Turkey under the challenge of state capitalism: the political economy of the late AKP era

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Turkey under the challenge of state capitalism: the political economy of the late AKP era

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ABSTRACT

The paper considers the broad economic and political shifts in Turkey in the AKP’s post-2011 phase. The ‘reactive state’ model developed to understand Turkey’s political economic transitions is relevant to the new era of ‘developmentalism’ with authoritarian features. Global shifts coupled with important domestic political shifts are at the heart of the new developmental trajectory. The growing importance of the Russia–China axis, with the relative decline of the West, has been making a key impact in filling the vacuum in the European periphery. Turkish experience is a striking illustration of this broader tendency. Comparative historical experience is utilized to understand the key features of the new era in Turkey. Comparisons are made with the early AKP era and attention is drawn to broad parallels with Russian development experience since early 1990s. A key element here is the process of ‘extensive’ growth, based on different resource configurations. Land and construction activities constitute a key engine in the Turkish context, contrary to the dominant role of oil and gas in Russia. Finally, the paper probes into challenges of sustainability which raise questions concerning the AKP’s extraordinary durability as a hegemonic force in Turkish politics over the past 16 years.

Introduction

The global financial crisis of 2008 was a dramatic turning point in the fortunes of global political economy. The global crisis helped to accelerate the momentum of global shifts of power, involving a parallel process of weakening the established centres of the ‘global North’ and empowering new centres of power from the ‘global South’ (Haas 2017; Krastev 2017; Zielonka 2018; Stuenkel 2015). Within the global South, the spectacular rise of China and the emerging China–Russia axis constitute an increasingly striking phenomenon with far-reaching economic and political implications (Kaczmarski 2015; Tselichtev 2012). The growing influence of ‘authoritarian BRICS’ appears to be

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particularly pronounced in the broader European periphery. The transformative powers of the EU appear to be increasingly constrained and challenged by the rise of authoritarian models of ‘state capitalism’ represented by the increasingly powerful alliance of two major global powers, China and Russia, in an increasingly post-hegemonic world (Öniş and Kutlay 2019). Russia is more visible in the ‘European periphery’, involving the broad spectrum of countries in Central and Eastern Europe, the Balkans and Turkey (Bechev 2017; Krastev 2017). Meanwhile, China is emerging from the side-lines and becoming more visible through its economic involvement in the region with its investments and mega projects like the One Belt One Road Initiative, whose consequences are likely to become progressively more dramatic in the coming years.

It is in the context of these broader global power shifts, that one wants to analyse the changing fortunes of Turkey, an important emerging power, a near-BRIC with significant regional ambitions. Specifically, the major concern of this paper is to understand the profound changes that Turkey has been experiencing in the ‘late AKP era’, which roughly corresponds to the period from 2011 to the present (Müftüler-Baç and Keyman 2012). The Justice and Development Party (the AKP), a right of centre party with conservative, Islamist leanings, under the charismatic leadership of Recep Tayyip Erdoğan has been in power since the November elections of 2002 (Güven 2016; Öniş 2012). The elections of June 2011 constituted the third successive electoral victory for Erdoğan and the AKP and effectively marked the beginning of a new era of Turkey’s political economy, which we could classify as Turkey’s ‘new developmentalism’ or Turkey’s encounter with ‘state capitalism’. The paper seeks to illuminate the economic and political dynamics of this new era, which is still very much an on-going process, though it received a major boost towards further consolidation with the formal transition to a top-down presidential system in the elections of June 2018.

The paper is organized as follows. Section two explores how major global shifts including a process of relative weakening of the West or the global North and the simultaneous rise of BRICS, and notably authoritarian BRICS like China and Russia influence the mind-set of new elites from emerging powers. For this purpose, the paper focuses on Turkey which is a country with strong traditional links to the West but also wants to be more assertive, pro-active and independent in regional and global terms in a shifting global environment. Section three poses the question of whether ‘the reactive state model’ developed earlier (Öniş and Şenses 2007) to explain Turkey’s major policy phases in the post-war period is relevant in explaining the transition to this new developmentalist phase with increasingly authoritarian features. The fourth section attempts to provide a structured comparison between the political economy of Turkey during the early and the late AKP periods, pointing towards a combination of continuities and ruptures. Within the broad China–Russia axis, Russia constitutes the key comparative axis for understanding the shifts in Turkey’s political economy in the late AKP era. Section five considers the broad parallels between Turkey under Erdoğan and Russia under Putin, highlighting once again the presence of striking similarities and differences. Section six considers the challenging question of the durability of the AKP as a hegemonic force in the Turkish context. A central proposition is that although the AKP under Erdoğan proved to be an extra-ordinarily durable force in Turkish politics, it may still face significant challenges of sustainability in the economic and political
Global shifts, the rise of authoritarian capitalism(s) and the challenge of the Beijing (-Moscow) consensus

In the current context, the rise of China and the growing challenge offered by the appeal of the ‘Beijing Consensus’ together raise deep questions concerning the relationship between successful industrial transformation under what we might term ‘strategic capitalism’ and the achievement of democracy. Although in its specific form the Chinese brand of capitalism differs from the experience of the original trio of East Asian developmental states, it still sits very much in the tradition of developmental states in respect of the active role of the state in promoting industrial transformation. China could be described as a ‘post-developmental state’ given its greater openness to foreign direct investment right from the very beginning of its opening-up to the global economy in the early 1980s. It’s important to emphasize, however, that Chinese openness to transnational investment was always based, however, on an active bargaining process focused on aligning the terms of entry with its broader strategic priorities. This is fundamentally different from a neoliberal, open-door approach to foreign investment (Breslin 2011).

China’s state-driven industrial transformation over the course of the past few decades has been quite remarkable and has undoubtedly given a predominantly benign face to the ‘Beijing Consensus’ (Breslin 2011; Yaşcı 2016). The reality is that the rise of China has dramatically expanded the developmental space for many countries of the Global South and contributed to the broadening of global governance, effectively challenging the dominance of the North and Northern-dominated institutions such as the IMF, the World Bank and WTO. Projects such as the ‘One Belt One Road’ initiative and new institutions in which China plays an overriding role such as The Shanghai-Co-operation Organization, The New Developmental Bank, and The Asian Investment and Infrastructure Bank all create important opportunities for development on a truly global basis. A seemingly attractive feature of the emerging ‘Beijing Consensus’ is China’s flexible understanding of ‘conditionality’ with references to a ‘no strings attached policy’.

