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AMBIGUOUS BREAK AND VAGUE TRANSFORMATION

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AMBIGUOUS BREAK AND VAGUE TRANSFORMATION:
THE CHANGING NATURE OF CAPITALISM
DURING AKP RULE IN TURKEY

A Master's Thesis

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Ankara
August 2023

To those who were left to die alone and who do not lose hope for an equal world



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DURING AKP RULE IN TURKEY

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by

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ANKARA

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By Cemali Arıcı

I certify that I have read this thesis and have found that it is fully adequate, in scope and in quality, as a thesis for the degree of Master of Arts in International Relations.

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ABSTRACT

AMBIGUOUS BREAK AND VAGUE TRANSFORMATION: THE CHANGING NATURE OF CAPITALISM DURING AKP RULE IN TURKEY

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In a conjuncture where global capitalism is undergoing changes and industrialised economies have begun moving away from the policies adopted during the last four decades, emerging economies have been adopting new growth regimes for some time. Large emerging economies such as China, India and Brazil have successfully pursued policies with a more intensive role of the state in the economy, which some scholars have explained in terms of a state-permeated capitalism model. During the last decade, Turkey's political economy has undergone noticeable changes that seem to depart from the neoliberal paradigm that emerged in the 1980s and was reinforced in the early years of the 2000s. While the potential presence of state capitalism in Turkey has attracted the attention of scholars of political economy, the recent dynamics of capitalism in Turkey present a complex picture. Seeking to contribute to a better understanding of the changing nature of capitalism in Turkey, this thesis investigates potential transformations in Turkey's political economy by analysing it in terms of the state-permeated capitalism framework. Based on an analysis of the model's main components – namely, coordination mechanisms, institutional domains (corporate governance, finance for investments, industrial relations, education and training, innovation, and domestic markets), and institutional complementarities and clusters – the thesis points to the possible transformation of Turkey's economy towards a hybrid form of capitalism, that preserves some liberal elements while also reflecting some features of the state-permeated capitalism model.

Keywords: capitalism in Turkey, state-permeated capitalism, transformations of capitalism, AKP

ÖZET

BELİRSİZ KIRILMA VE MÜPHEM DÖNÜŞÜM: TÜRKİYE’DE AKP İKTİDARI DÖNEMİNDE KAPİTALİZMİN DEĞİŞEN DOĞASI

Arıcı, Cemali

Yüksek Lisans, Uluslararası İlişkiler Bölümü

Tez Danışmanı: Doçent Dr. Tore Fougner

Küresel kapitalizmin değişime uğradığı ve sanayileşmiş ekonomilerin son kırk yıl boyunca benimsedikleri politikalardan uzaklaşmaya başladığı bir konjonktürde, gelişmekte olan ekonomiler bir süredir yeni büyüme rejimleri benimsemektedir. Çin, Hindistan ve Brezilya gibi büyük gelişmekte olan ekonomiler, devletin ekonomideki rolünün daha yoğun olduğu politikaları başarılı bir şekilde izlemişlerdir ve bu durum bazı akademisyenler tarafından devlet nüfuzlu kapitalizm modeli olarak açıklanmıştır. Son on yılda Türkiye'nin ekonomi politiği, 1980'lerde ortaya çıkan ve 2000'lerin ilk yıllarında pekiştirilen neoliberal paradigmadan ayrılıyor gibi görünen gözle görülür değişimler geçirmiştir. Türkiye'de devlet kapitalizminin potansiyel varlığı ekonomi politik üzerine çalışan akademisyenlerin dikkatini çekmiş olsa da Türkiye'de kapitalizmin son dönem dinamikleri karmaşık bir tablo ortaya koymaktadır. Türkiye'de kapitalizmin değişen doğasının daha iyi anlaşılmasına katkıda bulunmayı amaçlayan bu tez, Türkiye'nin ekonomi politiğindeki potansiyel dönüşümleri devlet nüfuzlu kapitalizm çerçevesi açısından analiz ederek incelemektedir. Modelin ana bileşenleri olan koordinasyon mekanizmaları, kurumsal alanlar (kurumsal yönetim, yatırım finansmanı, endüstriyel ilişkiler, eğitim ve öğretim, inovasyon ve iç piyasalar) ile kurumsal tamamlayıcılıklar ve kümelenmelerin analizine dayanan tez, Türkiye ekonomisinin bazı liberal unsurları korurken aynı zamanda devlet nüfuzlu kapitalizm modelinin bazı özelliklerini yansıtan melez bir kapitalizm biçimine doğru olası dönüşüme işaret etmektedir.

Anahtar Kelimeler: Türkiye’de kapitalizm, devlet nüfuzlu kapitalizm, kapitalizmin dönüşümleri, AKP

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CHAPTER I

INTRODUCTION

In light of recent crisis dynamics and discontent with the mainstream economic regimes, we observe changing trends in the global political economy and the geographies of emerging economies also show varieties of statist economic approaches. Their economic reflections differ within the realm of capitalist mode of production, but mostly there is a reconciliation of state and business that end up with a more state-led organisation of the political economy, which is referred as ‘state capitalism’ in broader terms. More generally and conventionally, state capitalism is the transformation of prefixes of wealth, investment and enterprise from ‘private’ to ‘public’ (Bremmer, 2008), but it can be further generalised to a statement that it is “a form of bureaucratically engineered capitalism particular to each government that practices it” (Bremmer, 2010: 250) or a ‘state-organised business system’ (Whitley, 2000). Economic activities can be organised directly by the state, but it is also the case that the state can claim partial and indirect ownerships through investment funds, national wealth funds and private state-business networks (Dolfsma & Grosman, 2019). Yet, this does not necessarily mean that states play the primary role in every economic sector by ending private sector activities, and it is more appropriate to think of state capitalism as a particular political economy of coordination mechanisms. Current developments in emerging economies show that not only the ownership of capital, but also the close relations between governments and domestic private/bourgeois actors have become a feature of the state-led form of capitalism (see Nölke, ten Brink, May, & Claar, 2020).

Especially after the 2007-2008 financial crisis, we have started to observe that more emerging economies have changed their development strategies to state-based solutions rather than market-oriented prescriptions. Noting that state capitalism is discussed in variety of ways in the literature because of its different forms, countries have been following such forms of political economy for a longer period. Often referred as the foremost example of state capitalism, China's recent economic success is attributed to its state-driven features of economy and distinct forms of institutional adjustments to that end. Being the largest emerging economy, the Chinese state is argued to be the primary economic actor of its domestic economy. However, although the role of the state in domestic economies keep its prominence for its success, internationalisation of its state-owned enterprises (SOEs) and 'selective integration' strategy to world markets consolidate its economic strength, and this becomes a significant factor for 'new' state capitalism (de Graff, 2020; Nölke et al., 2020; Panibratov & Klishevic, 2023). In addition to China, large emerging economies such as India and Brazil and relatively smaller emerging economies such as Russia, South Africa, Thailand and Turkey are discussed as examples of the 'return of the state' for the organisation of the economy (Kurlantzick, 2016).

Against this background, it becomes important to ask why countries have chosen such a path in development. What are the reasons behind foregrounding the state for the organisation of economy? It is possible to approach this question from different perspectives and theoretical grounds, but this would lead to a much broader and more detailed discussion than I can present in this thesis. Nevertheless, in order to make sense of the "return of the state" in global capitalism, certain underlying reasons can be presented. One of the answers to the question can be found in the impacts of the 2007-2008 financial crisis on countries. Van Apeldoorn, de Graff and Overbeek (2012) argue that the financial crisis forced every country to take some actions: the Western states have reacted to protect the interests of private capital in order to sustain the so-called 'neoliberal paradigm', and the countries of the global South have reconfigured state-market relations with a more statist ways of capital accumulation.

Besides the impact of this global crisis on emerging economies, we should not underestimate the ‘return of the state’ also in the developed economies of the West. The ongoing instabilities and search for new growth strategies in industrialised economies have led to policymaking where the state has played a more prominent role. As one aspects of the liberal system, hyperglobalisation may have unexcepted consequences for industrialised economies that it may harmed rather than helped those economies. It “has caused a number of major economic problems that have worked to undermine the legitimacy of the liberal world order in the states that form the core of that system” (Mearsheimer, 2019: 39). In fact, we have begun to observe instances that the once leading liberal countries are now falling back against the system they once created, as “two of the erstwhile champions of economic liberalism (the US and UK) are now the two main major powers dragging their feet with respect to globalization and institutionalized economic cooperation” (Copelovitch, Hobolt & Walter, 2020: 1116). In that regard, from the neo-mercantilist reorientation of foreign policy during the Donald Trump administration (see van Apeldoorn & de Graff, 2022) to Joe Biden's response to climate change through the Inflation Reduction Act, the US seems to be transitioning into a paradigm in which state interventionism gains more attention. Concerns against the globalised liberal system have become even more visible with the COVID-19 pandemic and the crisis has worried even the international liberal intelligentsia, which has begun to talk about the necessity of a ‘great reset’ of the current capitalist system (Schwab, 2020). Although the global economic downturn has worried policy makers and the bourgeoisie, the impending ecological destruction, which is also compounded by the limitations of global capitalism, has led Western economies to search for new economic models that could ‘reinvent capitalism’ (Bakker & Elkington 2020). In connection with this, we began to observe that industrial policies are being reconsidered in industrialised economies, and with the reality of the ecological crisis, the concepts of ‘European Green Deal’ and ‘green transformation’ have started to be embraced to justify the new industrial policy in especially the EU. The EU has already started to phase in practices such as the Cohesion Policy, the Carbon Border Adjustment Mechanism through carbon-emitting industrial production and trade in industrial goods and has started to provide funds to non-EU countries through the Instrument for Pre-Accession Assistance in line with above policies. As a sign of the ‘return of the state’ on a global scale, the return of industrial policy may indicate the new transitional forms of capitalism in

the West, given that “in the early 2000s, the entire industrial sector came to be considered little more than a relic of a bygone era no longer fit for the twenty-first century service-based ‘dot com’ digital economy” (Horn, 2019). Furthermore, historically, politically and socio-economically constructed networks of corporate ownership in industrialised economies have begun to challenge “the analytical value of ‘geographical imaginaries’ that categorise high-income economies as liberal capitalists and developing economies as statist capitalists” (Kim, 2022: 285). In other words, with the increasing influence of the state on the economy, the classical dichotomy of ‘liberal’ economy and ‘state-capitalistic’ economy may no longer be as clear-cut as it used to be.

In the midst of the crises, in other words, all economies are in search of new agendas and new forms of relations. It is not surprising that emerging economies will follow more conspicuous policies in a conjuncture where the role of the state cannot be overlooked even in developed countries. The emergence of variety of state-based approaches in emerging economies may be due to multiple factors. One is that economies in which the state plays a more active role tend to outperform liberal economies in terms of growth performance. Economic development and growth of countries like China, India and Brazil over the past two decades could be influential examples for other emerging economies to embrace similar policies, as the common institutional characteristics of these countries may create a possible alternative to the liberal economic system (McNally, 2012; Nölke et al., 2014). Second, the international system's failure to create sustainable growth dynamics under the liberal order may provide a reason for emerging economies to seek new growth regimes. On top of this, problems such as uneven development and dependency, which have also deepened with the articulation of crises affecting the financial and industrial sectors, may have led to different tendencies in emerging economies since the crisis conjuncture “has led much deeper political controversies in the South in comparison to the North” (Bedirhanoğlu, 2021: 78). Emerging economies eventually began to deliver different prescriptions that summon a relatively more active state to protect its domestic economies as well as their domestic political power, and also to protect and strengthen their position in world markets. Turkey, being one of them, also seems to be involved in this process of change.

Capitalism in Turkey during the last 20 years seems to be experiencing some shifts and ongoing transformations under the hands of successive Adalet ve Kalkınma Partisi (AKP) governments. The recent developments in Turkey's political economy attract political economist to question the potential changes in economic policy making. In the literature, different approaches drawing on different conceptualisations have been used to understand those changes. Most notably, there are three approaches that are considered to embody conceptualisations appropriate to the nature of capitalism in Turkey, namely authoritarian neoliberalism, crony capitalism and state capitalism (Güven, 2023). Authoritarian neoliberalism is discussed as a mode of governance mechanism that provides a “disciplinary statecraft which closes off key decision-making processes to popular pressures” and deploys “coercive, legal and administrative state apparatuses to marginalise democratic opposition and dissident social groups” (Tansel, 2018: 199). Accordingly, it is argued that authoritarian neoliberalism has actually been in place since the early days of the AKP governments, and it is also discussed that the nature of neoliberalisation has already had some authoritarian characteristics since the early 1980s (see Bedirhanoglu & Yalman, 2010: 109). In this connection, the changes in the 2010s, which is more commonly referred to as the authoritarian turn in the mainstream literature, are considered as a consolidation of authoritarian governance (Altınörs & Akçay, 2022; Tansel, 2018). For instance, most notable in industrial relations, the existing suppressive regimes on labour during the early AKP years further deepened and suppressed with the state of emergency after the failed coup attempt in 2016 (see Özkiziltan, 2019). Moreover, the failed coup attempt and the subsequent transition to a presidential system has led to an increase in despotic power, thus enabling a consolidated authoritarian system in Turkey (Altınörs & Akçay, 2022). In other words, the literature on authoritarian neoliberalism sees the changing nature of capitalism during the 2010s as a continuation of neoliberal policies under the consolidated authoritarian governance, rather than a transformation to a different paradigm.

Second, crony capitalism focuses more on institutional structures and offers a relationship-specific assessment between state and business actors. Foregrounding the notions of clientelism, favouritism and patronage, the changing nature of capitalism can be understood through the network of relations at the individual or

group level. The mechanisms that utilise these relations, as discussed by Çeviker Gürakar (2016), mostly involve the construction sector, public procurements and mega project tendering mechanisms. She argues that the favouritism has become an essential part of AKP's electoral success since the party successfully created its own 'economic elite' by financing and tendering particular projects (Çeviker Gürakar, 2016). This can be discussed as a part of the following, where Esen and Gumuscu (2018: 351) argue in a larger scope that "AKP government has aimed at building a loyal business class through an elaborate system of rewards and punishments since 2002" and politicise institutions to suit their own interests. As it can be seen as the AKP's coordination mechanism in economic activity, according to the crony capitalism literature, AKP's relationship dynamics with business classes and associations became one of the determinants of capitalism during the AKP era (Güven, 2023: 181-182). The network of relations includes new business groups created by the AKP through economic relations of material interest, and through whom it has commissioned its major projects; as well as the new forms of relations that it has created with organisations such as Independent Industrialists and Businessmen Association (MÜSİAD) and Turkish Confederation of Businessmen and Industrialists (TUSKON) from a more political and religious perspective (Esen & Gumuscu, 2018).

