from higher education to an expansive social security system by developing country standards. Internationally, meanwhile, Turkey's interventionist model mirrored the accepted postwar Keynesian wisdom, and its policy path evolved in a context of close relations with international financial institutions (IFIs) such as the IMF and the World Bank. By the 1970s Turkey was the archetypal semi-peripheral economy, having built some manufacturing capacity in consumer goods, but characterized by only moderate integration with the international economy, exporting mainly primary commodities, importing a bit more in capital goods (for example, machinery) and intermediate goods (for example, oil), and thereby often running modest current account deficits leading to chronic foreign exchange shortages.

The collapse of inward-oriented, state-directed developmentalism was therefore conditioned as much by this external imbalance, further amplified during the oil price hikes and international turmoil of the 1970s, as by the inherent contradictions of the model (Barkey 1990). In turn the crisis of 1978-79 provided the catalyst for a radical change in policy. With the broad ISI coalition no longer sustainable and sovereign debt soaring, technocratic policymakers turned to the IMF and the World Bank, which had already begun to promote orthodox neoliberal ideas of policy reform via stringent policy conditionality in their clients.

Turkey's early phase of market transition, from 1980 roughly until 1987, rested on a straightforward template of fiscal stabilisation, deregulation, and trade as well as domestic financial liberalisation under successive IMF stabilisation and World Bank structural adjustment programmes. The principal policy aims during this phase, led after 1983 by Prime Minister Turgut Özal and his Motherland Party (ANAP) governments, were to balance public finances, eliminate excessive subsidies and price distortions, foster private investment, and gradually steer the economy towards an outward-looking, export-oriented model, while avoiding politically difficult reform items such as privatisation. The result was relative macroeconomic stability and reasonably fast growth rates, although the transformative impact of these measures on the structure of the Turkish economy was debatable (Arıcanlı and Rodrik 1990). Crucially, the transition to a market-oriented policy regime took place in the semi-authoritarian political context that followed the 1980 coup, and was thus largely unburdened by the need to rely on a broad coalition of attendant collective interests.

The revival of competitive politics by 1987 augmented the electoral salience of the distributive grievances of social segments left behind by the early phase of market reform (virtually all interests, bar big business). At the same time, capital account liberalization in 1989 led to rapid integration with international financial markets, ushering in a flexible context for managing fiscal deficits. The combination of the two proved lethal as a succession of weak coalition governments throughout the 1990s relied on external capital flows through an under-regulated banking system to address intense redistributive demands from below with old-style populist side payments—generous agricultural subsidies and noticeably improved wages and salaries. In a context of poor macroeconomic management, this cycle led to a series of interconnected ailments, including high inflation, deteriorating public finances, a highly fragile financial system, and sluggish industrial development, together producing boom-and-bust cycles of foreign capital-dependent growth (Cizre-Sakallıoğlu and Yeldan 2000). The 1994 shock had already illustrated the perils of combining premature financial internationalization with fiscal mismanagement and regulatory forbearance. Failed reform efforts in the rest of the decade and an ill-designed IMF program in 1999 only accelerated Turkey's downward spiral, culminating in a dual fiscal and banking crisis in 2001 with far-reaching political-economic consequences (Akyüz and Boratav 2003; Öniş and Rubin 2003).

Although Turkey's first brush with 'neoliberal globalism' ended in crisis, in hindsight this record was neither out of step with the experience of other large MICs given the string of financial meltdowns from Argentina and Brazil to Russia and East Asia, nor did Turkey's market reforms prove socially as devastating as the 'lost decades' of orthodox neoliberalism in Latin America, Sub-Saharan Africa, and most countries in Central and Eastern Europe. Note also that, at around 4 per cent per year, Turkish GDP growth in the retrospectively much-demonised 1990s was not far behind its historical average and was even faster than in the decade immediately prior to our examination (2007-2016). Seen this way, Turkey's most critical problem was its failure to adapt its economic governance and institutions to the exigencies of a liberalising policy regime and the emergent external constraints of global integration. This adaptive task would fall on the post-crisis policymakers and require a new round of intense engagement with the IFIs.