There is also a dark side associated with the emerging ‘Beijing Consensus’. The Chinese success illustrates that successful capitalist transformation can be accomplished in a highly authoritarian environment. The Chinese model is thus particularly attractive not only to established autocratic regimes such as those in Central Asia, but also to illiberal, majoritarian ones with growing authoritarian tendencies in the European periphery, such as the cases of Hungary and Turkey, where the political leadership looks explicitly to the Chinese example as an alternative to Western style of development. The future development of China is therefore hugely important as a potential hegemonic or co-hegemonic power capable of projecting its role model capabilities, norms, and values.

In the present context, the role of China has to be integrated with a discussion of Russia and its own brand of authoritarian state capitalism. Although China represents
a more dynamic version of state capitalism, Russia is also crucially important in terms of its huge energy resources as well as its industrial, human resource and military capabilities. It is the combination of a returning global power with a rising global power that contributes to the formation of a powerful alliance, whose economic and political influence is particularly visible in the European periphery. In the Turkish context, as well in the broader Central and Eastern European setting, Russian power is much more visible. China is also increasingly making its presence felt through its economic involvement and mega-projects. It is quite likely that over time, China may become a progressively more important actor. In the current juncture, it makes sense to talk about a powerful alliance, with China and Russia clearly benefiting and deriving their power from their mutual interaction and a combined Beijing–Moscow consensus, in terms of its potential economic and political implications.

**Explaining Turkey’s new state capitalism: is the reactive state model still relevant?**

The reactive state framework to explain Turkey’s major policy shifts in the post-War era is based on four interrelated pillars (Oniş and Şenses 2007). Changing global dynamics constitutes the central pillar that provides the impetus for major policy shifts. Turkey, unlike its counterparts of pro-active states in East Asia, tended to follow the broad shifts taking place in the global political economy. Deep economic crises constitute the second element. Economic crises tend to discredit the old policy paradigm. It also empowers the role of external actors and weakens opposition to facilitate transition to a new model or policy paradigm. The third element concerns the emergence of a favourable domestic coalition of key actors among the political elites, the business community and the bureaucracy that collectively favour the implementation of the new policy paradigm. Finally, the fourth element centres on the role of agency. Leadership in the ownership of the emerging policy paradigm matters and trans-national policy actors can play a key role in the process of popularizing and generating broad political support in translating the new policy paradigm into action.

The framework appeared to explain quite well the shift from the import-substituting (ISI) model of the 1960s and the 1970s to the outward-oriented, export-based strategy of the 1980s under broad-based neo-liberal economic reforms. The changing global context was of key importance. Late 1970s and the early 1980s marked the end of the Keynesian Consensus and the rise of neo-liberal economic policies in the new age of Washington Consensus. The deep crisis of the import-substitution model in Turkey in the late 1970s signalled the need for drastic economic reforms as a basis of reactivating growth on a sustained basis. The depth of the crisis and the breakdown of the economy empowered key external actors like the IMF, the World Bank and the OECD to implement a widespread neo-liberal reform agenda. There was also a parallel process involving the emergence of a domestic coalition in favour of reforms, especially among those segments of the business community who were in a position to benefit from the new opportunities offered by export-oriented development. Turgut Özal, with strong links to the international financial institutions and domestic constitutes played a key role, first as a technocrat and then as a key political figure in translating Washington Consensus reforms into action.
A similar pattern was evident in the aftermath of 2001 crisis. Washington consensus policies increasingly faced criticism in the 1990s due to rising inequality and successive emerging market crises. The changing mood in the international financial establishment, especially after the Asian crisis of 1997 was in favour of a modified version of neo-liberal economic policies, based on strong regulatory institutions and social policies designed to iron out our excessive inequalities. Turkey was confronted with the logic of ‘Post-Washington Consensus’ in the early 2001. The economic reform program implemented under the auspices of the twin Washington institutes, the IMF and the World Bank, closely reflected the new logic of Post-Washington Consensus. The emphasis on regulatory and social neo-liberalism was strongly supported by the EU, whose power and influence were accentuated by the fact that Turkey was included in the formal accession process, which dramatically raised the hopes for eventual EU membership. The economic crisis of 2001 was of critical importance in paving the way for the new phase of regulatory neo-liberalism. The crisis empowered the key external actors and helped to break resistance in domestic circles, to policies such as large-scale privatization. In line with the broad explanation, the emergence of a broad coalition within the business community and bureaucracy facilitated the implementation of post-Washington consensus style reforms. Kemal Derviş assumed the role of an Özal style transnational policy actor or entrepreneur following the onset of the 2001 crisis. Derviş was brought into the coalition government as technocratic figure from the World Bank, where he was previously a Vice-President, and played a key role in implementing the ‘strong economy’ program in close co-operation with key international actors. His mediating role between key external and domestic constituencies proved to be quite crucial in the successful implementation of the reform program which resulted in a process of sustained economic growth (see Graph 1). Indeed, the AKP effectively capitalized upon the reform process initiated by Derviş and the coalition government, in the immediate aftermath of the 2001 crisis.

This paper adopts the reactive state framework for analysing and interpreting the post-2011 AKP era because this framework offers an illuminating explanation of the key elements of the late AKP period (Table 1). The shifting global context is again of crucial importance. Rising powers like Turkey are clearly being influenced and responding to a shifting global context where the traditional dominance of Western powers is on the decline and the rise of major BRICS, and notably, the authoritarian BRICS constitute an alternative path to successful capitalism. The key driving force to understand post-2011 era are external, originating from the rise of successful model strategic capitalism or state capitalism with the rise of Beijing or Beijing–Moscow norms increasingly challenging the prevailing norms of post-Washington consensus. We could describe the new phase as an era of ‘hybrid norms’ under the challenge of authoritarian state capitalism(s). The shifting global context is relevant not only in terms of influencing the choice of new policy paradigms, but also creating alternative avenues of economic expansion and finance, which render countries like Turkey less dependent on traditional Western institutions like the IMF, the World Bank and the EU.