Although the two approaches discussed above are different, what we can see as a common feature is that both of them evaluate the political economy of Turkey on the basis of consolidated political power with neoliberal characteristics and especially authoritarian features (Güven, 2023). An important common point is that, although these approaches do not exclude it, authoritarian neoliberalism and crony capitalism prioritise more internal causes and advance their analyses through domestic politics and relations. In contrast, the state capitalism approach, while still focusing on internal causes, more prioritises developments in global capitalism and sees them as potential causes of change.

In general, the state capitalism literature suggests that Turkey's political economy is shifting to the axis of Eastern forms of capitalism, i.e., the successful economic developments in Asian geographies are influential to understand Turkey's development goals. Öniş (2019) argues that Turkey is facing a new authoritarian

crisis that affects current economic policymaking. As the state becomes prominent in decision making on markets, a form of authoritarian model of capitalism started to be implemented to organise Turkey's political economy. He asserts that European periphery is coming under the influence of new Chinese-Russian axis of economic models, and Turkey, with its authoritarian policies, constitutes a 'reactive state' to catch 'extensive growth' in particular sectors such as land and construction. By empowering the reactive state, Turkey has become encountered with state capitalistic organisation of political economy, given the influential examples of state capitalism in China and Russia. Furthermore, in terms of political and institutional aspects, the presidential system is argued to be an institutional subsidiary to construct such a political economic system.

In a more concrete attempt to define Turkey's political economy as a variety of state capitalism, Kutlay (2019) argues that Turkey is currently adapting an alternative development path that resembles the current trend in emerging market economies and is experiencing a shift toward a variety of state capitalism. There are salient shifts in international economic norms, which can be argued as a 'post-liberal international order' that is still in progress, and Turkey is argued as a highly influenced emerging markets to follow that transition. By saying this, the rise of China and Russia in international politics/economics is seen to fill a vacuum to specify alternative development paths. Followingly, emerging markets seem to empower this transition by applying specific economic agendas. Kutlay (2019) finds that Turkey is in the middle of the transition and suggests that although neoliberalism has still important role to organise social relations, particularly in finance and labour markets, there is an apparent shift in ideas and practices toward a variety of state capitalism.

Öniş and Kutlay (2021) followingly discuss that Turkey has been experiencing a new heterodox crisis by the confrontation of Western neoliberal doctrine and Eastern economic developmentalism. Their study underlines the new directions in emerging market economies against the norms of the Washington Consensus, and Turkey, as being one of them, "has experienced a trend involving a move away from regulatory neoliberalism and towards a hybrid model with increasingly state capitalist features, with significant repercussions on domestic political-economic arrangements" (Öniş

& Kutlay, 2021: 500). Their article also highlights that the changes in international conjuncture provide a ground for shifts in domestic economic practices in emerging markets, and Turkey's complicated state-capitalistic features can only be realised through the interaction between domestic and international contexts. However, they argue that there is no full clear political economic agenda and institutional framework to follow, and it creates a crisis environment for both Turkish politics as well as political economy. Put differently, "the recent turmoil is related to a combination of state capitalism with certain neoliberal features in an increasingly de-institutionalized domestic political governance framework" (Öniş & Kutlay, 2021: 522).

Further attempt to capture Turkey's current capitalism within the state capitalism approach can be found in Yagci (2021). He uses a part of Nölke et al.'s (2020) state-permeated capitalism framework to understand Turkey's historically and mutually constructed state-business relations in relation to the recent changes in Turkey's political economy. More specifically, he investigates the state's network of relations between Turkish Industry and Business Association (TÜSİAD) and MÜSİAD in a historical perspective. He argues that while there was an unstable environment for state-business coalitions before the 2000s given "the electoral cyclicity of public policies, the short-term vision of these coalitions and the lack of a unitary front in the representation of business groups", AKP governments managed to forge "a pro-growth alliance" with MÜSİAD and pro-government businesses (Yagci, 2021: 766). His study shows that the reciprocal state-business relations constructed during the AKP years are important for debates on state capitalism in Turkey and the "Turkish variety of state-permeated market economies", especially when considering Turkey as a large emerging economy that is turned to a "developmentalist discourse" (Yagci, 2021: 776, 777). In short, state capitalism literature shows that Turkey's current political economy converges toward a variety of state capitalism, underlining that it is not fully transformed.

Overall, it is analysed in the literature that capitalism in Turkey is in the process of moving away from Western orthodoxy in policymaking. At present, there seems to be a more active state than in the early 2000s in pursuing the goal of higher economic development. This may be due to a more consolidated authoritarian

governance structure, but it may also stem from the search for a growth regime that will enable the state to achieve its development objectives. Even though the core literature of Turkey's political economy presents some answers for the recent dynamics of capitalism, the question still remains that to what extent Turkey's economy has diverged from the Western liberal forms, and accordingly, how we can track the changes and transformations of capitalism in Turkey within a larger perspective. Given the complexity of the transformation process in Turkey, which is also pointed out in the literature, Güven (2023: 187) problematises that how Turkish capitalism can be studied and asserts for the three approaches in the literature that the "uncertain context underscores the limitations of stubbornly following a singular analytic vision" and asks "given this abundance of shared empirical content and the volatility of the current context, why encumber future research with a single perspective about the macro-environment?".

Against this background, the present thesis will investigate potential changes and transformations of capitalism in Turkey to better situate its current political economy vis-à-vis the current transitional processes in global capitalism. As shown above, studies on this topic have so far illustrated different domains of Turkey's domestic or international political economy, institutional structures and domestic markets. In order to analyse the changes which Turkey's political economy has experienced, a comprehensive framework is needed, and this framework would show us consistent and appropriate information if it includes the fundamental domains in which the main economic activities spread, affect and are affected. In this connection, I consider Nölke et al.'s (2020) model of 'state-permeated market economies' (SME) as developed in *State-Permeated Capitalism in Large Emerging Economies* to make it possible to carry out a such comprehensive analysis. The main purpose of this research will be to investigate the ongoing changes that has taken place in Turkey within the 20-year rule of the AKP from a broad and holistic perspective of capitalist dynamics. To do this, I use Nölke et al.'s state-permeated capitalism (SPC) framework as a lens to examine the various strategies, policies and mechanisms used by the AKP while in power, which should facilitate the identification of continuities and changes across multiple relevant domains. In other words, the research tries to comprehend to what extent state involvement and interference in the economy have affected the development of Turkey's economy during the past 20 years, as it will

hopefully contribute to the debate on the changing nature of capitalism in Turkey. By investigating Turkey on the basis of the SPC framework, I will also evaluate how closely or how differently capitalism in Turkey resembles the successful SMEs and it can indicate domains of convergence or divergence by comparing Turkey to the SPC framework. The results of this study may provide indications for comprehending capitalism-in-transition and may descriptively contribute to the literature by showing the complementarities and contradictions of capitalism in Turkey.

The rest of this thesis is organised as follows: In the next chapter, I will discuss how Turkey's political economy can be investigated using Nölke et al.'s (2020) SPC framework. First, I review the literature on Comparative Capitalism to show how ongoing debates grasp the relationship between emerging economies and state capitalism and how Nölke et al.'s model was developed accordingly. Then, I outline and explain the SPC framework in detail to set the stage for the present study. Finally, I explain and justify how Turkey can be studied with the help of the SPC framework and then outline the methodology to be used for this.

In Chapter 3, I outline and discuss the history of capitalism in Turkey with a particular focus on the state. The main focus will be on the role of the state in organising Turkey's domestic and international economy, and I will consider this during four different historical periods. Starting from the early years of the republic to the first election of the AKP government in 2002, I respectively review 1923-1950, 1950-1960, 1960-1980 and 1980-2002 periods to better situate capitalism in Turkey and its integration into the world economy.

In Chapter 4, I employ SPC framework to analyse AKP's political economy starting from 2002. By collecting the relevant data and using secondary sources, I respectively enquire about coordination mechanisms between the state and business associations, institutional domains of Turkish political economy (i.e. corporate governance, finance for investments, industrial relations, education and training, innovation, and domestic markets), potential institutional clusters emerged with institutional complementarities, and contradictions of Turkish capitalism. The last part of the chapter discusses how much capitalism in Turkey converge/diverge to SME model by comparing the findings with successful SMEs.

Chapter 5 concludes my research by summarising the results and also touching upon the potential ongoing transformations that Turkey's economy has been experiencing during the AKP period. Furthermore, since authoritarianism has become a big topic even for the Varieties of Capitalism literature, I briefly discuss the possible connections between recent capitalist dynamics and the rise of authoritarian state in Turkey. This thesis reaches the end by presenting the potential limitations of the SPC framework and pointing out some possible future research opportunities.



CHAPTER II

ANALYTICAL FRAMEWORK

Since the developments and political-economic regimes of countries can vary significantly, different geographies and economies require proper analytical approaches to better understand forms of capitalism. My concern is to understand the changing nature of capitalism in Turkey in the light of the recent developments, and I will toward this end employ an analytical framework that I believe enables a proper investigation – namely, the SPC framework developed by Nölke et al. (2020). As this framework has emerged from within scholarship on Comparative Capitalism (CC), the chapter will begin with a brief overview of the CC literature. Followingly, section 2.2 outlines the main components and characteristics of the SPC framework to lay out the analytical scope of my research. In the final section, I elaborate how it can be justified to study Turkey's political economy in relation to the SPC framework and provide my methodological approach toward collecting relevant information for the research.

2.1 Capitalism and Comparative Capitalisms

Capitalism is not a universal system that exists beyond space and time. Rather, it is a particular system of social relations that appeared at a particular time and is a historically specific form of social-political-economic relations. The historical specificity of the transition to capitalism most of the time vary according to different

geographies due to their pre-capitalist forms and institutions (both informal and formal) that shaped the totality of socio-economic systems of production. Therefore, capitalism has been realised depending on both space and time, indicating that there is no particular ‘meta-capitalism’ that universally applied upon. Different transition patterns of different geographies can diverge from each other.

When referring to capitalism, we nonetheless need to construct upon some commonalities to define such system. By asserting that different capitalist forms exist in different geographies, there still needs to be some generalised definitions and requirements to be able to call such a system, regardless of its forms. As such, an International Monetary Fund (IMF) article defines capitalism with having the following components (IMF, n.d.): private property; self-interest where people can chase their own good; competition where companies freely enter or exit markets; a market mechanism where the prices are determined through interactions of buyers and sellers; freedom of consumption, production and investment; limited role of government. The last item is further elaborated in that the article underlines the presence of free markets and mixed economies, in which “mixed capitalist economies predominate today” (IMF, n.d.). Additionally, according to their definition of capitalism, liberal market economies, coordinated market economies, state-guided capitalism, oligarchic capitalism and big-firm capitalism are given as the ‘shades’ of current capitalism based on the variety of utilisations of listed components.

The above definition of capitalism is framed through a liberal perspective. In critical schools of thought, the above items are critically approached, and new terms are suggested to define what is capitalism. Marxists, for instance, distinguish capitalism from other socio-economic systems that the notions of capital accumulation, exploitation, alienation, extraction of surplus value, wage labour, class struggle, etc. became essential and central to every capitalist economy. This does not mean that there is one capitalism, but with the presence of these, capitalism can take different forms.

As it relates to my topic, for instance, there is a school of critical institutionalism within the studies of ‘modern capitalism’, where the institutional hierarchies are

discussed to define the forms of capitalism (see Amable, 2003). The SPC framework also benefits from the literature that “some institutions are more important than others at different points in time”, where capitalism is not defined as the simple collection of institutions but with particular institutional hierarchies (Nölke et al., 2020: 21). Nölke et al. (2020) exemplify that wage-labour is the primary aspect of the Fordist institutional hierarchy, whereas monetary relations dominate the contemporary capitalism around the world.

The authors of the SPC framework adopt a definition of capitalism similar to that of Marxists. According to them, capitalism generates profits through “surplus value on the basis of labor exploitation” and it “involves the systematical accumulation of profits as capital”, where states shape “the dynamic of accumulation” (Nölke et al., 2020: 32). Growth regimes in capitalism can be shaped through the different dynamics of accumulation strategies, and they argue that it can be analysed through a firm perspective. In other words (Nölke et al., 2020: 32)

no matter which definition of capital we might apply, it is usually a kind of value that is systematically deployed by private entrepreneurs in order to spur accumulation. Hence, in order to understand capitalism, we need to know what capitalists are actually doing.

Capitalism is, therefore, a large topic to investigate. Since it can be understood as the totality of current social relations, one needs to restrain oneself according to the purpose of study and frame it accordingly. With this in mind, I will now illustrate how capitalism has been further conceptualised and how new approaches such as CC have emerged, from within which the SPC framework originated.

During the last decade, more countries have appealed to the state for the organisation of the economy in order to prosper their development within the crisis of capitalism. Different states started to employ variant forms of social relations by foregrounding the prominence of the state. The state has always played a significant role to organise social relations in the history of capitalist modernity. Yet, the rise of neoliberal economics in the 1980s and the prescriptions to reduce state interventions in the economy make the current turn of the state in economic organisation more salient. One can compare the present with the conjuncture of pre-neoliberal era; however, the new question lies beneath the different utilisations of state power within a globalised

capitalism. This brings scholars to scrutinise why different geographies are practicing capitalism in different forms. Accordingly, scholars of political economy introduced the notion ‘capitalist diversity’, which reflects the subset of scientific studies of political economy with a focus on the national characteristics of geographies/countries. This scholarly work includes literature on Varieties of Capitalism (VoC), Variegated Capitalism, and CC.

Scholarly discussions on capitalist diversity can be traced back to the 1990s, when scholars of political economy started to point out the geographical differences in capitalist formation and reproduction.¹ However, capitalist diversity in general and VoC in particular attracted the attention of political economists especially with the publication of the edited volume *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* by Peter Hall and David Soskice in 2001. It was an important milestone in the discussions of the capitalist diversity that this book became one of the pioneers to theoretically construct the institutional grounds of capitalist variety. What Hall and Soskice (2001) underline is the essentiality of institutional factors, which are argued to be determinants of understanding/classifying economies in terms of different capitalist practices. The institutional clusters include different areas of policy-making such as macroeconomic policy, social policy and labour, vocational training, legal decision-making and international economic negotiations. The differences between institutional practices across countries become the ‘identifier’ of the different VoCs. These differences have thus begun to utilise the traditional taxonomy of 'liberal market economies' (LMEs) and 'coordinated market economies' (CMEs) (Hall & Soskice, 2001: 8-9).