The Political Economy of the AKP Era

How did Turkish political economy evolve under AKP rule and what are its contemporary characteristics? These questions are addressed in the three sub-sections below, by first looking at the party's reformist inaugural term in office (2002-2007), then examining the troublesome past decade, and finally by reflecting on some enduring structural challenges.

The AKP's First Term: A Reformist Half-Decade under Dual External Anchors

By the time the AKP rose to power in late 2002, Turkey had already been implementing a comprehensive IMF and World Bank-designed recovery programme. Led by Kemal Derviş, a former World Bank vice-president called to duty by the preceding coalition government, the scope of this programme went well beyond the usual monetary and fiscal stabilisation measures, and included sweeping institutional reforms in domains ranging from banking regulation and debt management to fiscal transparency and anti-corruption. As such, Turkey's post-crisis reforms reflected the post-Washington Consensus in mainstream development wisdom at the time, which complemented the market-orientation of the neoliberal paradigm with a wider reform agenda that focused on good governance, sound regulatory institutions, and social sustainability (Öniş and Şenses 2005; Rodrik 2006).

Two main characteristics of this period placed structural constraints upon policy despite the AKP's unchallenged parliamentary majority. First, the externally-led reform process empowered the economic bureaucracy, in particular the Treasury and the Central Bank, which were now able to exert greater autonomy from everyday political interference. The rapid proliferation of independent regulatory agencies, in particular the Banking Regulation and Supervision Agency but also others in various sectors from energy to agriculture, should also be regarded in this light. Second, Turkey's IFI-led reforms coincided with an optimistic phase in its EU accession talks. In the run-up to and in the immediate aftermath of the start of its full membership negotiations in 2006, various efforts at political but also sectoral harmonization with the EU created a supplementary layer of constraint. The IMF and the EU thereby operated as double external anchors for economic policy throughout the AKP's first term in office (Öniş and Bakır 2007).

In hindsight, these distinct policy limitations were beneficial for the party to cobble together a broad political coalition. The AKP's organic support relied on the small and medium-sized conservative Anatolian entrepreneurs. During the 2002 elections it had also managed to invoke the frustrations of the crises-stricken urban and rural poor. To add to this wide political base, its inescapable toeing of the IMF-EU line on critical matters (from monetary policy, debt management and regulatory reforms to the democratization process) during its initial years in office helped the party garner the provisional, though active, support of İstanbul-based big business as well as the acquiescence of secular, urban middle classes. What was less visible during this period of uncharacteristic political calm and optimism, though, was the AKP's selective implementation of the IFI-led reforms. While banking, fiscal and monetary reforms proceeded ahead and a major privatization drive continued apace, the party sought to either dilute or reverse reformist initiatives in policy domains that would likely undermine the interests of its organic constituency. Crucial among these were the changes to the age-old agricultural subsidy regime and the anti-corruption, and especially public procurement, reforms (Güven 2012).

< *TABLE 1 ROUGHLY HERE* >

The macro outcomes of this broadly reformist period were promising, with GDP growth hitting record levels in 2004-06 (Table 1). Meanwhile foreign direct investment soared, fiscal balance improved significantly, and consumer inflation fell to single digits for the first time since the 1970s.

Yet this half decade should also be placed in its proper comparative and analytic context. The period in question marked a high point in the global economy, with record increases in trade and financial flows and an uncharacteristically cheap US dollar providing a boost to most economies. Note especially that, Turkey's average GDP growth of just under 7 per cent per annum in 2002-2007 was indeed a tad slower than that of low-income countries (LICs) and MICs as a group — in comparative terms Turkey was not a high performer. More crucially, Turkey's apparent macroeconomic success harboured key weaknesses: growth was still driven by high trade and current account deficits and was therefore dependent on a steady flow of foreign capital, whereas the rate of unemployment remained high at above 10 per cent throughout the period.

Global Crisis and Reform Fatigue: Stagnation under Institutional Degeneration

The global economic crisis of 2008-09 was a watershed in Turkish political economy in terms of both bringing about shifts in policy trajectories and exposing its structural weaknesses. Turkey was hit hard by the crisis, recording a steep GDP decline in 2009, yet its response diverged significantly from other large MICs in that it was quite delayed and piecemeal. On the one hand, despite a favourable fiscal position, the Turkish government adopted a very weak stimulus package and stuck instead with fiscal conservatism, relying on a hodgepodge of limited measures announced late into the crisis. On the other hand, after extensive negotiations it rejected a new standby agreement with the IMF, emphasizing policy independence (Öniş and Güven 2011). Indeed it is this tendency to insist on home-grown solutions without a cohesive, let alone transformative, vision that has characterized Turkish economic policy over the past decade. Rapid recovery in 2010-11 amidst continuing problems in the North provided further justification for staying on this unadventurous path.