The second pillar of the reactive state model is the importance of economic crises. Crises again played an important role in the Turkish context. However, the nature of the ‘crises’ has been quite different. Rather than a domestically generated economic
The crisis, which marked the passage from the ISI to the first phase of neo-liberal economic reforms in the early 1980s, and from the Washington Consensus to the Post-Washington Consensus phase in the early 2000s, the global financial crisis and the global shifts that it helped to promote and accelerate have emerged as the prime movers of the new transformation. A series of political and security-based crises in the domestic sphere have also played an important role in facilitating a further concentration of executive power, tilting the balance in a more authoritarian direction.

The third pillar concerns the necessity for a domestic coalition in favour of the new paradigm. As the AKP consolidated its power in the post-2011 context, the new conservative, political, business and bureaucratic elites associated with the rise of AKP have clearly endorsed this new strategy. It is indeed a striking combination of global shifts and domestic shifts, empowering emerging powers on a global scale, and empowering new economic and political elites in the domestic sphere that seems at the heart of the recent transformation, broadly termed as ‘state capitalism’ or ‘authoritarian neo-developmentalism’, marking a new phase in Turkey’s integration into the global political economy.

The final pillar in the analysis concerns the role of agency or leadership. This is once again crucial in explaining the shift to the new phase. In the present context, Erdoğan, with its extended presidential powers, has consolidated his position as the central driving force in the new model of developmentalism or state capitalism. Erdoğan’s position is quite different from the previous key figures such as Turgut Özal and Kemal Derviş, whose power and influence were linked to their ability to play the role of transnational policy actors, with their ability to forge organic links between key western institutions and domestic constituencies for reform, in a predominantly Western-dominated global order. Erdoğan, in contrast, represents a new kind of political...
entrepreneur, with a strongly populist-nationalist and anti-Western style rhetoric, very much in line with the shifting global order in an increasingly post-Western world, where the Western or Washington-based norms are no longer dominant.

The political economy of the ‘late’ AKP era in comparative-historical perspective

What makes the political economy of the ‘late AKP’ era distinct from the early ‘golden age’ period of the 2000s? We try to present a stylized comparison of the early and late phases, taking into a number of different dimensions in Table 2, focusing both on elements of continuity and rupture.

Table 2. The early versus ‘late’ AKP era. Patterns of continuity and rupture.

<table>
<thead>
<tr>
<th>Elements of Continuity</th>
<th>Elements of Rupture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong Neo-liberal features (liberal trade regime, capital account openness, pro-privatization stance)</td>
<td>‘Neo-liberal developmentalism’ replacing ‘social and regulatory neo-liberalism’ as the dominant policy paradigm. ‘Turkey in the Age of Beijing Consensus or the Emerging Russia-China Axis’ versus ‘Turkey in the Age of Post-Washington Consensus’.</td>
</tr>
<tr>
<td>Aspects of ‘social neo-liberalism’ and ‘regulatory neo-liberalism’ remain broadly intact (with some qualifications?)</td>
<td>Paradigm shifts in policy are accompanied by institutional shifts. Ministry of Economic Development more central institution in the new system. BDDK and other Regulatory institution become more secondary. Central Bank becomes a center for contestation between supporters of financial regulation/stability versus supporters for developmental interventionism.</td>
</tr>
<tr>
<td>Controlled populism and concern with fiscal and monetary stability (elements of backsliding? Inflation moving into the single digits)</td>
<td>Conventional privatization gives way to new form of privatization based on public private partnerships, large-scale housing and mega-construction /infrastructural projects. State is a key actor through organizations like TOKI. The private sector is also heavily involved and benefits from the state-engineered rent-distribution process.</td>
</tr>
<tr>
<td>Economic relations with the EU continue to be important and the customs union appears to be resilient to political shifts (qualifications?)</td>
<td>Elements of state capitalism co-exist with neo-liberal features. New institutions such as the ‘Wealth Fund’. De-Europeanization and ‘Russianization’ of the Turkish economy. Weakening of the rule of law. Serious allegations of corruption compared to an environment of the immediate post-2002 era. A process of institutional weakening and undermining the autonomy of key regulatory institutions.</td>
</tr>
<tr>
<td>Income inequality displays some deterioration after an early improvement, but broadly stable; no fundamental change</td>
<td>Continued economic dynamism, but at a slower pace. Continuous growth a key factor in the durability of the AKP. However, major problems concerning the quality of growth as well as its modes of financing and sustainability.</td>
</tr>
<tr>
<td>Continuing importance of secular big business (represented by TÜSİAD) in the face of the rise of a new Anatolian bourgeoisie with strong, organic ties to the governing party</td>
<td>Evidence of rising wealth inequality. Turkey appears to be near the top of the league table. Confirming the suspicions about the mechanisms and quality of growth under ‘state capitalist’ features.</td>
</tr>
<tr>
<td>Importance of soft power elements in Turkish foreign policy; Turkey as a humanitarian actor in terms of aid provision, open door approach to refugees and attempts to solve regional and global conflicts through active co-operation with regional and global powers</td>
<td>Strong authoritarian turn in domestic politics parallel to a major shift in foreign policy orientation from the EU and the West to Russia, China and the Middle East. Domestic political shifts and foreign policy shifts as complementary, interlocking processes. Coercive elements in foreign policy. Active interventionism in conflicts beyond Turkey’s borders, in contrast to the predominantly soft-power approach of the earlier era.</td>
</tr>
</tbody>
</table>
A cursory glance at the post-2011 era suggests that key elements of ‘social’ and ‘regulatory’ neo-liberalism carried over into the second phase (Dorlach and Savaşkan 2018). Major regulatory institutions, such as the Bank Regulation and Supervision Authority (BRSA) and the Central Bank continued to play a role (albeit under increasing political pressure) as regulatory institutions in the economic decision-making process. The AKP relied on the continuation of social assistance programs to maintain its broad-based public support. Privatization resumed its role as an important ‘neo-liberal’ element in the AKP’s overall policy package. Large-scale privatization continued to help in the AKP’s broad commitment to fiscal and monetary stability as part of its strategy of ‘controlled populism’. This element sharply differentiated the AKP from previous centre-right parties in Turkey, making a significant contribution to its resilience over time. Rising Anatolian capital continued to be the backbone of the AKP’s electoral support. The predominantly secular, large conglomerates associated with TÜSİAD, maintained their dominance in Turkish manufacturing during the second phase, through a process of accommodation with the AKP government. The pro-active foreign policy based on soft power, which characterized the early phase, also carried over into the second phase in co-existence with increasing coercive approaches. EU membership continued to be, at least in rhetoric, a long-term goal of Turkish foreign policy. Turkey maintained its broad commitment to the customs union project, albeit with some reservations about terms of the agreement, necessitating a process of negotiation and revision. Co-operation with the EU continued on key security issues such as the management of the refugee crisis. Similarly, NATO resumed its role as the central security umbrella for Turkey and the United States, in spite of the ups and downs of the relationship, continued to be a major actor whose collaboration was critical for regional security and stability.