However, the earlier VoC literature as well as the framework established by Hall and Soskice are later criticised by some political economists that the assumptions of VoC are argued as “single-minded” (Pontusson, 2005: 163) even though their framework dominated the field for a decade (Bruff, Ebenau & May, 2015: 28). Comparative

¹ For the scope of this thesis, I am not going to discuss those works in this chapter. However, a detailed account can be tracked in the early literature by Albert, M. (1993). *Capitalism Against Capitalism.*; Hollingsworth, J. R., & Boyer, R. (1997). *Contemporary Capitalism: The Embeddedness of Institutions.*; Streeck, W., & Crouch, C. (1997). *Political Economy of Modern Capitalism: Mapping Convergence and Diversity.*; and Dore, R. (2000). *Stock Market Capitalism: Welfare Capitalism: Japan and Germany versus the Anglo-Saxons.*

political economy moves beyond institutionalist approaches and the framework of Hall and Soskice is criticised due to its static “static ... economistic and functionalist predispositions” (Ebenau, Bruff & May, 2015: 1). While the reasons can vary such as ontological problems of institutional diversity and rationalist form of firm studies (e.g., see Hay, 2016), the main critiques indicate its ‘reductive’ accounts of studying comparative political economy (e.g., Bruff, 2011). In other words, the VoC approach is claimed to reduce the variables of political economy to coordination problems between firms and agents under specific institutional clusters. Pontusson (2005: 165) asserts that the VoC framework ignores the whole broad field of comparative political economy and attempts to answer only questions such as “do firms and other political-economic actors have the capacity to coordinate amongst themselves, so as to be able to overcome collective action problems and engage in mutually beneficial cooperation?”.

The CC literature began to investigate capitalist diversification not only in advanced capitalist economies but also in emerging economies, without focusing solely on institutional factors. However, there is also a second generation VoC scholarship that “by relaxing, adapting or complementing its key premises the VoC approach could not only continue to contribute to our understanding of capitalist diversity in so-called advanced economies, but even expand its substantive and geographical scope of application” (Bruff, Ebenau & May, 2015: 32). In other words, by moderating the initial assumptions of institutionalism, there are studies that expand the traditional dichotomy of LME-CME to the new typologies in non-Western geographies. A popular typology is ‘hierarchical market economy’ (HME) as discussed for Latin American countries and Turkey (e.g., Kiran, 2018; Schneider, 2009; Schneider & Soskice, 2009), or alternative forms of HMEs such as ‘family market economies’ and ‘state market economies’ that are discussed for Asian countries (e.g., Carney, 2015). There are also other typologies that ‘state-enchanted capitalism’ (Schmidt, 2003), ‘social-democratic economies’ (Amable, 2003), and so on are also proposed. These typologies do not only include traditional geographical/nation-based analyses, with second generation VoC scholarship sometimes extending the topic to international financial markets (e.g., Fioretos, 2010) or gender-based analysis of VoC (e.g., Estevez-Abe, 2005).

Nevertheless, second generation VoC studies have faced similar criticisms such as the problems of (neo)institutionalism, methodological nationalism or Western centrism, economism, functionalism and sometimes fetishism of typological research. The last one needs to be explained and Uwe Becker focuses on the problem of typological research in the VoC literature as follows (cited in Bruff, Ebenau & May, 2015: 35):

Typologies and categories can never be more than an *approximate* judgement of what is most important for the case study being considered, and that actually existing (national) political economies are always and necessarily ‘hybrids’ of different steering principles. Here, Becker explicitly abandons the quest for classificatory certainty that the VoC approach had foregrounded strongly, thus pointing to the need for much greater analytical openness.

This allows the CC literature to develop further by incorporating different analytical models and approaches and not to be tied to the traditional dichotomy or the more advanced typologies of capitalism given in VoC approaches. By doing so, the CC scholarship becomes more analytically diverse than before and focuses more on emerging market economies, which were previously largely ignored. Nölke and Claar (2013: 36) explain this, as one of the reasons, that “the traditional focus is exclusively on formal industrial relations, thereby neglected the informal sector that employs a large share of the workforce in the economies of the global South”.

With the criticism of VoC approaches, academics have started to focus more on emerging market economies due to their historically established institutional structures and their rising role in the world economy. In this strand of the literature, for instance, Amable (2003) was one of the first scholars to analyse the situation of emerging markets in Asian countries, but his approach is mostly formed by Asian values, which makes it unlikely that his approach can be used in other emerging market economies (Nölke & Claar, 2013: 38). More theoretical rigour can be found in Becker’s (2013) study. Discussing the main differences between the construction of ideal typologies and empirical research cases, he proposes five ideal types of capitalist diversity: liberal, statist, corporatist, meso-corporatist and patrimonial, all of which can be understood in terms of capital-labour and political-economic relations (Becker, 2013: 509). His important contribution to the literature is that he does not use these types precisely because they are distinct from each other. Yet he presents them together and hybrid types of capitalist diversity can be found in

emerging market economies. To exemplify, he quantifies his theoretical framework and analyses Brazil, Russia, India and China (BRICs) as a combination of patrimonialism, high degrees of statism in a decreasing fashion and a small degree of rising liberalism.

In the work of Nölke and Vlieghart (2009), another layer can be found. By redrawing the premises of dependency theory, they developed 'dependent market economies' model to investigate post-Soviet geographies within the East European borders. Their findings show that the high volume of foreign investment in these countries after the dissolution of the Soviet Union - combined with the absence of a strong domestic bourgeois class - integrated them into the world economy with a high degree of dependence. The authors argue that those geographies generated a different variety of capitalism due to their historical transition from a socialist regime to capitalist system.

All in all, the CC literature needs to construct different frameworks/models/theories to understand different practices of capitalism. Intuitively thinking, if one grounds on the assumption that capitalism is practiced through different means of national/geographical conditions, then it would not be a surprise to observe variety of methods/approaches to understand different varieties of capitalism. Expressed differently, it would not be sensible to study advanced capitalist economies with the model of Nölke and Vlieghart (2009) or investigate Western geographies with Amable's (2003) model constructed upon Asiatic values.

2.2 The Model of State-Permeated Capitalism for Large Emerging Economies

Andreas Nölke, Tobias ten Brink, Christian May and Simon Claar published the book *State-Permeated Capitalism in Large Emerging Economies* in 2020. This book engages with, investigates and compares large emerging economies such as China, India, Brazil and South Africa by the SPC framework, though the approach as such was developed some time ago. As it was firstly integrated to the CC literature by Nölke (2010), the main purpose of his study is first to understand whether BRIC countries point to similar trends of capitalist diversity in the context of being emerging economies, and second to show how much role social inequality plays in

determining those trends. His findings suggest that the variety of capitalism in Brazil can be counted as a successful example in terms of economic development, but this is due to unequal patterns of distribution of economic and political resources.

With more theoretical rigour, the next article by Nölke (2012) has a more important role for the development of the SPC framework. The main concern of this model, labelled 'SMEs' as a new variant of capitalism, is centred around the question of what the post-neoliberal phase of capitalism would be. Assuming that post-neoliberal capitalism will involve an organised political economy, Nölke (2012) presents concepts such as comparative advantages, corporate governance, corporate finance, industrial relations, education and training, transfer of innovations and central coordination mechanisms in order to understand the 'organised' variety of capitalism, which incorporates state and domestic bourgeoisie in relation to the above notions of inquiry. Subsequently, his work with Simone Claar further extends the variables of the SPC framework by adding the role of historical integration of economies into world markets and the importance of institutional complementarities to central coordination mechanisms (Nölke & Claar, 2013). As I mentioned above, Nölke and Vliegenhart (2009) show the insufficiency of strong domestic bourgeoisie for the forms of capitalism in post-Soviet countries in the Eastern Europe. In a similar fashion but with a different generalised approach, they necessitate a strong domestic capitalist class for the existence of SMEs in large emerging economies.

Having shown the evolution of the literature and framework, I will now turn to the SPC framework as discussed in their book and examine the premises of the framework, some of which are mentioned but not explained above. The SPC framework consists of the following analytical components: historical evolution; mode of coordination; institutional domains (corporate governance, finance for investments, industrial relations, education and training, innovation, domestic markets); and institutional complementarities and clusters.

2.2.1 Historical Evolution

Rather than questioning how capitalism emerged, Nölke et al.'s framework accepts the capitalist modernity as the current existing social-political-economic system and

it studies the ‘concrete’ dynamics of existing capitalism to understand its forms. In relation to it, Nölke et al.’s model starts with a historical overview of targeted economies to better situate their domestic market structures and situate their position in the world economy. The SPC model is not a domestic inquiry per se, but it also investigates countries’ economic relations with other economies and international markets, i.e., countries’ role and integration strategies in world markets become a significant factor to understand capitalist diversity in both large and emerging economies.

There are two main reasons for Nölke et al. (2020) to consult the historical evolution of economies. First, it is important to observe how economic-institutional developments evolve through time, i.e., how current practices of capitalism evolved within the context of national history and international conjuncture. Second, it is necessary to understand how economies are historically integrated into the world economy, given that the SPC framework highlights SMEs having significant strategic positions in the world economy. In that way, it also provides knowledge on how changes/transformations occur vis-à-vis international economic developments and transitions. For instance, unlike the emerging economies where states centre their role on economy after 2008 financial crisis, the Chinese state had a strong role in organising economy before the global crisis. In consequence, it becomes essential to understand historical conditions of state to analyse their current structure.

2.2.2 Mode of Coordination

Coordination, even in liberal economies, is a significant part of the capitalist system to ensure that it is well functioning. For instance, according to Hall and Soskice “economic coordination in LMEs is dominated by market mechanisms, while CMEs are coordination by reconciliation and bargaining” (cited in Nölke et al., 2020: 25). Although it is sometimes functioned as a mere mechanism to conduct proper interrelations between market actors or any economic institution, it can be counted as an essential aspect of capitalist modernity in terms of production and distribution relations. That said, it is very much expected to observe varieties of coordination modes in capitalist diversity. In fact, in both the VoC and CC literatures, it becomes

one of the factors to compare capitalisms (e.g., Hall & Soskice, 2001; Nölke et al., 2020; Schneider, 2013).

When it comes to SMEs and emerging economies in general, modes of coordination focus on state-business relations, especially after the global financial crisis. It should be mentioned that the issues examined here are present in the capitalist economies, meaning that a bourgeoisie is a necessary condition for the existence of the system. In other words, it may be wrong to imagine a fully-state-led-organisation of political economy as it completely ignores business networks. Therefore, Nölke et al. (2020: 33) remind that “it would be easy to depict the state as the sole authority to define these principles in so-called state capitalism of large emerging economies” but “it is improper to treat the state as the sole dominant ‘coordinator’ of economic life in large emerging economies”. Because the current outlook of capitalism seems highly interrelated to business relations (regardless of their ownership patterns) within the context of global capitalism, it is not really possible for states to exercise complete power against the benefits of business relations. Moreover, for higher development goals and growth, states need to maintain the most feasible organisation of economy by strengthening its relationship with businesses.

That said, the SPC framework benefits from the crony capitalism literature as it discusses the coordination patterns between state and business, but with different conclusions. The literature on crony capitalism suggests the negative consequences of economic development and corruption in emerging economies, and it might be seen against so-called liberal and democratic values of capitalism (e.g., for a detailed examination see Enderwick, 2005; Kang, 2002; Mazumdar, 2008). Apart from the so-called democratic values of Western idealism, Nölke et al.’s model demonstrates the close/strong relations between state and business as a basis for SMEs and it can potentially be seen as an efficient source for economic growth. As the crony capitalism and CC literature already suggest, the authors assume that there is strong relationship between state personnel and business actors in SMEs and underline that as follows (Nölke et al., 2020: 33):

Cronyism ... may be in a fact a very efficient mechanism of economic coordination – under the specific socio-economic conditions in these countries. Thus, we look at these instances not as deplorable exceptions but as the rules of economic life. This, of course, runs counter to the established strict (analytical,

but also normative) separation of the economic and the political in Western societies but is more appropriate to deal, in a sober way, with the economic realities in large emerging economies. If cronyism (or interpersonal coordination, to use a less derogative term) were in fact poisonous for economic growth, it would be a miracle how, especially, China and India were able to achieve considerable economic growth.

Thus, in order to capture the patterns of economic relations as well as the forms of capitalisms in SMEs, we need to leave aside especially the normative prejudices. The authors argue that it is more feasible to determine the robustness of capitalist institutions in those countries if the reciprocal and interpersonal connections are dense and stable (Nölke et al., 2020: 33-34). This investigation does not only show the formations and characteristics of reciprocal networks but also help us to observe the dominant economic “social bloc”, which “resembles a cadre or a managerial class” (Nölke et al., 2020: 34).

2.2.3 Institutional Domains

In this subsection, I illustrate the institutional domains of the SPC framework – namely, corporate governance, finance for investments, industrial relations, education and training, and domestic markets. These domains are employed to uncover countries’ institutional characteristics and to understand what kind of different institutional features lead to identification of SMEs. The authors underline that the approach in this part of the framework is mostly firm-oriented. They justify their approach by the fact that capital accumulation is primarily realised with the firms in economies, and firms are the “prime point of reference to understand and explain capitalisms” (Nölke et al., 2020: 34). The VoC approach mostly focuses on this point to determine forms of capitalism, however, institutional aspect of SPC framework constructs upon the institutional CC literature. I already mentioned that the below institutional domains can be found in Nölke (2010), and it was developed by utilising different strands of the CC literature. Thus, while there is nothing new here, they have to be handled together with the other components of the framework. Moreover, it makes it possible to compare different studies and analyses concerning these institutional domains.

Corporate governance is the first institutional domain to reveal ownership patterns of the firms and companies in economies. Previous literature shows that there may be various types of ownership from the state's perspective. Dolfma and Grosman (2019) illustrate that through investment funds, national wealth funds and particular patterns of state-business networks, state can own firms by claiming full ownership on them or follow a strategy to claim partial and indirect ownerships. It is important for the SPC framework that how capital accumulation is realised, and by which controls of state, indicating how resources are controlled, distributed and used (Nölke et al., 2020: 34). In other words, this part of the analytical framework focuses on the ownership patterns of the largest companies of the targeted economy to understand the degree of control by the state.