On closer inspection, the Turkish economy faced mounting structural challenges. The swift post-crisis recovery was made possible only with soaring current account deficits, meaning recovery relied on the country's conventional growth model characterized by import-driven, foreign capital-dependent domestic consumption. This 'overheating' ended in 2012-13, after which growth rates dipped below Turkey's long-term average (Table 1). In the meantime, per capita income remained stable around the US $10,000 mark that had been reached just before the crisis, and no noticeable improvement was recorded in either inflation or unemployment. In short, the half-decade that followed the recovery from the global crisis was for all practical purposes a period of economic stagnation marked by policy paralysis and reform fatigue that failed to overcome the country's long-standing foreign-capital dependence (Güven 2016).

While 'revised' GDP figures from the Turkish Statistical Institute indicate a mini growth spurt in 2016-17, in actuality economic fundamentals have deteriorated sharply in recent years, given especially the growing foreign debt of the private sector. Crucially, in a context of decreasing global appetite for financial flows to emerging countries on the one hand, and international political tensions stemming largely from the AKP's questionable domestic and foreign policy preferences, on the other, Turkey's unresolved structural problems ushered in a sizeable economic jolt in 2018. At the time of this writing (September 2018), Turkey appears to be on the brink of a devastating crisis, which so far has already seen a dramatic decline in the value of the lira that only magnifies the country's foreign obligations, skyrocketing consumer inflation that for the first time since 2003 topped 20 per cent, a steep rise in unemployment threatening the most vulnerable, and an accelerating wave of bankruptcies wreaking havoc amongst retail and manufacturing firms alike. However the present storm may unfold (and many economists expect sustained recession in 2018-19), there is little doubt that Turkey's current economic model is broken beyond repair.

In the background of that model are two major shifts that have defined Turkish political economy over the past decade. The first is the dynamic social and coalitional basis of economic policy, resting on a complex set of cross-class relations. The second is acute institutional degeneration, with potentially adverse long-term consequences. In terms of harnessing the support of the popular classes, the AKP has long adopted a well-calibrated, pragmatist strategy that combines active welfare policies, improvements in public services and targeted populist redistribution without putting fiscal-financial stability too much at risk. Scholars have variously depicted this hybrid path as ‘neoliberal populism’ (Bozkurt 2013) and ‘social neoliberalism’ (Dorlach 2016). This strategy has ensured the steady support of wide segments of the urban and rural poor that are often already drawn to the AKP’s brand of social conservatism, although it has also came at the expense of significant ‘flexibilization’ in labour markets and consolidation of an oppressive, anti-trade union labour regime. For a while neoliberal populism looked to have empowered the poor economically, but it also led to political disempowerment and systemic vulnerability in an increasingly financialized setting marked by soaring household indebtedness.

The party’s connections with elite interests have proved less stable. The government’s weak response to the global crisis in 2008-09 as well as its declining reformist appetite, diminished endorsement of the EU process and weakened commitment to democratic consolidation gradually eroded the conditional support it once received from İstanbul-based big business organized under the Turkish Business and Industry Association (TÜSİAD). In turn, the party sought to systematically favour smaller, often conservative, capital factions loyal to its cause via growing circles of patronage and nepotism. Some observers argue that this selective nurturing of alternative economic elites is bound to create a ‘new capitalism’ that places culture and loyalty at the centre of state-business relations (Buğra and Savaşkan 2014). The wider implications of that dynamic are briefly discussed in the next section.