Yet, closer examination points towards the presence of some dramatic ruptures. The AKP under the leadership of Erdoğan consolidated its position and became the hegemonic force in Turkish political scene following the third electoral victory in June 2011 (Müftüler-Baç and Keyman 2012). The emergence of a hegemonic party system per se does not imply a weakening of the democratic order. Turkey, however, has progressively moved from an unconsolidated, illiberal democracy to a new style electoral or competitive authoritarianism during the later phases of the late AKP era (Aydın-Düzgit and Kaliber 2016; Çeviker-Gürakar 2016; Saatçioğlu 2016). The checks and balance mechanisms, crucial for a liberal democratic order, such as independent judiciary, media and civil society were seriously weakened and eventually dismantled. The hegemonic party system increasingly evolved into a Russian style ‘party state’, with disproportionate command over processes of decision-making and mechanisms of rent distribution.

Turkey during this period experienced a process of de-Europeanization. Parallel to the weakening of the EU membership process, there was a striking decline in the rule of law (Acemoğlu and Murat 2015). Allegations of corruption also increased dramatically during the later phase of the AKP era. Buğra and Savaşkan (2014), aptly document elements of Turkey’s ‘new capitalism’ with the emergence of powerful groups in sectors such as construction, energy and media, often with overlapping ownerships, with close links to the party or the party state (see also Ocaklı 2018; Çeviker-Gürakar 2016; Esen and Şebnem 2016). Many of these companies were able to benefit from the relaxation of
the law on Tenders, which allowed them to obtain lucrative contracts from the state (Çeviker-Gürakar 2016; Esen and Şebnem 2016, 2018). There is striking evidence that wealth inequality has increased steadily in the late AKP phase (Graph 11). Turkey appears to be in the top group of wealth inequality countries in recent years, whereas it is lower down in the league table in terms of income inequality figures.

The period also marked a process of de-institutionalization of some of the key regulatory agencies, which had played such an important part in the early, post-2001 recovery and restructuring process (Özel 2012). Many analysts point towards a process of institutional weakening in Turkey in the post-2011 period, which is quite puzzling given that ‘new developmentalism’ would, by definition, require strong and effective institutions (Acemoğlu and Murat 2015). Among the regulatory institutions, the Central Bank has been the institution whose autonomy has been strongly tested by the new developmentalist rhetoric, which strongly criticized the idea of an independent central bank. Monetary policymaking process not being independent and driven by the pressure of the populist and short-term ambitions of the political elites had negative effects on Central Bank’s overall credibility over the market and this weakens its predictability for the inflation expectations and upcoming policies and decisions. Indeed, the Central Bank became a contestation ground between ‘financial stabilizers’ (Babacan, Başçı, Şimşek) and ‘developmentalists’ pushing for low-interest rates to stimulate the real economy (Erdoğan, Albayrak). Whilst a policy of low interests made sense in terms of stimulating the construction sector and allowing households to borrow on easy terms, it tended to backfire in a financially globalized economy, by leading to a process of outflow of short-term capital with a progressive weakening of the Turkish lira against the dollar, a process vividly displayed in the context of the recent currency crisis.

The overall economic performance in the late AKP phase has been less impressive (See key indicators of macroeconomic performance embodied in Graphs 1 to 11 in the Appendix). The evidence suggests a weakening of Turkey’s ability to attract FDI in recent years. What is also worrying that elements of an old-style populist cycle, with a massive increase in public expenditures and a rise of inflation to double-digit level have been taking place since 2015, raising fears of sustainability, which were quite absent in the earlier phase.

A series of domestic shocks have accelerated the drift into authoritarianism that had already started to manifest itself in the post-2011 juncture. The Gezi Park protests of May–June 2013 and the December 2013 crisis involving serious corruption allegations, creating a major rift between the government and the Gülen Movement in the process, proved to be crucial turning points. Both sets of events were interpreted as coup attempts constituting existentialist threats to the government and have generated an authoritarian backlash. The resumption of the armed conflict with the PKK following the June 2015 elections strengthened the position of Erdoğan and the AKP in the November 2015 election. The notorious failed coup attempt of July 2016 also created a major backlash and helped to accelerate the process towards a presidential system, which became a reality, by a very narrow margin, through the referendum of April 2017. It is perfectly possible, in principle, for a presidential system to be compatible with a liberal democratic form of government, depending on the strength of checks and balance mechanisms. The presidential system, which is in the process of
being institutionalized in Turkey after the 2018 general elections, is a Putin style presidential system where checks and balance mechanisms are largely absent and where the decision-making process is excessively concentrated in the hands of the executive.

In the new system, concentration of political power should not be solely equated with the enhanced executive power of the President. Governance of economic policy has been in a process of institutional transformation through merging of the ministries, formation of new government agencies directly accountable to the President and decreasing role of the parliament in budgetary decision-making process. In the new presidential system, the first signs show that the ability of the President to unilaterally sign executive orders undermines the separation of powers and limits checks and balance mechanisms by effectively marginalizing the role of Parliament in key decision-making processes. Within the first weeks of the newly adopted system, Erdoğan has signed executive orders that enabled him to design and change the structure of some of the most important institutions such as the National Intelligence Agency and the Turkish Armed Forces without seeking the approval of the parliament. Many other economic institutions, too, have encountered with redefining of their roles and powers through overnight decisions.