Finance for investments is the second domain of inquiry to understand the financial relationship between state and business. The main aims are to reveal what kind of funding patterns are realised and in what ways firms secure their financial position in the domestic/international markets. By using macroeconomic data and investment flows, this domain shows how firms are funded/invested and how corporate governance of those firms influence their attraction of capital, i.e., whether differently owned firms (e.g., state-owned enterprises *versus* partially owned firms by the state) gain different attention in terms of receiving credits (Nölke et al., 2020: 34). This domain helps us to understand (1) whether there are different patterns of investment in SMEs in contrast to others, (2) where states fit into this mechanism, and (3) whether different types of banks (public, private and international) have different roles of action.

Industrial relations focus on the relations between capital and labour in the concern of SPC framework. Since more areas of study concern industrial relations in political economy and economics, it sometimes corresponds to business relations as well. While the reasons for it depend on the different general types of industrial mode of production in advanced capitalist countries and in others, it may be also the case that institutional differences provide different utilisations of firm-dynamics. However, most importantly, industrial relations in the sense of labour relations are considered divergent due to the forms of capital-labour relations. That is, being an apparent distinction, informal labour is something common to Global South and Asian

countries that “capital-labor characteristics that in turn are usually less relevant in the North” (Nölke et al., 2020: 35). This nexus of capital-labour, however, holds significant elements to understand reproduction of capitalist development in the emerging economies. The SPC framework utilises this nexus by investigating labour conditions in relation to the wage regimes, protection of working rights, labour market regimes and labour productivity.

Education and training are about “the quality ‘human capital’ and its institutional fit with other segments of the economy” and it is a “decisive criteria for socio-economic development” (Nölke et al., 2020: 63). Against the conventional view which advocates human capital as an essential part of economic success, the authors underline in a comparative manner that large emerging economies have relatively worse schooling system and vocational training compared to advanced capitalist economies but still record successful economic growth (Nölke et al., 2020: 35). This puzzling situation pushes authors to investigate the training mechanisms (if existing) as well as education years of the workers in SPCs to at least compare them with each other.

Innovation holds a significant point in the CC literature, but it is somehow peculiar in the SPC framework. As it is seen as an important notion for both economic development and reproduction of capitalism (in a more Schumpeterian perspective), it has more importance in CC that innovation is questioned “whether as an outcome of particular institutional configurations... or as an element of diversity through different national systems of innovation” (Nölke et al., 2020: 35). In the SPC framework, innovation is utilised to reveal the patterns of technology transfers, laws on technology production and to what extent innovation activities contribute to the economic development in SMEs. Since the firms in SMEs may be internationally influential to influence world market conditions, it is important to examine to what extent innovation have a role on that. For instance, for a long while Chinese technology production was accused as imitative innovation, however, it is now argued that “China is capable of going beyond imitative innovation and moving into real innovation” with the “proactive state support” which comprises a significant part of China’s SME (Nölke et al., 2020: 66, 68).

As the last institutional domain, *domestic markets* of SMEs are significant part of the framework for understanding growth dynamics and international integration. The principal goal is to reveal size and structure of domestic markets and several variables are analysed to understand that. First of all, the authors emphasise it is essential to reveal what kind of export models are applied in those countries, i.e., whether the kinds of export-orientation or import substitution is implemented. Second, it is necessary to reveal consumer dynamics that what sectors dominate the domestic markets (basic, intermediate, high-tech, etc., goods). Moreover, it is important to illustrate whether those demands are sourced by domestic production or imports. That leads us to the point of the degree of openness of economies to understand that to what extent they are integrated into world economy in terms of openness to imports. This strand of the institutional domain also allows researchers to analyse whether SMEs reflect comparative advantage for their successful development. By analysing the domestic firms, their production volumes to the domestic markets and for exports provide researchers a comparative perspective that firms (domestic and foreign) can be analysed according to their comparative advantage.

2.2.4 Complementarities and Comparative Institutional Clusters

The above institutional domains are not isolated from each other, and tend in most cases rather to be interconnected. Put differently, the “institutional domains ... are always embedded in a set of other institutions” (Nölke et al., 2020: 37). The authors argue that in a system of variety of institutions, an “overarching cohesion” needs to be found between institutions to provide “a uniform mode of coordination across institutions” to ensure logical and sensible actions (Nölke et al., 2020: 37). Since an action, policy or decision would affect more than one institutional domain, and in order to reach a desirable outcome from that action, it is most feasible to coordinate those institutions in a coherent manner.

Complementarity is the situation where “the existence of one institution amplifies the performance of another” (Nölke et al., 2020: 37). The authors provide a new distinction that while ‘weak complementarities’ correspond to non-contradictory actions of institutions or actions that neither diminish their institutional capabilities,

‘strong complementarities’ are observed when an action taken by an institution will result in an amplification effect for another institution. It is a significant factor for economic performance, one could even argue that it is a necessary condition (Nölke et al., 2020: 38).

Strong complementarities lead to “compatible institutional clusters that are crucial for the reproduction of capitalism” (Nölke et al., 2020: 38). According to the authors, such clusters can already be found in some SMEs, most notably between corporate governance and finance, and between industrial relations, education and innovation. The authors employ such an approach to analyse the performance of large emerging economies, and these complementarities and institutional clusters become an essential element for defining SMEs. All in all, this part of the analytical framework helps us to compare institutional domains, i.e., how they are compatible with each other, and to observe how a state is decisive when organising its institutional agencies. In some cases, however, contradictions may arise between institutional domains due to contrasting characters of the institutions, and it then becomes important to understand why states have chosen or ended up with contradictory inter-institutional situations and how it affects the economic performance of that country and the dynamics of its capitalism.

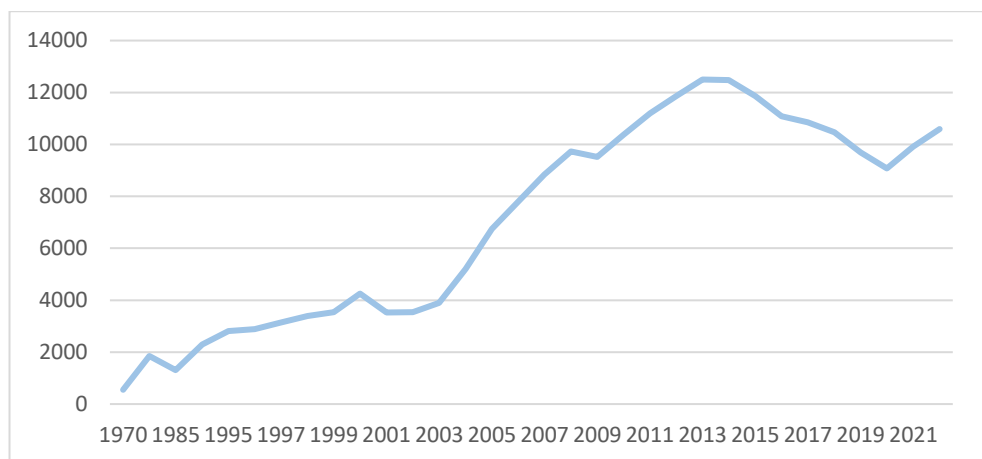
2.3 Capitalism in Turkey and the SPC Framework

The motivation behind this research is to explore the extent to which the nature of capitalism in Turkey has been holistically transforming, given the ongoing process of continuities and changes in the growth regime. In particular, I aim to analyse which pillars of the Turkey’s political economy have begun to undergo change, which domains have begun to diverge from the previous Western standards, and at the same time which areas have maintained continuity despite the appearances and rhetoric of change. In order to investigate the changing nature of capitalism in Turkey, I have decided to employ the SPC framework since it is the most rigorous and comprehensive approach in the CC literature to grasp the nature of large and emerging market economies. In fact, the SPC model “is the first systematic attempt to analyze the economic dynamics of large emerging economies from a Comparative Capitalisms perspective” (Nölke et al., 2020: 2). At the same time, using this

framework, I should also be able to show whether the ongoing transformations of capitalism in Turkey are potentially evolving toward a SME model or not, as a potential direction in which ongoing changes may point.

Turkey is widely accepted as an emerging market economy, but whether it is a large economy such as China, India and Brazil can be questioned. According to the World Bank (WB),² Turkey has been classified as an upper-middle income country since 2004 with an increasing rate of GNI per capita until 2013 (see Figure 1). Although this ratio declined between 2014 and 2020, Turkey remained in the upper-middle-income bracket during the period. It can be further implied by referring to the increasing integration of Turkey to the world markets, at least from the quantitative aspect of foreign economic relations. Although it is a bit vague to understand that what or which threshold makes emerging economies ‘large’, Turkey is counted as one by Nölke et al. (2020) together with countries such as Indonesia and Mexico.³ It seems clear that countries like Turkey are far away from China and India in terms of the volume of economic activity, but this does not prevent applying their framework to other countries. In fact, although “a large domestic market is a major precondition for the realization of this model”, Nölke et al. state that “the question at which size a domestic market is large (and promising) enough to sustain the model of state-permeated capitalism is far from resolved empirically” (Nölke et al., 2020: 240).

Figure 1. GNI per capita of Turkey (US Dollars)



Source: World Bank

² The WB provides four types of income classification of countries according to GNI per capita as low (lower than 1,135 US dollars), lower-middle (between 1,136 to 4,465), upper-middle (4,466 to 13,845) and high (higher than 13,845).

³ Turkey can also be classified as a large middle-income country, see Güven (2023).

In order to better understand the position of Turkey among the studied countries and the possibility of analysing Turkey within the SPC framework, it can make sense to consider the basic economic indicators of Turkey in relation to those of China, India, Brazil and South Africa.

Table 1. Comparison of Basic Economic Indicators of SMEs and Turkey, 2022

Years	China	India	Brazil	South Africa	Turkey
Population size					
2000	1.26 b	1.06 b	175.87 m	46.81 m	64.11 m
2010	1.34 b	1.24 b	196.35 m	51.78 m	73.19 m
2020	1.41 b	1.40 b	213.20 m	58.80 m	84.13 m
GDP (current US dollars)					
2000	1.21 t	468.39 b	655.45 b	151.75 b	274.29 b
2010	6.09 t	1.68 t	2.21 t	417.36 b	776.97 b
2020	14.69 t	2.67 t	1.48 t	337.62 b	720.29 b
GDP per capita (current US dollars)					
2000	959	442	3,727	3,241	4,278
2010	4,550	1,351	11,249	8,060	10,615
2020	10,409	1,913	6,924	5,742	8,561
Share of world GDP (adjusted by PPP, %)					
2000	7.48	4.49	3.21	0.77	1.23
2010	13.79	5.83	3.12	0.74	1.41
2020	18.03	6.76	2.36	0.59	1.73
Economic growth (GDP growth, annual %)					
2000-2010 (average)	10.4	6.5	3.8	3.5	4.4
2010-2020 (average)	7.2	5.5	1.0	1.0	5.5
Share of global manufacturing, value added (current US dollars, %)					
2000	10.15*	1.21	1.40	0.47	0.83
2010	18.19	2.70	2.66	0.55	1.10
2020	28.34	2.77	1.16	0.29	1.01
Share of medium and high-tech manufacturing value added (% of total manufacturing value added)					
2000	43	41	35	24	28
2010	41	38	36	23	30
2020	41	45	34	24	37

Source: World Bank. t and b correspond to trillion and billion, respectively.

* The value comes from 2004 data, which is the earliest manufacturing data for China.

According to World Bank, Turkey's rank in world economy (according to GDP in current US dollar) is twenty in both 2002 and 2020. Following the indicators

summarised in Table 1, we can fairly locate Turkey between other four countries that are analysed by Nölke et al. First of all, Turkey is a considerably larger emerging economy than South Africa, given that it has larger domestic market and economic activity. Additionally, Turkey achieved higher average growth rates than Brazil and South Africa in the 2000-2010 period and started to catch up with India's average growth rate between 2010 and 2020. Within normal circumstances, growth performance may not say too much about economic development (see Quiroga, 2007, where theory of convergence suggests that less developed countries tend to grow higher than the industrialised economies), yet these countries are still classified as emerging economies according to per capita thresholds. Further, while Turkey is still far behind China and India in terms of domestic markets and overall economic activity and has presumably long way to catch up with them, Turkey seems to catch up with Brazil in indicators. In terms of the population, Brazil is two and a half times the size of Turkey, which the higher economic activity is one of the subsequent results of the larger domestic markets. The fact that Turkey has a higher GDP per capita than Brazil or India does not necessarily indicate that Turkey is more developed than them, but it may indicate that Turkey can be a potential country converges to Brazil given the other indicators. More importantly, the low gap between Brazil and Turkey in the global manufacturing sector in 2020 (0.15%) may indicate that Turkey has an important position among emerging economies in terms of production. On top of that, in the domestic manufacturing industry, Turkey has slightly higher share of medium and high technology production than Brazil in 2020. These, at least in terms of economic indicators, may justify studying Turkey within the SPC framework.

In addition, Nölke et al. (2020: 239) underline that “the comparative institutional analysis of emerging economies is far from finished”, and they explicitly mention Turkey as a possible case study. However, they also emphasise the uncertainty of the applicability of the SPC framework to countries such as Indonesia, Mexico and Turkey. According to the authors, Mexico and Turkey might not fit the SME model owing to their more open economies and dependence on foreign industry and finance. Whether countries fit the SME model or become a SME, however, cannot be considered in a static way. Due to the dynamic nature of the framework, it is possible for economies that are already SMEs to move away from the model, just as it is possible for economies that are potentially non-SMEs to move closer to it. A

potential move toward the model can be understood, for instance, through economies pursuing selective integration strategies, in which “large emerging economies benefit from a selective integration into global economic networks” (Nölke et al., 2020: 248). Although it is difficult to change an open economic structure of an economy all at once due to the dependencies, economies with open economic structures can move closer to the SME model, e.g., by pursuing export-based growth strategies in specific sectors or by selectively disintegrating from the global economy. Thus, it is possible that economies may show some SME characteristics and converge to the model, as in South Africa, which has a more hybrid political economy that involve some components of SME model. Even though the authors have hesitations regarding the application of the framework to all emerging economies, they value a detailed examination by suggesting that “it is a question of empirical research whether we can find traits of the state-permeated model in other large emerging economies, too – traits that might bring about similar effects as in the countries studied here” (Nölke et al., 2020: 239-240). Hence, applying Turkey to SPC framework can be justified also by the authors’ perspective.