Second, rampant institutional degeneration has accompanied the excessive politicization of state-business relations and erosion of democratic checks and balances. Signs of institutional weakening were already present as the government, especially after the conclusion of the IMF constraint in 2008, moved to openly undermine the autonomy of independent regulatory agencies (Özel 2012). The multiple overlapping political crises of the past few years augmented these institutional strains dramatically. Problems here are numerous. Until recently Turkey was not considered a particularly corrupt polity in developing country standards, but that perception changed rapidly over the past few years as exemplified not only in the 17-25 December 2013 crisis which the government to date portrays as a Gülenist plot to implicate ministers, but in the forced resignations in late 2017 of the AKP-affiliated mayors of Ankara and İstanbul over undisclosed abuses of office as well. More common and problematic perhaps is the emphasis on open political loyalty, or at least full acquiescence, as the price of doing business with the government, from winning public tenders to the issuance of basic permits. Compounding this picture is the increasingly opaque state of public finances. The conventional Court of Accounts monitoring of public spending is now a largely dysfunctional process, whereas the country’s newly instituted sovereign fund (Turkey Wealth Fund), which now holds the assets of many large state institutions, lacks any meaningful transparency and is controlled directly by the presidential office. To most critics this state of affairs is tightly linked to Erdoğan’s efforts to centralize power in the presidency and shape the civil service, both in structure and personnel, accordingly. This was made easier under the current emergency rule that witnessed the dismissal of tens of thousands of civil servants and a severe erosion of the rule of law as well as any semblance of judicial independence. The rubberstamping of Erdoğan's unchecked powers at the June 2018 elections and the ongoing state reorganization that brought his son-in-law, Berat Albayrak, to the helm of the economy have only accelerated this process. The result is a generalized decline in not just bureaucratic autonomy but also capacity, which political economists typically consider key to effective policymaking and implementation.

Since the global crisis Turkish political economy ironically evolved on a trajectory very similar to its much-maligned character in the 1990s: staccato growth, political turbulence, reform paralysis and now intense macroeconomic instability. The obvious difference is that there is no discernable political urgency and will to substantive change, especially under democratic backsliding. Consequently, Turkey's fundamental developmental and policy challenges remain unresolved and aggravated, although they are now manifested under new guises and subject to new dynamics, as discussed below.

Foreign Capital-Dependence, Sectoral Pathways, and Mass Politics

The key developmental constraint for Turkey is its foreign capital-dependent, private consumption-oriented growth pattern. The Turkish economy is capable of attaining fast growth rates only via dramatic increases in import-led domestic consumption that has the side effect of producing unsustainably high current account deficits financed via foreign funds. In turn, periods of external rebalancing often coincide with a decline in aggregate demand and thus marked by growth decelerations, washing away the gains of episodic high growth. In the meantime, foreign indebtedness steadily mounts: Turkey's gross foreign debt stock (public and private) quadrupled since 2002, not so much during the global crisis but rather during growth spells (see Table 1). For many decades governments of variegated political stripes have failed to overcome this constraint, for addressing the problem is a formidable task, which in essence requires upgrading the production profile of the Turkish economy. In effect, this means focusing systematically on the manufacturing of higher value-added goods that lie at the technological frontier and impart a strategic advantage in international trade. Yet the share of high-technology manufactures in Turkish exports are consistently under 3-4 per cent, with the economy facing the threat of 'premature deindustrialization' (Bakır, Özçelik, Özmen and Taşıran 2017). Smaller economies may have other routes to prosperity, but no large economy has managed to move into the high-income range without openly adopting such a strategy of selective, concerted industrial upgrading.

The problem is that the reasonably clear requirements of such a path pose economic risks and, more importantly perhaps, are utterly unpalatable in the current political juncture. Selective high-tech industrial upgrading in the Turkish context would depend on tackling the sluggish pace of productivity growth, radically strengthening the R&D infrastructure, and reducing the import-dependence of the main exporting sectors. But attaining these goals would entail redirection of resources towards business and social segments that have fallen outside the AKP's electoral coalition, that is, the metropolitan bourgeoisie with established advantages in productivity and in access to foreign markets, and urban-secular middle classes as potentially the main human capital behind such a drive. Most development economists would also cite stringent institutional requisites, such as an independent and efficient judiciary and a meritocratic, autonomous bureaucracy to oversee a dynamic policy regime free from everyday political interference. Yet the political dynamics that have kept the AKP in power since the global crisis indicate a different combination of societal and institutional preferences as already discussed. To round off this examination, two closely interlinked points need to be underlined — one about sectoral imbalances and the other mass politics.