In terms of Turkey’s external relations, a dramatic shift is discernable in terms of relations with the West. The commitment to westernization, in identity terms, has been largely abandoned. Turkey is increasingly looking to the Russia–China axis, symbolized by the Shanghai Cooperation Organization (the SCO) for its economic model and to the Middle East and the Muslim world as the primary reference point on the basis of identity. Co-operation with the US and EU appear to be conceived as ‘shallow co-operation’ based on immediate economic and security interests. It is no longer possible to talk about a Western or EU anchor based on shared values. The relatively lukewarm attitude of Western actors to the failed coup attempt in Turkey helped to bolster this process of de-Europeanization and de-Westernization. The argument about ‘encirclement’ often used by Putin to criticize Western involvement and initiatives in Russian neighbourhood has also been effectively used by Erdoğan and the party leadership to appeal to nationalists in Turkey based on a strong anti-Western and anti-European rhetoric. All these elements add up to the point that the ability of the EU, in particular, to reverse the current process of the drift towards electoral authoritarianism is severely restricted.

Concerning Turkey’s ‘new developmentalist discourse’ the following elements stand out. There is a strong emphasis on the idea of building a national industrial base (Öniş and Kutlay 2013; Kutlay and Karaoğuz 2018). Ambitious targets have been set in terms of growth and industrial production, with strong emphasis on the ‘local and national’ element with frequent references to develop a ‘national car’ or ‘national defense’, based on higher proportion of domestic production and technology involved. The shift towards new developmentalism is also associated with novel institutional mechanisms. For example, the Ministry of Development (replacing the old State Planning Organization) has emerged as a major arm of economic bureaucracy in the post-2011 era. Another experiment in institution building, with state capitalist overtones, is the Turkey’s New Sovereign Wealth Fund (Türkiye Varlık Fonu) where the idea is to create a massive fund under central direction, which would be able to finance politically
popular mega construction projects, while raising deep problems of transparency and accountability at the same time.

In retrospect, three interrelated elements help to explain the continued popularity and electoral success of Erdoğan and the AKP. The first element is strong business support, especially by firms or conglomerates, which directly benefit from the opportunities provided by direct access to the political process (vertical concentration element). Here, one can detect a natural similarity with the Russian pattern where a group of major oligarchs benefit hugely from their connections with the regime. The second element concerns the ability to create significant benefits for large segments of society through a process of continuous economic growth (horizontal redistribution). Housing is a striking example of how these vertical and horizontal dimensions come together in a way that helps to bolster one another. What we observe in the housing sector is a kind of state capitalism implemented through state institutions like the Mass Housing Authority (TOKI). TOKI makes land available for construction and organizes mega housing projects that constitutes lucrative business for major construction firms (vertical dimension) but at the same benefit middle income or lower income groups in society in terms of their ability to become home owners (the horizontal dimension). The third dimension is a foreign policy based on assertive nationalism, whose main benefits are manifested in the realm of domestic politics.

**Broad parallels between Turkey under Erdoğan and Russia under Putin: a comparative political economy perspective**

The magnitude of economic (and recently security) interdependence that has been building up between Russia and Turkey over the course of the post-Cold War period has been quite staggering (Aktürk 2006, 2014; Baev and Kirişçi 2017; Öniş and Yılmaz 2016; Özcan et al. 2017; Zarakol 2017). The objective here is not to probe into the details and complexities of the Turkish–Russian partnership which has been building up at an accelerated rate, and assumed a novel form, since Russia established herself as an ‘insider’ in the Syrian conflict in the immediate neighbourhood of Turkey since 2014. The aim, instead, is to consider broad parallels between the experience of Turkey and Russia in their domestic political economies, following the collapse of communism and the break-up of the Soviet Union from the early 1990s onwards (Table 3).

Obviously, the historical trajectories of the countries are strikingly different. Turkey, in the post-War period is a mixed capitalist economy with a significant development of the private sector during the course of its different policy phases, progressing from domestic-market based to different stages of outward-oriented development. Turkey also has an extensive experience of multi-party democracy and a strong orientation in economic, security and identity towards the West, with a long-standing desire for EU membership. Russia, in contrast, emerged from a significant authoritarian past and an experience of top-down central planning, which naturally rendered a process of transformation towards a capitalist style much more painful. There is also a problem of scale to consider. Russia is a country with a great power capabilities and global ambitions. Turkey, in contrast, is as significant middle power with serious regional ambitions. Turkey has a more deeply divided society, and is much weaker internationally than
Russia. With these caveats in mind, there exist, nevertheless some interesting parallels between the development patterns of the two countries, which are worth highlighting. Indeed, the similarities become progressively more striking over time, as we move to late AKP and late Putin eras, respectively, in the context of the present decade (Zarakol 2017).

The 1990s were a difficult phase of development for both countries. Turkey experienced successive crises and instability in the second decade of Washington consensus decades, in a broadly democratic setting (Öniş and Şenses 2007). Obviously, Russia experienced a painful transformation under shock treatment approach to transition to capitalism in a much more radical and painful fashion, which is quite incomparable to the Turkish experience (Klein 2007). Russia during the 1990s also had a brief interlude with democratization reforms under Yeltsin, which subsequently ends in failure.

Table 3. The political economy of Turkey and Russia since the early 1990s: broad parallels.

<table>
<thead>
<tr>
<th>Period</th>
<th>Description</th>
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<tbody>
<tr>
<td>1990s</td>
<td>A period of instability and crises of very different magnitudes in radically different national settings. Turkish experience a drastic ‘shock treatment’ approach to transition from Soviet-style planning to a market-based economy. The transition phase is particularly painful. Russia experiences an early experiment in democracy during the Yeltsin years, which subsequently ends in failure.</td>
</tr>
<tr>
<td>2000s</td>
<td>Strong recovery and a successful phase of growth in both countries facilitated by a favorable international environment. The ‘golden age’ of the AKP era corresponds to the golden age of the early Putin era. Russia experiences a painful transformation under shock treatment approach to transition to capitalism. An increase in state capacity in both cases contributes to improvement in economic performance.</td>
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<td>The assertion of state power in Russia with the emergence of a new form of state capitalism, which creates a favorable environment for macroeconomic discipline and economic growth. The rise of ‘new’ middle classes in both cases benefiting from economic growth and providing political support in return.</td>
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<td>Turkey’s economic reforms are associated with a parallel process of democratization, whilst Russia experiences a strong authoritarian turn. Strong recovery and a successful phase of growth in both countries facilitated by a favorable international environment. Turkey’s economic reforms are associated with a parallel process of democratization, whilst Russia experiences a strong authoritarian turn.</td>
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<td>2010s</td>
<td>Weakening of economic performance in both cases, in part due to a reversal of favorable external conditions. In both cases ‘extensive growth’ based on key resources constitutes the basis of shallow economic growth. In Russia, the key sources of growth are oil and natural gas. In Turkey, ‘land’ becomes a case source of accumulation as the construction sector, linked to the rise of the ‘new bourgeoisie’ with close links to the AKP, becomes a key engine of economic growth. Due to the interplay of changing external and domestic conditions, Turkey in the ‘late’ AKP era experiences a simultaneous shift to a new form of state-led developmentalism and an authoritarian turn in the political sphere.</td>
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<td></td>
<td>Strong economic interdependence between Russia and Turkey, now supported by a certain degree of convergence in their internal political-economic trajectories. ‘De-Europeanization’ and ‘Russianization’ of Turkey. Growing foreign policy interdependence based on a common vision of ‘encirclement’ from the West.</td>
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Russia. With these caveats in mind, there exist, nevertheless some interesting parallels between the development patterns of the two countries, which are worth highlighting. Indeed, the similarities become progressively more striking over time, as we move to late AKP and late Putin eras, respectively, in the context of the present decade (Zarakol 2017).