The existence of a somewhat limited SPC-informed study of Turkey's state-business relations could be another basis for the more general application of the SPC framework in my research. Although Yagci (2021) employs only the mode of coordination component rather than the totality of the framework, his research places Turkey within the debate over SPC by looking at the types, nature, and historical development of state-business connections. Moreover, his argument which “mutually dependent state-business ties have been a defining historical legacy of the Turkish political economy” adheres to the SME model that business networks have a lasting impact on the emerging economies (Yagci, 2021: 760; see also Nölke et al., 2020: 29). Therefore, using the SPC framework can be further justified by his study, which also shows conformity with the model in its findings.

Given the size of components in SPC framework, there are various domains and variables to be employed, and the nature of the framework does not encourage a specialised analysis based on technical methods of quantitative studies which aim for

revealing cause and effect relationships in a micro scale.⁴ Moreover, existing quantitative approaches on studying VoC “treat the properties of capitalism as linear variables” which may hinder the potential role of components on transitionary conjunctures (cited in Nölke et al., 2020: 2-3). This leads the authors to discuss results with a qualitative assessment of the components of the model, where mixed-method approach is used to collect relevant information.

I will discuss the findings of this research through a qualitative assessment that will allow me to assess the components of the framework both individually and in terms of their connections in the context of Turkey, as well as from a comparative approach to track the continuations and changes during AKP rule. A qualitative assessment will further allow me to contrast Turkey with the SMEs to better situate Turkey’s situation in the model. Before making the assessments, I will collect relevant information with a mixed-method approach. This involves collecting quantitative indicators from international data sources mostly by the WB, the Organisation for Economic Co-operation and Development (OECD), the International Labour Organisation (ILO), the World Trade Organisation (WTO) and the United Nations Conference on Trade and Development (UNCTAD); and national data sources such as the Turkish Statistical Institute (TURKSTAT). In some cases, I also consult primary sources such as the Official Gazette for changes in the context of legislations, and some others prepared by various Ministries and Presidencies of the Republic of Turkey (these are mostly development plans and sectoral strategic plans). Lastly, I also collect information from secondary sources, mostly from scholarly literature and at certain times from newspapers, which reveal both quantitative information that is missing in official statistics or reports and qualitative knowledge. As a difference and a limitation of this research, I could not conduct interviews like in Nölke et al. Potential interviews with economists at governmental agencies, politicians, government officials and representatives from business associations would certainly

⁴ It is mostly because of studying a wide-ranging topic which tries to capture the general nature of capitalism in potential aspects of political economy. This can be further implied by the notion of ‘ladder of abstraction’ by Sartori (1970). The term is mostly used in the social sciences when talking about the structures of conceptualisations during theorising. According to this concept, in higher categories (i.e., in more comprehensive or global theorisations), the details of each content begin to be lost as the content under consideration expands. Conversely, in lower categories (i.e., middle range theories to narrow theorisations), we observe that the content covered decreases, but each content becomes more comprehensive and detailed.

enhance the comprehension of the changing nature of capitalism in Turkey, but due to the time constraints of my research I have been unable to do so.

Although the SPC model is rich in content, it can make research difficult due to its wide dynamic structure and the domains it covers. This difficulty arises mainly from deciding which variables to include and which details to illustrate at in the domains studied. Although the model provides a specific framework, the variables to be used can be multifaceted. Because of this concern, the variables I consult mostly concern those analysed by Nölke et al. However, it is not possible to obtain information for every variable. For instance, in Turkey's banking sector, we do not have a database, even if it is superficial, on which banks provide how much financing to which individuals and companies. Nor is there a systematic database on the structure of financing provided in tenders (this refers to the sources of financing provided in tenders that are mostly implicit). Some information can be accessible through newspapers, which I include as case examples whenever necessary, but they would not provide a consistent information that is generalisable for the concern. These limitations would not undermine the applicability of the SPC framework to Turkey because the information available can still provide valid results on each domain of the framework.

To sum up, an application of the SPC framework to Turkey can be utilised to understand what kind of transformations are taking place during the AKP's governance and how Turkey's political economy can be identified with respect to the main pillars of the economy. As this approach will provide a holistic perspective to illustrate the overall dynamics of capitalism in Turkey, it will also help us to understand dynamics of capitalism in Turkey in relation to the crises in global capitalism and the current trends in large emerging economies.

CHAPTER III

HISTORY OF CAPITALISM IN TURKEY

The history of the first fifty years of the Republic of Turkey is the history of the struggles of a society, whose industrialisation and development had been left behind, under the capitalist mode of production. These fifty years are also the history of the society as a whole to become conscious of its industrialisation.⁵

- Ali Gevgili, *Türkiye’de Kapitalizmin Gelişmesi ve Sosyal Sınıflar*

This chapter aims to describe the historical developments in Turkish political economy to better illustrate the roots and preconditions of the recent capitalism in Turkey. In connection with the main concern of this thesis, I mainly frame the historical narrative by foregrounding two aspects of studying political economy. First, I highlight state’s role in economy, i.e., whether it was historically significant for the development of Turkish capitalism in general, and second, I illustrate how Turkey’s political economy has historically been integrated in the world economy.

The scholars of economic history largely examined the history of Turkish capitalism, invented and asserted elaborative periodisation, and there are common timeframes for it. As it is valid for almost all economies, some of the changes and transitions to different forms of political economy were interrelated to world political and

⁵ The passage is originally in Turkish and was translated by the author.

economic conjuncture. As such, we observe some turning points in Turkey's political economy with the Great Depression of 1929, post-World War II (WWII) period, and with the overall globalisation phenomenon. Nevertheless, it would be a mistake to attribute all changes to international phenomena. Some domestic events and political transitions have already directed historians to propose new periods for Turkey's economic history, such as the years of Democrat Party, or the period after 1960 Turkish coup d'état. However, domestic events should also not exclude the role of international influences. Both dimensions of inquiry penetrate the other.

In order to clarify these periods, two prominent professors of Turkey's economic history, Korkut Boratav and Şevket Pamuk, underline some turning points in Turkey's economic history in general, though not precisely. These periods can be outlined as follows: from the establishment of the Republic until the Great Depression (1923-1929); the era of statism (1930-1940); the years of the WWII; the period of Democrat Party (1950-1960); the era of import-substitution industrialisation and populism (1962-1976); and the neoliberalisation period from the 1980s onwards. While the above periodisation is common for both scholars, there are some refined indicators which show the need for specifying different periods. For instance, Boratav (2016) more specifically discusses the changes toward more open and liberal economy in the late Cumhuriyet Halk Partisi (CHP) years, starting from 1946 and continuing to mid-Democrat Party years as a different attempt of Turkey to integrate itself into world economy.

While different periodisation can be extended and differently argued by scholars of economic history, I have decided to use a more general periodisation for the convenience of illustrating Turkey's economic history as well as for the scope of this thesis. I employ four different periods throughout the following four sections in this chapter. In the first section, I move from the early years of the Republic, particularly from İzmir Economic Congress (1923) to the end of WWII. The second section starts with the policies of the late CHP government in 1946 and the establishment of a multi-party system to the end of Democrat Party years. Starting from 1960 Turkish coup d'état and the new era of import-substitution, the third section tracks the changes in economic policy making also during the crises of the 1970s. In the fourth section, I show neoliberalisation period from the early 1980s and the crises of the

1990s until the election of first AKP government in 2002. The last section summarises and sums up the chapter.

3.1 The Early Republic, Statist Economy and WWII: 1923-1945

After the successful victories in the Turkish War of Independence and the establishment of the Grand National Assembly of Turkey (TGNA), one of the immediate actions was to convene an economic congress to settle the boundaries of economic policy for the early Republic. The İzmir Economic Congress, which was convened between February 17 to March 4, 1923, was a congress to propose a series of general economic policies to be implemented in the new Republic. The main purpose of the Congress was to underline Turkey's economic independence and provided a valuable basis for Turkey's economy to achieve economic gains recognised by the Entente Powers in the Treaty of Lausanne. This congress is evidence that economic development was a very high priority and important issue for the first governments of the Republic and especially for Mustafa Kemal Atatürk, the architect and president of the Republic. In the opening speech of the congress, Atatürk underlined that

No matter how great the political and military victories are, if they cannot be crowned with economic victories, the victories that occur cannot be permanent and will fade in a short time. In this regard, our economy, our economic independence, must be maintained and consolidated and expanded in order to identify the beneficial gains that even our strongest and brightest victory can bring. ... Gentlemen, our pens will be plows in order to write the national history of the people's era, the national era, in which we live. In my opinion, the people's era can be explained by the concept of the economic era.⁶

On the other hand, however, the congress had much more symbolic value rather than providing fully tangible policy proposals (Boratav, 2016: 45-46; Pamuk, 2014: 181). In fact, it was more concerned with proposing general economic perspectives intended to be applied in domestic and foreign policymaking. The topic of the economy was tried to be as 'inclusive' as possible; farmers, labourers, merchants and industrialists were invited and welcomed to voice their demands, but participation was dominated by rentiers and merchants. Boratav (2016: 45) sees the predominance of people from certain sectors; however, he argues that the workers and industrialists

⁶ Retrieved from <https://www.atam.gov.tr/ataturkun-soylev-ve-demecleri/turkiye-iktisat-kongresini-acis-soylevi-izmir>. The passage is originally in Turkish and was translated by the author.

invited to the congress actually came from the high bureaucracy, while the farmers and merchants came from rich landowning families. These are not surprising when one considers that the economic objectives of the 1923-1929 period reflected the general view of the İzmir Economic Congress (Pamuk, 2014: 181) and that one of the primary aims of the congress was to reconcile the relations between the İstanbul bourgeoisie (which was argued to be more inclined towards the İstanbul administration in the early years after World War I) and the TGNA in Ankara (Boratav, 2016: 45).

After the Congress, it can be shown that there were two general economic aims that the new Republic wanted to achieve. First, with the support of the government, there was a desire to ‘produce’ a national bourgeoisie. One feasible way of doing this would be to transfer the ownership of state monopolies to private individuals and companies. However, the fact that the Treaty of Lausanne restricted the imposition of consumption and sales taxes on imported and domestic goods at different rates would not have been the best option for the early years of the Republic. Further, to increase public revenue, it was only allowed for state to increase the prices of products that were produced in state monopolies. Therefore, due to the restrictions imposed by the treaty, the most profitable way of production was the continuation of the production process by the already established state monopolies (Boratav, 2016: 40). Although it prevented the state to transfer the acquisitions of state monopolies to private agencies for a short while, some of those monopolies were later transferred to private companies and businessmen, who were both domestic and foreign. Boratav (2016: 40) argues that those private companies had shareholders from state’s high personnel and underlines that those private companies formed their capital through the financial aid by the state. Rather than what should otherwise have been the case, individuals did mostly not spend their private capital for the acquisition of companies.

Another way to ‘produce’ a national bourgeoisie was to establish a financial institution to provide credits/deposits to the public. İş Bankası was established in 1924 to meet the needs of the private sector in order to expedite its development (Boratav, 2016: 41; Pamuk, 2014: 182). Until the period when the CHP government handed over power to the Democratic Party (DP), the bank played a very important role between domestic/foreign capital and the political administration and was often

very successful in pushing the state's economic policies in line with the desires of private capital (Boratav, 2016: 41). From its establishment, İş Bankası had members from political groups and parties. Given the single party system in the early years of the Republic, there were politicians and powerful figures who were close to the government in the bank that they were very effective in many aspects of decision making. Pamuk (2014) notes that there were even incidences of corruption such as transferring money and granting privileges to people who had close relations with government and these privileges were a way and means of 'producing' a national bourgeoisie (cited in Pamuk, 2014: 182).

The second economic aim of the early Republic years, between 1923 and 1929, can be argued as to attract foreign capital since domestic capital was always insufficient during both the late Ottoman Empire and the early Republic. It was well known by the politicians of the period that one of the biggest problems of the Ottoman economy was to provide capitulations to foreign investors and countries. Especially in the İzmir Economic Congress and the Treaty of Lausanne, the new administration strongly opposed all kinds of capitulation, as in the previous Ottoman economy, but did not close the door to foreign investments. In fact, Atatürk was open to and supportive of foreign capital and asserted in the congress that

Gentlemen, while thinking and talking in the field of economy, it should not be assumed that we are hostile to foreign capital. ... We need a lot of work and capital. For this reason, we are always ready to give the necessary assurance to foreign capital, provided that it is subject to our laws, and we want foreign capital to join our work and our existing but insufficient wealth.⁷

Although the Ankara government did not have a special attitude towards foreign capital and the world conjuncture after the WWI did not encourage European investors to invest outside of Europe (Pamuk, 2014: 181-182), some calculations show that 66 out of 201 newly established Turkish companies between 1920 and 1930 were partners with foreign investors (Özyurt, 1981: 123).

The post-World War I environment, the establishment of the new Republic and the Treaty of Lausanne were influential in shaping the economic policies of this period,

⁷ Retrieved from <https://www.atam.gov.tr/ataturkun-soylev-ve-demecleri/turkiye-iktisat-kongresini-acis-soylevi-izmir>. The passage is originally in Turkish and was translated by the author.

as was the trade agreement that limited Turkey's tariff policy. However, the Great Depression of 1929 would radically end some of the previously implemented policies and change the general outlook of the period. In this connection, 1929 is significant for two reasons. First, the economic restrictions imposed on Turkey by the Treaty of Lausanne would end in 1928 (such as restrictions on financing newly nationalised sectors) and Turkey would begin to repay debts inherited from the Ottoman Empire in 1929. Secondly, the economic crisis of 1929 crystallised the need for new reforms to overcome the effects of the crisis. At this point, however, even without the crisis, the Turkish state would eventually have undertaken some fundamental economic reforms. Due to the end of the economic restrictions imposed by the agreement, Turkey was able to create new protective trade tariffs and finance their sectors from the state budget. In fact, the government was already working on a new tariff regulation for the period from 1928 onwards, which was finally introduced at the height of the crisis (Boratav, 2016: 48). All in all, the period of 1923-1929 was a construction period of economy under the restrictions of Western powers and by aiming of an open economic model.

In the case of the 1930s, economic historians undoubtedly prefer to refer to government policies as protectionist and statist. The main aim of the government, at least until the Second World War, was state-led industrialisation. Industrialisation was one of the primary aims for the early governments; however, the restrictive articles of the Treaty of Lausanne restrained Turkish government to fully concentrate on a development path through a statist industrialisation. Previously, there were some successful initiatives resembling statism but they were mere examples (such as the nationalisation of the railroads) rather than a complete policy paradigm. As Boratav (2016: 60) argues, protectionist/statist policymaking became a powerful 'model' for the Turkish state. The period 1930-1939 is a sharp break from the previous periods of political economy of both Turkey and the Ottoman Empire. Moreover, it becomes clear that statism, as it was experienced at the time, was an important part of the capitalist development of Turkish political economy.