On the sectoral side, banking and construction have been the main winners of Turkey's foreign capital-dependent, consumption-based growth path. The net effect of the post-2001 regulatory reforms has been to consolidate the banking sector and reorient major private banks towards traditional retail banking, that is, deposit taking and credit allocation. In particular, rapid growth of high-interest consumer credit in the system from 2004 onwards led to a significant increase in bank profitability. Likewise, construction proved to be a highly prized sector, and has been supported actively through both public tenders towards large infrastructure projects and new regulations facilitating house-building, as in the 'urban transformation' initiative. Along with mining, this focus on construction has also allowed successive AKP governments to selectively allocate resources to government-friendly capital factions (Gürakar 2016), some of which have later moved into mass media with the principal aim of trumpeting the party line and controlling the news flow. This is not to say Turkish manufacturing, including the Marmara-based captains of industry, has done badly under the AKP, for capacity kept growing steadily thanks to both an expanding domestic market and the unfettered access to the massive European market thanks to the EU customs union. Even then, it is what economists term 'non-tradable sectors' that have benefited disproportionately from the growth pattern outlined.

Finance and construction also play significant roles for sustaining the AKP's electoral appeal. The expansion of credit markets has had formative consequences. It transformed living standards and practices, positively by facilitating accelerated home ownership and providing flexibility in the use of disposable income, but over time by also creating excessive dependence for wage earners (Karaçimen 2014). Likewise, most firms have grown dependent on a continuous stream of bank credit for everyday operations. These perils prompted government activism, first in perennial efforts to rein in personal indebtedness around 2014-15, but more distinctly in the 2017 Credit Guarantee Fund initiative, a scheme that accorded partial public guarantees for private firms' liabilities to banks, which helped prevent a much-feared wave of bankruptcies especially amongst SMEs. Likewise, construction is a politically critical sector for the AKP as it leads to improvements in public services via large-scale transportation projects, ensures continuous renewal and expansion of the housing stock often to the benefit of middle and lower-middle classes, provides sustained demand for unskilled and semi-skilled manual labour, and finally has strong backward and forward linkages to various other manufacturing sectors, with significant positive spillover effects across the economy. If targeted side-payments via an expanded welfare regime has been the visible face of the AKP's 'controlled populism' (Öniş 2012; Aytaç 2014), ever expanding credit markets and various construction-related activity constitute its chief sectoral engines. Construction and banking have also initially received preferential policy attention during the current crisis, although the former at the time of writing is at a standstill whereas it is yet too early to gauge the extent to which policymakers can shield the banking system from the fallout of the crisis.

These sectoral and social manifestations of Turkey's current growth pattern are so politically intertwined and institutionally entrenched that it is difficult to fathom a path for an alternative, genuinely developmental policy regime to emerge. Their main benefit has been to assist successive AKP governments in managing distributive and regional strains without undermining fiscal sustainability or financial stability amidst intensified political turbulence. Yet this capacity to contain distributive tensions, in part via ideology and crude identity politics, comes with a hefty price tag of also reinforcing a fragile economic model and, more crucially, enabling the country's steady descent into authoritarianism.

Pathways from the Semi-Periphery: Turkey as an Emerging Power

It is useful to conclude the discussion by placing the evolution of Turkish political economy in its comparative-international context and pondering its possible futures from that vantage point. Its ongoing developmental challenges notwithstanding, Turkey today is classified as an *emerging country* — one of several large MICs whose increased share of the world economy is creating a fundamental shift in the balance of global economic power. This new status, it must be underlined, is not the result of some outstanding performance but, as in the case of most other economies in that category with the obvious exception of China, mainly reflected continued long-term differentials in rates of output and population growth with countries in the global North. This increased relative size has brought with it many advantages: a larger domestic market to attract international investors, greater opportunities for international trade, and membership of the Group of 20 (G20), the main intergovernmental platform of global economic governance. It has also prompted the AKP government to adopt an increasingly proactive stance in foreign economic policy, from seeking opportunities for regional economic and political leadership to nurturing stronger South-South trade relations and development cooperation and, where possible, displaying policy independence from Northern multilaterals such as the IMF (Öniş and Kutlay 2013). Such activism is consistent with the policy choices of other rising countries.