The 1990s were a difficult phase of development for both countries. Turkey experienced successive crises and instability in the second decade of Washington consensus decades, in a broadly democratic setting (Öniş and Şenses 2007). Obviously, Russia experienced a painful transformation under shock treatment approach to transition to capitalism in a much more radical and painful fashion, which is quite incomparable to the Turkish experience (Klein 2007). Russia during the 1990s also had a brief interlude with democratization reforms under Yeltsin, which proved to be a transitional phenomenon. Following the demise of the Soviet Union, opening of the Russian economy was accompanied by a major wave of privatizations. This, in turn, created a group of wealthy individuals who were able to get government contracts and licenses using their political connections. As a result, state helped these hand-picked ‘oligarchs’ to become
powerful in the financial and the industrial sectors through privatization of the industrial and natural resource assets. Those oligarchs have extended their power into different sectors and had overlapping ownership in the areas that affect political arena such as the media. What is striking is, some of the Yeltsin era oligarchs were charged with different corruption allegations and their assets were transmitted to the new set of oligarchs of the Putin era (Treisman 2018). This state-led allocation of economic power resembles the recent transformation of the ownership of major mainstream media in Turkey where one also observes overlapping ownerships in industrial and usually construction sectors.

The early 2000s represent a period of strong economic recovery and growth for both countries (Öniş 2012). The golden age of Erdoğan and the AKP in the early 2000s broadly corresponds to the golden age of Putin and United Russia party in the Russian context. Both countries are able to impose fiscal discipline and undertake economic reforms and both benefit from favourable global liquidity conditions (Rutland 2013; Djankov 2015). Indeed, both are late-comers in terms of attracting long-term foreign direct investment. Both start to attract significant FDI during the course of this particular decade. The key difference is that Turkey accomplishes these reforms in the context of a Europeanization drive under the strong impulse of the EU membership process. Turkish experience could be more aptly termed as regulatory or social neo-liberalism under the strong influence of Western institutions. Economic reforms are associated with a parallel process of democratic deepening. In contrast, Russian style state capitalism is able to accomplish economic recovery and growth in the context of a significant authoritarian turn in domestic politics. In both contexts, it is possible to underline the emergence of a new bourgeoisie, the rising conservative middle classes from Anatolia in the Turkish context and the new middle classes associated with Russia’s new state capitalism, that constitute the backbone of the electoral support for the two leaders and their respective parties.

Finally, during the 2010s; the similarities are increasingly compounded as Turkey experiences a process of ‘de-Europeanization’ and ‘de-Westernization’ (Aydın-Düzgit and Kaliber 2016) and progressively displays features which are closer to Russian style state capitalism. Economic performance in both countries is weaker during this particular period, compared to the golden age period of the previous era. Nevertheless, both Erdoğan/AKP and Putin/United Russia continue to maintain their popularity and their hegemonic positions in their respective political settings. The ability to achieve continuous economic growth and to use the proceeds of this growth to forge a strong cross-class coalition of powerful business and wider segments of society constitutes one important common denominator. The ability to use nationalism and assertive foreign policy with a strong emphasis on the West as the ‘other’ represents yet another important common dynamic. In both cases, the strong emphasis on domestic and external security challenges, and an assertive foreign policy approach have paid handsome dividends in terms of bolstering the domestic popularity of the powerful leaders and their respective parties. Indeed, the process of convergence has taken a new dimension following the transition of Turkey from a de facto presidential system to an actual presidential system, with strong Russian overtones, following the referendum of 2017 and the elections of 2018. A central question to be addressed is the extent to
which this relative convergence is likely to be durable over time. Our initial hunch is that the competitive authoritarian regime (Levitsky and Way 2002) emerging in Turkey (Esen and Gümüşçü 2016, 2018; Öktem and Akkoyunlu 2016; Somer 2016; Özbudun 2015) may experience economic and political challenges, which may undermine its durability in the medium-term, whilst its Russian counterpart is likely to be more robust, even though it may not be able to display the kind of economic dynamism associated with the Chinese style strategic capitalism.

**The durability of the AKP as a hegemonic force in the Turkish context: challenges of sustainability**

A central argument of the present paper is Turkey is now firmly entrenched in a new phase of development with elements of state capitalism in the economic sphere and competitive authoritarianism in the political realm rather reminiscent of Russian style authoritarian state capitalism, embedded in the broader logic of Beijing Consensus and the Russia–China axis. The central question to pose concerns the durability of this new path of development. Would it be possible to expect elements of reversal and backsliding in the coming years?

The durability of growth is a key consideration. Among the family of centre-right parties, which dominated the multi-party scene in Turkey since the 1950s, the AKP has proved to be the most resilient and durable, due to its ability to achieve economic growth on a sustained basis and avoid domestically generated financial and economic crises in the process. It is typically the onset of a major financial and economic crises and the collapse of the growth process, with external actors coming to the rescue that has tended to penalize incumbent parties in government. It was the dramatic economic crisis of 2001 that ultimately led to the demise of the coalition government in power, paving way for the emergence of the AKP in the November elections of 2002. The same logic applies to the case of corruption. Major allegations of corruptions (as in the case of the late AKP era) do not have much political impact as long as economic growth continues and diverse segments of society benefit from this process. In contrast to established democracies, where allegations of corruption are always a cause of concern, such allegations do not seem to have much impact on the perception and voting behaviour of ordinary citizens as long economic conditions remain buoyant.