Of course, although the government was preparing some new regulations for the economy before the echoes of the crisis spread, statist regulation of the economy did not occur right after the crisis. Boratav (2016: 64, 67) calls 1930 and 1931 as the

years of protectionism against the effects of the crisis. More specifically, in these two years, there was not much intervention in the domestic economy and the focus was to control international trade and exchange regimes. Before 1929, those in charge of economic management pursued a strategy aimed at an open economy with protectionist tendencies in order to achieve a liberal path of development in a world of unequal international market prices. Therefore, something like statism was not on the agenda of the economic management and there were no professionals in this field. Statism became a favoured policy paradigm during the protection years and with the successful examples of the Union of Soviet Socialist Republics (USSR). In 1932, there was a 'sudden shift' to statism - although it was seen as an extreme move by business sectors - and it was successfully established during 1933-1939 (Boratav, 2016: 67).

In 1932, the government was convinced to implement statist economy due to several reasons. First, the heavy losses and austerity imposed by the Great Depression on the farming population led to the need for state intervention and protection of domestic markets.⁸ Second, there were low levels of industrialisation and development in the previous decade that the administration sought an accelerator by making the use of state power in the economy (Özyurt, 1981). An immediate realisation of this time was that statism and economic planning were interrelated. To control the power of the state in the economy, it was decided to set up a planning committee with technical assistance and loans from the USSR, which was a successful symbol of economic planning at that time. With the participation of a group of Soviet scientists, a series of studies and research were carried out, and the first five-year industrialisation plan was proposed to the government in 1933. This plan targeted various industrialisation moves such as the establishment of national industries on the 'three whites' (sugar, flour and cotton), the establishment of national industries related to raw materials found in the Turkish geography, the establishment of national industries that could not be established by the private sector and the establishment of Sümerbank (Özyurt, 1981). Sümerbank was a textile factory and at

⁸ Until the 1930s, Turkey, especially Anatolia, was a predominantly agricultural economy with no industrialisation. The crisis led to a serious fall in the prices of agricultural products. For example, the price of wheat fell by around 60 per cent between 1929 and 1932, and farmers who had borrowed from banks and moneylenders at the high prices of the previous years experienced very difficult conditions (Boratav, 2016: 67; Pamuk, 2014: 186).

the same time a state bank that financed the construction of textile factories and the textile industry. Its administrator, Nurullah Esat Sümer, underlined the importance of statist industrialisation in 1936 as follows:

The industrialization movement of Turkey as a de facto and as a clear goal begins with the intervention of the high authority of the state in the national economy. The reason of this intervention is to establish the main industry in Turkey by the state and to make Turkey autonomous in the main industry branches, which have become negligible needs such as air, water and sun. In Turkey, agriculture was barren, forests were devastated, mines were deserted (abandoned), benches were broken, and the country was secluded. Because of this scene, the economic system based on imperialist policy began to regard this country as a colony and attempted to establish a kind of political yoke here. The Republic destroyed it in one move. The state itself took over the creation of an organic and planned economy in Turkey.⁹

Although de facto compliance with the first five-year industrialisation plan continued until the end of the 1940s, it was considered as a success in 1938, when the administration began to consider a second five-year industrialisation plan for further development goals (Boratav, 2016: 71; Özyurt, 1981). The second five-year industrialisation plan was interrupted by the WWII, but this plan initially aimed of the development of heavy industries. In the first five-year plan the aim was to develop the 'three white' sectors, whereas the government changed its industrialisation plans in the second plan to the 'three blacks' corresponding to coal, iron and steel, and oil (Özyurt, 1981). Put differently, the second five-year industrialisation plan prioritised industrialisation of underground resources and with an aim of energy production.

The government embraced the first five-year industrialisation plan as a success, and economic historians have also noted that the period 1930-1939 was generally a successful period in terms of industrialisation and development. According to Boratav's (2016: 71-72) calculations, an average growth rate of 6% and industrial growth of 11.4% was recorded between 1930 and 1939. Moreover, while the industrial sector accounted for 9.9% of the gross national product (GNP) in 1929, this ratio increased to 18.3% in 1939.

⁹ Retrieved from <https://ataturkansiklopedisi.gov.tr/bilgi/birinci-bes-yillik-sanayi-planlari/>. The passage is originally in Turkish and was translated by the author.

However, it would not be long before this period of economic development and relative prosperity came to an end. The Second World War had a severe impact on the Turkish economy during the war years, despite the fact that Turkey did not participate in the war. As historians emphasise, Turkey did not participate in the war but experienced a severe 'war economy' (Boratav, 2016: 83; Pamuk, 2014: 199). First of all, the experience of statism in the years 1930-1939 had already restricted imports as the economy was implementing the first versions of 'import-substitution industrialisation' (Pamuk, 2014: 198). On top of this, the world economy during the war years reduced the efficiency of international trade and Turkey's import volume, which was already low before the outbreak of the WWII, decreased by about 50% in the first two years of the war (Boratav, 2016: 83; Pamuk, 2014: 199). Second, the government decided to conscript men corresponding to 10% of the population (Pamuk, 2014: 199-200), which resulted in a decline in agricultural production. It is calculated that wheat production decreased by 50%, the expenses of the army grew and, thus, economic development was impeded due to the mobilisation of an army (Boratav, 2016: 83; Pamuk, 2014: 199). Furthermore, in such a conjuncture, the government budget became to be dominantly used for the army and defence, and all expenditures on industrial planning and financing the industrial investments paused. Boratav (2016) prefers to refer to Turkey's economy during the war years as a period of stagnation. On average, the war years indicate declines of 5.5% in industrial production, 7.1% in agricultural income, and 6% in national income. Moreover, when we compare the indicators for 1938-39 and 1944-45, we observe a 23% drop in industrial production and a 25% drop in national income (Boratav, 2016: 92). This situation led to a decline in the living standards of the working class in particular, the 55% decline in real wages and rising unemployment rates changed the successful image of the previous CHP governments in the eyes of the public (Boratav, 2016: 92-93).

3.2 Toward a More Open Economy and Democrat Party Period: 1946-1960

The year 1946 is marked as one of the main turning points in the history of capitalism in Turkey. The previous years, when the statist economy was dominant, were mostly based on state-controlled industrialisation and integration into the world economy was very limited. Although it may have been controversial at the time,

import substitution policies and a relatively closed economic model were followed, trade was largely controlled by the state, and exchange regimes were determined by the government. Immediately after the WWII, however, we see both domestic and international developments aiming for Turkey to play a greater role in the world economy.

Starting from the domestic transitions, single-party system was abandoned, and multi-party system introduced to the Turkish politics in 1946. It essentially affected Turkey's political economy in variety of ways but also from a class-based perspective. In the one-party system, we are confronted with a one-dimensional political organisation in which the state and its high bureaucracy are responsible for policymaking. In other words, although the state would organise itself in the public interest, the people had practically no powerful authority in decision making. In the multi-party system, however, the people became more political actors whose preferences and inclinations shaped the political environment of the day. With the multi-party system, it became much more possible to conduct bourgeois politics, which allegedly reflects class interests as well as populist tendencies.

The WWII environment had already affected party politics, there were already some disintegrations in the CHP administration, and it eventually led some politicians to leave CHP and establish DP. In relation to the previous statist experience, the DP as an opposition party sought to reform existing models of political economy, aiming to create an environment for an open economy. For instance, the Land Reform¹⁰ in 1945, which can be argued as a radical and progressive reform, were disbanded in this period. CHP started to abandon its previous statist agenda as well. In fact, the war conditions had already affected the party's policies, as the Law of National Prevention of 1940 imposed harsh controls on both urban and rural workers, forced labour and confiscation of some products were applied from time to time, wages were reduced to low levels and working hours were extended (Boratav, 2016: 94). The conditions observed during the WWII led to serious tensions between the public and the CHP government and the following election years were not promising for the

¹⁰ “Çiftçiyi Topraklandırma Kanunu” can also be translated as “The Law of Providing Land to Farmers” was a land reform to support small farmers or farmers without land to expand their production in lands that belong to the state.

CHP (Uzun, 2012: 134). Despite being the ruling party until 1950, both the effective interventions from the opposition party and the public unrest caused the CHP to adapt to the general course of events in the country.

On internal dynamism, the post-WWII world conjuncture is an important and necessary part of explaining the transformation of Turkey's political economy. The new Bretton Woods System and the US's rising hegemony were advising the doctrine of free market economy, and this would bring an opportunity for Turkey to provide a new integration effort to the world economy, comparing to the open market environment in the 1923-1929 period. The first major devaluation of the Turkish lira on September 7, 1946 - from a dollar equal to 1.28 liras to 2.80 - was positioned as the first step in Turkey's desire for an open market economy, since it was also a signal for the relaxation of protectionism in international trade (Boratav, 2016: 100, 102).

The post-WWII conjuncture pushed Turkey to embrace liberal economic policies with an aim to integrate Western norms of political economy. Some political events such as the USSR's demands on the straits and Turkish territories right after the WWII may be claimed and reasoned for Turkey's political shift to the Western powers and particularly to the US (Pamuk, 2014: 226). With the new US hegemony, American economic delegations and experts began to visit Turkey on numerous occasions to propose the necessity of the liberal economic model and the urgent need to adapt it. Industrialist Max Thornburg, to exemplify, proposed a report to the WB regarding Turkey's economy. Accordingly, Turkey should give up its national industries and strengthen its private sector by welcoming liberal norms of exchange and trade regimes as well as concentrating on its agricultural development (cited in Pamuk, 2014: 226). Followingly, the previous statist policies were abandoned, and trade regimes were liberalised as much as possible by the CHP government. In connection with these, the government, compared to the previous statist period, abandoned the industrialisation of its domestic sectors and started to focus on foreign markets using agriculture, mining and construction sectors (Boratav, 2016: 96).

Nevertheless, one question still needs to be further examined by the economic historians. To briefly mention, by 1946, Turkey's economic indicators related to the

international economy were so promising and successful that foreign aid/assistance was not really necessary for Turkey's economy. At the end of the WWII, Turkey had 250 million dollars in reserves and 100 million dollars balance of payments surplus that it would be "illogical" for Turkey to intensely seek foreign aid (Boratav, 2016: 101). But she nevertheless did, and the idea of 'development is impossible without foreign aid' was settled in the minds of people (Boratav, 2016: 98). As a matter of fact, Turkey received 150 million dollars with the Truman Doctrine in 1947 (Kunz, 1997: 163) and 184.5 million dollars with the Marshall Plan between 1948 and 1952 (Erhan, 1996: 287). According to Boratav (2016), Turkey's economic problem of dependency to international markets and investments started in this period and it would further deepen in the late 1950s.

Therefore, a sharp transition to liberal open market economy did not occur with the election of DP government, as it was grounded in the changing party politics in 1946 and 1947. At the CHP's party congress in 1947, some fundamental questions regarding the party's six principles came up for discussion, and as one of them, statism was reformed toward a more liberal understanding in the party constitution (Uzun, 2012: 124). All in all, this congress reflected the radical changes in the party. According to Boratav (2016), elimination of leftist, democratic and progressivist tendencies and cleaning-up of leftist scholars in universities had constituted a political purification in the society; and these eventually caused the defeat of the reformist/progressivist/leftist groups in the party. This congress made CHP to transform its party politics in a way that it became more parallel to the political agenda of the upcoming DP government. The CHP began to adopt the demands of the national bourgeoisie and statism was henceforth used as an auxiliary tool for private enterprise (Boratav, 2016: 100).

These domestic developments had positive impacts on Turkey's integration into the world economy. Promoting the newly established Western international order, Turkey became the member of the IMF and the WB in 1947, the Organisation for European Economic Co-operation (OEEC) in 1948, the General Agreement of Tariffs and Trade (GATT) in 1951, the North Atlantic Treaty Organisation (NATO) in 1952 and Organisation for Economic Co-operation and Development (OECD) in 1961. In this period, many American advisors and experts came to Turkey and

insisted on counter-statist and non-protectionist policymaking. It was also intended, and later achieved, the training of national economists and experts in American institutions and universities to advocate the liberal policies of the day (Boratav, 2016: 102-103).

If we look at the economic indicators, there were satisfactory growth and rapid economic development that legitimised the new liberal economic prescriptions. On average, national income grew by 10.2% every year between 1946 and 1953, and the agricultural sector by 13.2% (Boratav, 2016: 103). It is important for this period that Turkey was recommended to concentrate on agriculture rather than industrial production, and it was planned for Turkey to have a role in the world markets as a provider of raw materials and agricultural goods. As it would continue through the DP government, Pamuk (2014: 223) prefers to call this period as the agriculture-based growth ‘experiment’ in an open economy. In consequence, agricultural growth surpassed industrial growth, agriculture’s share in GDP increased from 42% in 1946-47 to 45.2% in 1952-53, and the share of industrial sector declined from 15.2% to 13.5% in the same years (Boratav, 2016: 103). While 1946 was the last year in the history of the Turkish economy in which the balance of payments was in surplus, the volume of imports doubled in 1947 and a total foreign trade deficit of 500 million dollars was recorded until 1953, which was compensated by foreign aid and loans (Boratav, 2016: 104).

After the DP won the elections in 1950, there were no radical/significant policy changes until 1954 compared to the last CHP government. The DP government had succeeded a government that had already pursued the DP’s policy agenda in economy. More specifically, the CHP government had been constructing a liberal/open economic system that began to integrate itself into world economy as DP advocated. As a sequel to the CHP’s policies that loosened the restrictions on foreign capital, the DP government approved the ‘Foreign Capital Investment Incentive Law’ in 1951, the ‘Foreign Capital Incentive Law’ and the ‘Oil Law’¹¹ in early 1954 to further loosen restrictions on foreign capital. Moreover, the growth and

¹¹ Oil Law was designed and accepted to explore the potential sites of drilling oil and to extract it. Foreign companies were privileged to explore potential sites of oil in Turkish territory (Haykır & Özdemir, 2017: 258).

prosperity that had continued since 1947 was much more realised during the DP rule due to the accumulation of wealth. This gave the DP a successful image in the eyes of the public, and the DP's victory in the 1954 elections may be a result of this (Pamuk, 2014: 230).