What are the prospects for Turkey in this new global context? The benign though unlikely scenario is for Turkey to somehow find the political wherewithal to wean itself from its extant growth model, and reorient its production profile to maximize the gains from its comparative advantage in geography, human capital and existing industrial infrastructure. Given the picture painted in the previous section, even a modest shift in that direction would require a new broad-based policy coalition to be negotiated democratically. It would also likely necessitate significant rebuilding of institutions, from reintroducing fiscal transparency to restoring the rule of law. Turkey's current income and distribution dynamics allow for sufficient socioeconomic space for such a reorientation, and the international context, despite indicating a tighter global market, is ideationally as conducive as it ever has been in the age of neoliberal globalism for an emerging country to experiment with targeted industrial policy. Yet political realities on the ground appear to preclude such a bold escape.

The likely yet darker scenario, almost solely on grounds of political feasibility, is the continuation of the pre-existing trajectory in one form or another. While the Turkish economy might yet navigate the current storm with minimal damage and resume muddling through as it did over the past decade, this is also a path fraught with perils. A distinct danger here is the institutionalization of authoritarianism post-2019, which would not be out of step with the current global context of democratic recession and authoritarian resilience (Bermeo 2016). It has become fashionable for autocrats in emerging countries to shun Western norms of democratic governance as some elite-driven neo-colonial imposition. This vision is consistent with the AKP's emergent brand of 'authoritarian neoliberal populism.' However, such a model is bound to pose significant long-term risks to the economy — by scaring away FDI, accelerating the brain drain, further undermining bureaucratic capacity, and debilitating the business climate.

A more imminent danger at the time of writing, and assuming the current downturn will not evolve into full blown political crisis, is renewed overconfidence in the sustainability of foreign capital-dependence and subsequent policy lethargy that will only magnify existing blind spots. Despite steady growth for the past half century, Turkey continues to suffer from characteristic developing-country ailments, such as low rates of female labour force participation, extreme inter-regional inequality, massive environmental degradation, high inflation and high youth unemployment. Unwillingness to resolve these shortcomings will exact long-term costs. Just as important are systemic problems in credit markets and risky demonstration projects particularly in infrastructure, to which makeshift solutions such as the recent guarantee fund or overly generous Treasury insurances cannot provide durable answers. These will continue to pose structural risks to firms as well as the banking system. Underestimating the scale of foreign capital dependence and irresponsibly ignoring the chorus of warnings about the fragility of the Turkish economy have already proved destructive. Insisting further on the present policy path will only lead to a long-term pattern with alternating episodes of persistent underperformance and periodic downturns, entrapping the Turkish economy deeper in a chase for the continuously moving goalposts of prosperity.

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Table 1. *Turkey: Selected Indicators (2002-2016)*

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
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	859.4	863.4
GDP Per Capita (US$)	3,571	4,587	5,856	7,117	7,727	9,310	10,382	8,624	10,112	10,584	10,646	10,975	10,530	10,915	10,817
GDP Growth (%)	6.2	5.3	9.4	8.4	6.9	4.7	0.7	-4.8	9.2	8.8	2.1	4.2	2.9	6.1	3.2
Imports (US$ 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	207.2	198.6
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	143.8	142.5
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	-3.7	-3.8
FDI (US$ Billions)	0.9	1.2	2.0	8.9	19.2	19.9	17.3	7.0	7.6	13.8	9.5	9.3	5.8	12.5	9.7
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	-2.0	-2.5
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	27.5	28.1
Public Foreign Debt (US$ billions)	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	113.1	119.8
Private Foreign Debt (US$ billions)	43.1	48.9	64.1	84.9	120.8	160.7	188.5	172.3	191.4	200.1	228.5	268.7	282.3	281.9	307.9
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	7.7	7.8
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	10.3	10.9

Sources: Central Bank of the Republic of Turkey; IMF; TURKSTAT; World Bank. Note that in late 2016 the Turkish Statistical Institute announced a major update of its national accounts methodology, which led to a significant and highly contested upward revision of GDP figures from 2009 onwards. GDP-related data in this table retains the old series for 2002-2014, using new series only for 2015 and 2016.