Turkish economy has been quite dynamic and has been able to maintain a reasonably high rate of economic growth. Indeed, Turkey’s growth has been higher than Russia and many other emerging powers of comparable standing. Yet, growth has followed a distorted pattern. It has largely been driven by construction and consumption, facilitated by significant increases in domestic and external debt. Moreover, the beginning of the old-style populist cycle could be discerned from 2015 onwards. To maintain political popularity, there has been increased emphasis on reckless spending, with inflation jumping to double digit rates for the first time since the early 2000s (Akarca 2017). There is strong evidence that Turkey’s growth is lop-sided and fragile (See Graphs 1 to 10 in the Appendix). A key feature is the almost 1990s style dependence on short-term capital flows, which makes the country vulnerable to...
speculative attacks. Turkey, in spite of its relatively favorable growth record, is uniformly included among the ‘fragile five’ in the emerging markets category.

A central dilemma concerns the possibility of clash of norms. Turkish economy is already highly open and heavily integrated into the global political economy. Attempts to implement a model of ‘state capitalism’ in this type system, which is tightly integrated into the neo-liberal global economy, may create clashes and conflicts, with the possibility of ensuing crises. A key element in this scenario involves the erosion of Central Bank autonomy and pressures to reduce interest rates, which in a financially open economy result in significant outflow of short-term capital and currency volatility, with its negative repercussions, particularly on corporate debt denominated in dollar terms (See Graph 7 in the Appendix).

It was a smart move for Erdoğan and his policy circle to push for an early presidential election in June 2018 in the midst of significant currency volatility, signalling the possibility of an economic crisis. The deteriorating economic environment was ultimately not strong enough to prevent the victory of Erdoğan in the presidential race and the heavily nationalistic AKP-MHP coalition in the parliamentary elections. Many economic actors also voted for Erdoğan and AKP for reasons of economic stability based on the fears that an alternative coalition government would jeopardize stability and security, based on the negative memories of coalition politics in the late 1970s and the 1990s.

There were continuing doubts and uncertainties on how to land the economy after the June 2018 elections. The government had introduced a series of massive incentive packages before the election in an already heating economy, contributing to the upward pressure on the inflation rate. The former Deputy Prime Minister responsible for the economy, Mehmet Şimşek had promised a soft landing just before the election. However, he was excluded from the new presidential cabinet. The governance of the economy was transferred to the hands of developmentalists, with former Energy Minister, and Erdoğan’s son-in-law, Berat Albayrak, appointed as the person in sole charge of the economy as an all-powerful Minister in the newly formed presidential cabinet.

The immediate reaction of the financial markets to the new cabinet and to the appointment of Albayrak was quite negative, with Turkey finding itself in the midst of a serious currency crisis during the summer of 2018 (See Graphs 6 to 8 in the Appendix). Evidently, the market actors were not satisfied with the appointment of Albayrak and the degree of commitment displayed by the new executive in implementing the tough fiscal and monetary measures needed to stabilize the economy and to bring inflation back to single digit levels. The situation was aggravated by the failure of the government to raise the interest rates to prevent the dramatic downward spiral of the Turkish Lira, which also signalled major question marks concerning the autonomy of the Central Bank. The crisis was aggravated by the economic sanctions imposed by Trump in return for a failure by Turkey to release an American citizen held as a political prisoner. The currency crisis was clearly costly for the economy and put enormous pressures on the corporate sector confronted with a serious dollar-denominated debt burden.

Several steps were taken by early fall, which helped to prevent a serious currency crisis to developing a fully fledged economic crisis. The policy of trying to maintain
interest rates at artificially low levels was abandoned. The release of the American prisoner also helped to improve relations with the United States, resulting in the lifting of the sanctions. There was clearly a pragmatic U-turn by the new administration and the required measures were implemented, albeit with a significant time lag. By the end of the year, the currency crisis appeared to have been taken under control. Nonetheless, most commentators would agree that Turkey is likely to be confronted with a serious problem of stagflation and weak growth for the next few years.

In the longer run, a lot will depend on the ability of the new presidential system with concentrated decision-making capabilities, to undertake the kind of stabilization and reform measures needed to generate a major economic recovery and create the conditions for turning this into sustained economic growth, based on a diversified and innovative manufacturing sector. In comparative terms, Russia benefits from its huge oil and gas resources and its military-industrial complex to resume its economic expansion. In the Turkish case, although there are also elements of an emerging military-industrial complex, land has been the principal resource, with housing and construction assuming the role of major drivers of economic growth. Clearly, there are serious limits to growth based on the combination of housing, consumption and debt.

A second broad variable, which will have an impact on the longer-term durability of the new political-economic model concerns the leverage of Europe and the West. In the current international context, the ability of the EU, in particular, to exert a significant influence for change appears to be rather limited. The membership option is no longer in the cards. The EU is grappling with its own internal challenges and its ability to reverse illiberal trends even its Central and Eastern periphery appear to seriously curtailed (Krastev 2017; Zielonka 2017). The EU continues to be a key economic actor for Turkey. Furthermore, the realm of refugee co-operation is likely to be a major area of interest-driven co-operation between the two key actors. Similarly, the US and NATO will continue to be important for Turkey in terms of key security interests. What is striking, however, is that the strong commitment to Westernization and EU membership has dramatically diminished in the current era. Strong nationalism based on anti-Western sentiments appear to be shared by different segments of the political spectrum, which otherwise find themselves in sharp disagreement over key social and political issues. The EU may exert some influence in terms of softening the competitive authoritarian regime but certainly not in the direction of helping to radically reverse it from its present form. The more Turkey is able to diversify its economic relations towards the Russia–China axis (through energy deals and more active participation in the One Belt, One Road Project), the less will be its economic and security dependence on the West, with the natural corollary that the ability of Western powers to shape domestic developments in Turkey will be severely circumscribed.