Nevertheless, even though the DP government had slogans such as "transfer of state enterprises to the private sector" in the 1950 elections (Boratav, 2016: 110), the government had to step back from its economic desires in 1954. Most importantly, from 1954 to 1958, we see a mixed economic model in which the power of the state was mobilised to be used for public investment. In other words, the promise of "full" liberalism in the late CHP and the early DP governments was withdrawn. There are several reasons for this retreatment from a more liberal economic model to a more state-involved mixed economy.

First of all, although the DP government advocated a liberal economic model and passed several bills to encourage foreign investment in the 1950s, there were always low levels of foreign investment that it brought a currency crisis on newly established investment-dependent Turkish economy. This issue started to be felt after 1954 despite the same low levels of investment in the early 1950s. On average, less than 10 million dollars of foreign investment was realised each year and the lack of foreign investment, presumably due to the foreign aid provided by the Marshall Plan, did not directly affect the economy. (Pamuk, 2014: 227). After the payments from the Marshall Plan were completed in 1952, the Turkish economy needed more money from investments.

Second, Turkey, which had become a liberal open economy, started to suffer from declining volumes of international trade and realised that it would not be possible to sustain trade balance. Demands for Turkish products – mostly agricultural goods – fell significantly in 1954-1960. Same as exports, imported consumer goods that composed 20 to 25% of all imports before 1954 declined to below 10% (Boratav, 2016: 110). These eventually mobilised the state to prevent famine conditions caused by the scarcity of consumer goods and increased black market activity in urban areas. The government, followingly, was convinced to substitute consumers goods through national industrialisation (Boratav, 2016: 110).

Nevertheless, the meaning of 'industrialisation' was now very different from the 1930s' statist approach. A congenitally liberal DP government still prioritised the national bourgeoisie, and the party reinterpreted the concepts of 'development' and 'state economic power' as a means of empowering private capital. As Boratav (2016) notes, as it became clear that the state had a 'vital role' for the national economy, the government began to see the economic state apparatus as the most appropriate way to develop the domestic private sector. Moreover, the DP government had nothing left to praise the international liberal doctrine and even introduced new controls and protections on international trade with a new National Protection Law (Boratav, 2016: 111; Pamuk, 2014: 233).

Followingly, the DP government made some important public investments in this era that could not be achieved by the private sector. As a response to shortages of various goods and materials such as sugar, tea, tobacco, cement, iron and steel and paper, the government continued to run the state monopolies of the previous era to maintain demands. On the other hand, the private sector was particularly active in investing in the textile sector, and the total value created in the industrial sector between 1954 and 1961 was equally divided between state-run factories and the private sector (Boratav, 2016: 115).

In an environment of protectionist policies, Turkey, as a member of Western economic organisations, has tried to insist on adherence to liberal economic norms. Between 1954 and 1958, IMF officials made several visits to Turkey, advocating devaluation and deflationary policies with a commitment to an open economy. The DP government had little choice but to follow its political agenda, at least until the 1957 elections, when protectionist policies had to be pursued due to populist propaganda. Due to the severe conditions of the currency crisis and macroeconomic instability, the DP government was also seeking foreign loans, but the IMF conditioned any possible loan on adherence to liberal doctrine. Eventually, after the victorious elections in 1957, the DP government had no chance but to accept the conditions set by the IMF. Followingly, the Law of National Prevention was disbanded, the protections on foreign trade were loosened, price controls were removed, and fiscal payments were tightened. For instance, in 1958, the

implementation of the IMF policy package resulted in the second great devaluation of Turkish lira, as its value declined from 2.80 to 9 liras in exchange for a dollar (Pamuk, 2014: 233). In return, the Western countries postponed Turkey's 600 million dollars foreign debt repayment and offered 359 million dollars new credit (Boratav, 2016: 113). Although these provided a healing impact on macroeconomic indicators such as the balance of payments and inflation rates, it led to a stagnation in the domestic economy. Relatively higher rates of economic growth and national income in the early 1950s disappeared in the late 1950s. The DP government remained committed to IMF policies until it was overthrown by a coup d'état in 1960, and the stagnation continued in the first year following the coup.

3.3 Planned Developmentalism, the Era of Import Substitution Industrialisation and Depressions in the Economy: 1961-1979

Immediately after the coup d'état on May 27, 1960, one of the most significant developments was to establish the State Planning Organisation (SPO) by the military government. For the previous years of the DP governments, it was argued that economic management was problematic and that there was no efficient economic agenda to provide long-term solutions and development paths (Boratav, 2016: 110-111; Pamuk, 2014: 235). Put differently, the DP governments lacked coordination in the formulation of economic policies and often tried to find solutions to save the day (Pamuk, 2014: 205).

This was a major problem for the military government, and a state institution to guide and advise the state on economic, social and cultural issues was seen as a necessity for development. Coincidentally, the world economy was experiencing a similar trend in which industrialisation through planning was accepted as a viable development solution for developing countries. In relation to this, OECD was supportive to initiate development plans in Turkey. The renowned development and planning expert Jan Tinbergen was then invited to Turkey and appointed as a consultant to initiate economic planning for industrialisation with the help of the OECD (Pamuk, 2014: 235).

Therefore, in this period, we have become accustomed to economic planning for a large part of the economic policy-making dimension. From 1963 onwards, economic

policies began to be organised according to five-year plans designed by the SPO. For public investments, it became a mandatory condition for governments to follow the plans of the SPO; moreover, even private investments had to follow the plans and be approved by the relevant state agencies in order to receive financial support from the state (Boratav, 2016: 120).

These five-year plans mostly covered industrial sectors, as import substitution industrialisation (ISI) became the primary objective of the period. Thus, in the early 1960s, there were protectionist policies that were advocating high tariff rates and quotas on imported goods. After the successful implementation of protectionist policies, Turkey gained an efficient domestic market in which the production of goods was not significantly affected by world prices. Moreover, the 1961 Constitution, enacted by the military government, significantly increased the wages of workers and public employees and strengthened trade union activities (Pamuk, 2014: 238). This increased the purchasing power of the citizens and economic activity significantly increased in the 1960s.¹² Not only did the working class increase its purchasing power in agricultural products and textiles, but it also had access to technological goods (or consumer durables in general) such as radios, televisions, refrigerators, vacuum cleaners, etc., which sparked domestic economic activity (Boratav, 2016: 121; Pamuk, 2014: 238).

However, the success of the First Five-Year Development Plan (1963-1967) was not going to continue for a long time. Indeed, it was very successful in terms of the ISI in its time. In that period, export levels were positive over the import volumes and macroeconomic indicators were promising. Although it was aimed to break the dependence of the Turkey's economy on the world economy, Turkey's deep external need for technological products could not be easily overcome. Demand for consumer durables was growing, but local sectors could only provide raw materials and assembly to produce final goods. Indeed, heavy industry was heavily in control of the state, and there were state-owned enterprises (SOEs) in the sectors of steel-iron, copper, aluminium (especially for durable consumer goods) and petrochemicals. However, these were not enough to produce final goods that, for instance, Turkey's

¹² Pamuk (2014: 239) notes that 1950-1980 provided the highest increase in purchasing power in the last 200 years of Turkey's economy.

industrialisation was heavily dependent on oil that were imported as a whole (Boratav, 2016: 123).

The strict planning of the First Five-Year Development Plan towards the domination of SOEs can be explained by the strict regime established by the military government (Pamuk, 2014: 238). After the military left the governance to a multi-party system, which became more diversified compared to the 1950s and was under the influence of populism, the private sector had gained much more attention to have an influence on economic planning. As a matter of fact, the Second and Third Five-Year Development Plans were more in line with the DP's understanding of development; the private sector was prioritised in the economy, and the role of the state was best utilised to strengthen the private sector (Boratav, 2016: 129). As I mentioned in the previous paragraph, the state was responsible for heavy industry and the extraction of raw materials. As for the second and third plans, the private sector became much more concentrated in the production of consumer durables, and today's largest conglomerates, such as Koç Holding and Sabancı Holding, made enormous profits during this period (Pamuk, 2014: 237).

In terms of international economic relations, we observe a rapprochement between Turkey and the USSR in the 1960s. The IMF's conditionalities that hurt the Turkish economy, Turkey's dependence on foreign loans and the more leftist social environment provided by the 1961 constitution can be shown as the reasons for the rapprochement. The USSR's propositions of technical assistance and credits were considered promising even for right-wing politicians. In 1967, Turkey had taken significant amounts of credits from the USSR for state-owned projects. Wallace's (1990: 114) calculations show that Soviet government provided a total of 214.5 million dollars credit for six different state-owned factories (such as in iron-steel, aluminium, refinery, petro-chemical industries) that would later be paid by goods rather than currency. Until 1980, there were other credits, which were total of 691.2 million dollars in 5 different industries, given by the USSR to build state factories in Turkey (Wallace, 1990: 114). These credits and technical assistance were important for Turkey, because the USSR government did not condition any interference to economy unlike the conditions imposed by the Western economic institutions. The president of Adalet Partisi (AP), Süleyman Demirel, very much welcomed the Soviet

rapprochement. In his interviews with Demirel, Wallace (1990: 113) quotes Demirel that “the Soviet Union never attempted to interfere in domestic matters” and “I would have stopped cooperation if they had”.

Moreover, the new constitution welcomed left-wing ideas such as significantly improved working conditions, a more statist model similar to the socialist model, the introduction of a welfare system and rapprochement with the Soviets encouraged intellectuals, academic staff and students to have a greater voice in public life. In other words, there was a growing ‘Marxist influence’ in the society (Wallace, 1990: 115). While Western economic institutions seemed to be supportive for the ISI under the planning of the SPO, in the coming years of Cold War, these developments would become a problem for Western powers as well as for Turkish politicians due to their populist and Islamist tendencies.

The above-mentioned Soviet credits did not solve Turkey’s chronic problem of balance of payments deficit, because they were merely about installations of factories. Turkey still needed foreign credits to balance its economic indicators in the aftermath of the first five-year plan. In consequence, the IMF insisted on liberalisation of Turkey’s economy to provide new loans (Boratav, 2016: 130). One of the critical dates in this connection was 10 August 1970, when the third largest devaluation in the history of the Turkey’s economy occurred. According to 1970 Economic Reform, Turkish lira devaluated from 9 to 15 liras in exchange for a dollar and trade restrictions were started to be partially loosened (Boratav, 2016: 130). Subsequently, thanks to new external loans, Turkey’s economy had been relatively relieved by a reduction in macroeconomic instability.

Although SPO’s planned industrialisation moves could be successful for the development of industries in the domestic market, we may not claim the same for the outcome of the ISI policies. As I previously mentioned, during the first five-year plan, export volumes surpassed the import volumes. However, starting from 1962, import’s share in GNP followed an increasing trend over time. While it was 7% in 1960-1961, it rose 12.6% in 1975-1976 (Boratav, 2016: 137). Tracking import’s increasing share through the years and decreases in export shares, Boratav (2016: 137) argues that the ISI policies were not successful in terms of macroeconomic

outcomes. This is why historians prefer to name 1962-1976 period as ‘inward-oriented’ but ‘dependent’ development (Boratav, 2016: 119, Pamuk, 2014: 242). Put differently, increasing industrial production during that period mostly mobilised domestic market activities and it did not compensate the trade deficits.

In support of domestic developments, we observe relatively stable and favourable developments in the period 1962-1976. Economic growth was 6.8% on average and on an annual basis, with industrial growth outpacing agricultural growth, the former by 9.6% and the latter by 3.9% (Boratav, 2016: 132). It was expected when Turkey’s aim was to industrialise by the ISI policies in this period. Although the state focussed primarily on heavy industry, the SOEs still played an important role in the economy, with factories established in the 1930s producing consumer goods such as tobacco, sugar and textiles. The sectors producing these goods accounted for more than 50% of the output of all state industries in the early 1960s (Boratav, 2016: 136).

One may ask how the crisis conjuncture affected Turkey’s political economy in the early 1970s. We know that in the 1960s, the prosperous world economy experienced various crises that deeply affected economic relations. The costs of the Vietnam War caused the US to abandon the gold standard and devalue the US dollar, while OPEC embargoes and rising oil prices caused serious damage to all international trade and payment systems (Pamuk, 2014: 241-242). Moreover, there were also domestic political crises such as 1971 Turkish military memorandum, Turkish invasion of Cyprus, and the continuous elections of coalition governments.

Because of the dependent Turkish economy, the effects of international crises had not disappeared. In addition, due to unstable coalition governments, there was always political competition in which the effects of economic crises were tried to be postponed as much as possible by the governments (Boratav, 2016: 131; Pamuk, 2014: 243). One solution against the crisis of the day was to provide a mechanism to increase import volumes. As being a short-term borrowing mechanism, the government introduced a new policy called ‘convertible Turkish lira deposit’ to encourage imports. This mechanism basically means the protection of the “domestic borrowers from all exchange risk” (Celasun & Rodrik, 1989: 632). In other words, the risk of exchange rate fluctuations on foreign exchange holdings has been

transferred to the public sector, where the private sector can absorb losses from the state budget. As a matter of fact, people showed a serious interest in this situation. The convertible deposits, which was 225 million dollars in 1973, increased to 999 million dollars in 1975 and 2,267 million dollars in 1977 (Celasun & Rodrick, 1989: 639). At the same time, total external debt, which was 3,263 million dollars in 1973, increased to 11,280 million dollars in 1977 (Celasun & Rodrick, 1989: 639).

Remittances of Turkish citizens working abroad also increased the amount of foreign currency in the country. Starting from the 1950s, Turkish workers began to migrate to European countries in connection with the rising labour demands in European countries. During the early 1960s, Turkey and various European countries made bilateral agreements for the migration of labour force. Especially between 1961-1973, there were 780 thousand Turkish citizens migrated to European countries (Esenlikci & Engin, 2019: 65). These workers were basically sending money to their relatives living in Turkey. While they sent around 100 million dollars between 1965-1969, it reached above 1 billion dollars in the 1970s (Boratav, 2016: 124). Pamuk's (2014: 242) calculations show that, after the devaluation of Turkish lira in 1970, workers' remittances rose to 4 billion dollars per year, which corresponded to 5% of the Turkey's GDP. Nevertheless, the stagnation in the European economies had changed the consumer behaviours that workers' remittances radically decreased in the second half of the 1970s (cited in Pamuk, 2014: 243).

According to Boratav (2016), the decisions of the day were nothing but populist economic policies followed within an environment of political instability. The policies that allowed the Turkish economy to grow by around 8% in 1975 and 1976 only produced short-term solutions (Boratav, 2016: 131). The conjuncture of the early to mid-1970s turned into a bigger crisis in 1977, and he asserts that if Turkey had implemented planned and rational anti-crisis mechanisms during 1974 and 1975 rather than focusing on populist policies, there would no crisis in such magnitude (Boratav, 2016: 131, 142).