This leads to another possibility of whether change in Turkey could come through domestic opposition. Compared to Russia, Turkey has a strong democratic tradition and the opposition is stronger as clearly manifested in the elections of 2018. Erdoğan was able to win support for the constitutional change in favour of a presidential system only marginally in the April referendum of 2016. Moreover, Erdoğan’s own party, the AKP, could only receive 43 percent of the votes, and could
manage the 50 percent threshold by forming a coalition with the ultra-nationalist, the MHP in 2018. These suggest that Erdoğan and the AKP’s hegemonic positions in Turkish politics are less secure compared to their Russian counterparts. At the same time, one should not be over-optimistic concerning the possibility of a major reversal in the Turkish context. The opposition remains severely fragmented. Although it displayed surprising degree of co-operation during the election process, it seems to have suffered a major loss of self-confidence in the aftermath of the elections, which could contribute to its further fragmentation. Hotly contested elections continue to be an important element of the Turkish political scene; yet the ruling party enjoys a deep structural advantage over the opposition parties in a largely unfair and partly unfree, yet still competitive electoral contest. Strong control over the media, the politicization of the judiciary and the virtual absence of any kind checks and balance mechanism limits the possibility of debate on a number of key issues and seriously curtails the possibility of a major challenge on the part of the opposition in the foreseeable future.

Concluding observations

A striking feature of the post-2008 global financial crisis era is the rise of authoritarian models of capitalism epitomized by the growing significance of the China–Russia axis. We should not underestimate the importance of democratic BRICS (Brazil, India and South Africa), whose experience also deserves serious attention as important representatives of the rising global South (Stuenkel 2015). The position of India in this context will be particularly crucial given its size, its rapid economic growth and its inclusion in Shanghai Co-operation, otherwise a club of authoritarian states, since 2016. There are other important examples of emerging powers or global middle powers, who stand out as significant role models of democratic development. South Korea could also be singled out as a good example in this context and could serve as a significant role model of successful democratic development, successful leaving behind its authoritarian legacy since the 1980s.

In spite of these qualification, the experience of authoritarian BRICS has attracted more attention, notably in the European periphery, at a time when Western democracies have been experiencing serious setbacks. Western democracies’ attractiveness as role models diminished in the context of their sluggish economic growth and weakening of liberal democratic values in their domestic political settings as a result of multiple challenges ranging from rising inequality to the refugee crisis precipitated by the Arab Spring and the Syrian crisis. The present paper focused on the recent Turkish experience in the late AKP era as a dramatic case of transformation reflecting these broader global trends power shifts. In the Turkish context, Russia was the principal actor that was directly involved through extensive economic and security linkages. But increasingly important and visible behind the scenes was the rise of China and the broader model of authoritarian capitalism epitomized by the Shanghai Co-operation Organization. In retrospect, it was not surprising that President Erdoğan, in the late AKP era, increasingly looked upon the SCO as the key reference for Turkey and as a serious alternative to the European Union.
In the short term, Turkey’s new developmentalism, which increasingly reflects a desire to replicate state capitalist features associated with the Russia–China axis appears to be significantly institutionalized and entrenched by the new presidential system, which leads to a dramatic concentration of executive powers at the centre. It remains to be seen whether this concentration of executive power will be translated into an ability to deal with serious economic challenges and sustain a crisis-free pattern of economic growth. The Turkish experience to date suggests that the durability of governments depends crucially on their ability to evade serious financial and economic crises. Indeed, this proved the major element of superiority, which differentiated the AKP from its predecessors. Yet, the paper also suggested that there are serious elements of vulnerability in the underlying economic model that have increasingly come to the surface in recent years. Economic constraints may well present serious challenges to the new presidential system.

Finally, Russian style presidentialism, which seems to be pattern adopted in the Turkish context, has strong personalistic dimensions. Clearly, it is the personality of President Erdoğan and his charismatic leadership, which has been the key to maintain broad-based electoral support. In the medium-term, it is not certain whether a broad-based coalition necessary to sustain presidential power could be generated under a different leader. What the elections of 2018 seem to point out is a fragile equilibrium, where even a politician with Erdoğan’s popularity could only master slightly more than 50 percent of the vote, which was also made possible by additional support by an ultra-nationalistic party. Our guess is that Turkey’s encounter with the logic of authoritarian capitalism may be less robust compared to its Russian counterpart.

The economic ‘crisis’ that Turkey is currently experiencing is likely to constitute a strong test of the durability of the new regime. Clearly, a lot will depend on whether the currency crisis will turn into a full-blown economic crisis. It is not inevitable that even a deep economic crisis will necessarily undermine the new presidential system given the degree of concentration of economic and political power at the centre. Indeed, the executive may use the crisis as an opportunity to facilitate a further shift away from the West, in the direction of the Russia–China axis. Clearly, the initial projection of the crisis through the media was that of an externally generated ‘economic war’ on Turkey that helped to bolster nationalism and strong anti-Western sentiments. Whether Turkey will be able to avoid key Western financial institutions like the IMF and generate funds from non-Western sources such as Russia, China, and Qatar to create the basis of a sustainable recovery will be an important factor in terms of a possible reversal or further solidification of Turkey’s new state capitalist political-economic trajectory.

Disclosure statement

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Appendix: Key Indicators of Economic Performance in Turkey

Graph 1. GDP growth rates.
Source: TÜİK (Turkish Statistical Institute)

Graph 2. GDP per capita indicators (based on current USD).
Graph 3. Inflation rate (Annual).
Source: TÜİK (Turkish Statistical Institute)

Graph 4. Gross external debt (Million USD).
Source: Central Bank of Turkey
Graph 5. Gross external debt (% of GDP).
Source: Central Bank of Turkey

Graph 6. Net foreign exchange position of non-financial companies (Million USD).
Source: Central Bank of Turkey
Graph 7. Net foreign exchange position of non-financial companies (% of gross external debt).
Source: Central Bank of The Republic of Turkey

Graph 8. Indicators of currency volatility against USD (2017–2018).
Source: Credit Suisse Global Wealth Databook 2018.

Graph 9. FDI net inflows (Billion USD).
Source: World Bank
**Graph 10.** FDI net inflows (% of GDP).
*Source: World Bank*

**Graph 11.** Relative income inequality and wealth inequality.
*Source: World Bank*

Wealth share of top decile (%).
*Source: Credit Suisse Global Wealth Database, 2018.*