In early 1977, the government was in the final stages of implementing short-term solutions with short-term loans and commercial credits. Due to these efforts, the GNP and import volumes rose by 5% and 13%, respectively, and trade deficit

increased to above 4 billion dollars (Boratav, 2016: 142). Nevertheless, because the government forced credit mechanisms to the extreme, in the mid-1977, there were enormous amounts of short-term loans to be paid that public sector had become unable to pay its foreign debts (Pamuk, 2014: 244). Turkey's economy was stuck and heavily suffered from a balance of payments deficit.

In mid-1977, Turkey held new elections and the government of Bülent Ecevit took over the crisis management. One viable option was to get loans from the social democratic European countries that seemed friendly to the Ecevit government. Yet, the European countries preconditioned an IMF stabilisation program to provide loans to Turkey (Boratav, 2016: 143). The IMF was, as always, conditioning to open Turkey's economy to international markets and liberalise its price mechanisms. These were not favoured by the Ecevit government that these structural policies would be a "political suicide" of the government, given that the impacts of the program would most likely strike the working class (Boratav, 2016: 143).

The rejection of an IMF programme further restricted the options available. The government pursued a mixed strategy, aiming to save the day, but these could not be justified by any theoretical and practical prescriptions. There were contradictory policies where the government tried to partially implement IMF-guided policies but at the same time imposed harsh price controls. Ultimately, in the absence of a clear agenda, the crisis deepened in 1978 and 1979. There were shortages of consumer goods, people often queued to buy basic goods, black markets proliferated, power cuts became widespread and inflation rose significantly (Boratav, 2016: 143; Pamuk, 2014: 244). General price level increased by 53% and 64% in 1978 and 1979, and the Turkish lira was devalued against the dollar by 19.25 liras in 1977, 25 liras in 1978 and 47 liras in 1979 (Boratav, 2016: 143).

Although the purchasing power was declining in these three years, the real wages of the working class were tried to be protected. If we consider the general developments since 1960 coup d'état, the working class had gained significant improvements in terms of real wages, unionisation, right to strike and social security. In the crisis environment, these developments had brought serious tensions between the working and bourgeois classes. The IMF insisted that Turkey should loosen its income policy;

however, due to strengthening unionisation and populist policies, the government could not adopt such a policy, as it would again be a ‘political suicide’ given all the bad conditions in the economy. In fact, the government did not have the means and mechanisms to change its income policy that even real wages increased by 45 per cent between 1976 and 1979. Moreover, the share of wages in value added increased in both the public and private sectors, and the bourgeoisie was increasingly disturbed by these improvements in the conditions of the working class in such a conjuncture (Boratav, 2016: 144-145). From 1979 onwards, the bourgeoisie began to demand that the government discipline the trade unions in their interests and provide a safe environment for their private capital to increase their profits (Boratav, 2016: 148).

3.4 Decisions of January 24, Neoliberal Construction, and the Rise of Economic Instability: 1980-2001

When we go over the political instabilities as well as domestic crises, it becomes expected to observe a military coup in the historical conjuncture of Turkish politics. However, before the military seized the political administration on September 12, 1980, the new government had already passed the so-called Decisions of January 24 to reform the economy. In late 1979, the Ecevit administration resigned from the government and Demirel took over. The new government needed a new economic stabilisation programme immediately, so Demirel appointed Turgut Özal as undersecretary to the prime minister. His mission was to prepare a new solid economic program.

Before going into details of the new economic program, it is important to underline that the world economy had experienced some changes in the aftermath of the 1970s’ crisis. While the 1960s and 1970s were dominated by Keynesian macroeconomic prescriptions, the crises showed that those state-based solutions for economic recovery were not enough to eliminate the effects of the crises. First the UK, and then followed by the US, Thatcher and Reagan administrations inclined toward more market-based principles and left aside the classical Keynesian policies. These principles mainly involved the reduction of public investment, the abandonment of the welfare state system, the privatisation of SOEs and the facilitation of the control of the private sector by state institutions (Pamuk, 2014: 263).

In this transitional atmosphere, Özal emerged as the symbol of these principles that new world economy has begun to embrace. Having previously worked for Sabancı Holding and the World Bank, he had gained the trust of private and foreign capital and had taken the leading role in determining the economic policies of the decade. It was no coincidence that just before Decisions of January 24, Özal advised Demirel to suppress wages on the grounds that Turkey would not be able to export sufficiently with the current high wages restricting international competitiveness (Boratav, 2016: 149).

Özal was the chief architect of the Decisions of January 24. The main aim of this program, in the short term, was to recover balance of payments problems and decrease the high inflation rates. In terms of long-term implementations, the program advocated a market-based economic model that the state's role should be diminished, and exports would be improved by the private sector in an open economic environment. The program started with a big devaluation of the lira, its value decreased from 47 liras to 70 liras in exchange for a dollar (Pamuk, 2014: 265). Subsequently, price controls were abandoned, the prices of SOE products were raised, subsidies and fiscal support provided by the public sector were reduced, and trade and financial regimes were liberalised to address public financial problems. These actions, in fact, were more than meeting the demands of the IMF for a structural program (Boratav, 2016: 149). Özal started to be appreciated by the foreign countries and institutions, and in that way, Turkey's foreign debts were restructured and new credits were provided.

The only apparent issue regarding the new economic model was that the Demirel administration could not restructure the labour policy. Boratav (2016: 150) argues that this economic programme should, by its very nature, be hostile to the rigid labour policies promoted by the government. Pamuk (2014: 266) agrees and underlines that reduction of wages in general and reduction of income of farmers were some central aims of the program to compete with international prices as well as to provide fiscal balance. As a matter of fact, workers' strikes and work stoppages were frequent in reaction to the Decisions of January 24 until September 1980 and the government faced much resistance from labour organisations.

In relation to economic history, the 1980 Turkish coup d'état can be seen as the best solution to the above “problem” of labour resistance. This so-called obstacle to the new economic programme was to be overcome by the coup d'état, in which the military government banned trade union activities and strikes, and harshly destroyed the labour rights gained after the 1961 constitution.¹³ During the military governance, as Boratav (2016: 150, 152) discusses, labour markets were disciplined by the military. In that way, the only so-called problem of the new economic program was “successfully” settled.

The 1980-1988 period, therefore, was shaped by the Decisions of January 24, which aimed to implement the “neoliberal model” to Turkey’s political economy (Boratav, 2016: 150; Pamuk, 2014: 265). Historians underline that these years were consistent in terms of the economic policies. The only difference in terms of its political characteristics is that while the military was in charge of the implementation of the model between 1981 and 1983, Özal’s new Anavatan Party (ANAP) took the government and continued to comply with the model between 1984 and 1988.

Although the privatisation of SOEs was one of the main objectives of the economic programme of the 1980s, it was only implemented after 1990. During the ANAP government, it was not very much feasible to privatise SOEs due to several reasons. First of all, there were technical, legal and political obstacles to overcome; moreover, politicians did not want to privatise SOEs they already controlled (Pamuk, 2014: 268). Second, the SOEs had already suffered during the crises of the 1970s and were plunged into financial instability in the 1980s (Boratav, 2016: 157). The main reason for the financial instabilities was that the treasury significantly declined the number of investments to SOEs, and these enterprises became to be financed by both domestic and foreign loans that later caused repayment problems in the 1990s. The deadlock in the investments, especially in the industrial SOEs, led to degradation of existing technology and inefficiency of production (Boratav, 2016: 157). In short, it was decided to privatise those SOEs when their conditions were improved (Pamuk, 2014: 268).

¹³ For more information, please see <http://arastirma.disk.org.tr/?p=4063>.

One of the most important economic policies of the ANAP period was the liberalisation of the financial sector, which fundamentally changed the structure of Turkey's political economy. Most important among these, the exchange regime was reformed. Monetary operations – that were conducted solely by the Central Bank before the 1980s – on foreign currencies became available to commercial and private banks during the ANAP government (Pamuk, 2014: 267). In addition, citizens began to hold foreign currency accounts in commercial banks. Credit cards and consumer loans were heavily encouraged (Boratav, 2016: 154). Financial instruments were diversified with the establishment of İstanbul Menkul Kıymetler Borsası (Istanbul Stock Exchange) in the mid-1980s. Yet, all these developments had complicated the supervision of financial sectors that any future financial crisis would be more difficult to control.

In terms of economic relations, this period provided improvements in export volumes. While incomes from exports were recorded as 2.3 billion dollars in 1979, it increased to 8 billion dollars in 1985 and 13 billion in 1990 (Pamuk, 2014: 268). It was a success for the economic program but there is also the effect of the Iran-Iraq War between 1980 and 1988. It is argued that this war created an important market for Turkey in the Middle East and that Turkey's exports to the Middle East exceeded its exports to Europe between 1982 and 1985 (Pamuk, 2014: 269). Subsequently, the IMF and the WB began to cite Turkey as a successful example that reflected their models, and Turkey gained significant support from international financial actors. However, Pamuk (2014: 269-270) attributes this success to Turkey's production capacity and technical knowledge developed from the import substitution years. The increase in exports, however, did not really fix the problem of dependency on imports. Relative prosperity provided by foreign credits increased the dependency to foreign intermediate and investment goods that imports were significantly increased from 4.8 billion dollars in 1978-1979 to 13.5 billion in 1988 (Boratav, 2016: 161). Finally, although the average annual growth rate of 4.9% between 1980 and 1988 can be seen as the success of the new economic programme, it can also be understood in terms of the abundance of foreign credit in the post-crisis conjuncture.

Economic historians mark 1989 as another turning point in the history of capitalism in Turkey. We can talk about three different events that brought about this change.

The first was the referendum held to lift the political bans imposed on the politicians of the period by the military government in order to maintain the multi-party democratic system. Despite the resistance of the ANAP government, the referendum resulted favourably and banned politicians were allowed to re-enter politics. Secondly, the ANAP government lost most of the municipalities in the local elections held in March 1989. Thirdly, the labour movements in 1989 attracted much attention. Workers, mostly from the public sector, and revitalised trade unions organised a series of protests against the repressive regime of the last ten years (1989 Spring Movements).

All these pushed the ANAP government to take some actions. Due to its declining popularity in the country, ANAP had to return to a more populist agenda, albeit reluctantly. The government increased the wages of the public sector workers by 142%, and there were also significant increases in the wages of workers in the private sector and of government officials, so that the working class started to compensate its losses of the 1980s (Boratav, 2016: 177).

However, these populist actions would later lead to unintended consequences. In response to rising wages, the private sector preferred to lay off unionised workers and start benefitting from informal employment. Within two years, union activities had almost ceased. Boratav (2016: 178) notes that unionisation rate decreased from 41% to 21% between 1990 and 2000. Moreover, due to the high increases in wages of workers in public sector, SOEs started to find themselves in financial hardship that they became unable to pay salaries.

Regarding SOEs, privatisation became a dominant policy in the 1990s. However, it was not due to the ideological reasons such as commitment to liberalism but due to the necessity of balancing fiscal deficits (Boratav, 2016: 178-179). We know that in the 1980s, the financial support given to SOEs by the treasury was cut and SOEs had to finance themselves with domestic and external loans. Although we observe technological degradation and production inefficiency during the 1980s, Boratav (2016: 178) claims that they were in a good condition for value-added production and labour productivity in the early 1990s. Nevertheless, they were unable to accumulate capital owing to the loans due and rising wage costs, and most of their

income was going towards costs and loan repayments. Due to lack of long-term planning, proper administration and reformation, the SOEs were increasingly believed to be best utilised by privatising them (Boratav, 2016: 178). Hence, privatisation became the rescue mission of the state, and it was believed that fiscal deficits would be balanced by it.

At the same time, Turkey's economy was struggling with serious public deficits. The 1990s were years of populist policies with short-term strategies similar to those of the 1970s. Successive coalition governments and frequent elections had increased public expenditure and fiscal deficits grew every year. Imbalances in fiscal accounts led to an increase in real interest rates and high borrowing rates further deteriorated fiscal balances (Pamuk, 2014: 276). In the 1990s, it became normal to live with high rates of devaluation and inflation. Although the overall economic outlook was not promising, Pamuk (2014: 279) considers the self-sustainability of the country and its people under these circumstances as a success. All strata of society were getting weaker year by year and were somehow 'protecting' themselves against ever-higher rates of inflation and devaluation. To exemplify, unionised workers were benefiting from collective bargaining agreements, farmers were obtaining support packages from the state, and small business were taking advantage of low-interest rate credits (Pamuk, 2014: 277-278). While these deepened the state's economic crisis, they partly helped citizens to protect themselves against the effects of the stagnation. Moreover, private banks had as previously mentioned begun to provide foreign currency deposit accounts and the middle-classes were compensating the high inflation rates by holding foreign currencies (Pamuk, 2014: 278). As a result, it deepened the economic recession even further, albeit as a partial method of protection for citizens. In a conjuncture of political instability and populism, no one approached long-term ideals that would put their political power at risk. It would of course be wrong to claim that there was a successful economy between 1989 and 2001, but if we ask how the economy was sustained under these bad conditions, we need to look at international economic relations.

Short-termism in economic management can be reduced to financial borrowing. The public sector was experiencing a liquidity shortage in almost all aspects and was trying to overcome it with domestic and external loans. Domestic private banks were

enjoying high-interest loans to the state. Under the Özal governments, domestic banks were allowed to raise capital through foreign capital, and in cases of financial extremes, they played an intermediary role by providing loans. But more importantly, the new structural shift in the world economy pushed Turkey to follow the trend. As the world economy began to strive for full liberalisation of capital movements, domestic banks began to be financed largely by foreign loans, and these banks began to buy debt securities issued by the government. These seemed to be the best short-term solution for domestic debts. In other words, as Boratav (2016: 181) calls, “domestic debts were fed by external resources”.

After all these experiences, 1994 went down in history as the year of economic crisis. However, one of the triggering factors had been the government's attempt to lower domestic borrowing interest rates to ease repayments. Subsequently, foreign capital left the country, and the solution was found in issuing high-interest treasury bonds. It should also be pointed out that between 1987 and 2002 the inflation rate was never below 40%, although the economic crisis of 1994 resulted in hyperinflation reaching 118% (Boratav, 2016: 184; Pamuk, 2014: 277).

In terms of international trade, Turkey signed a Custom Unions agreement with European Union (EU) in 1995. As the name of the agreement suggests, it was agreed to develop foreign trade volume as well as political relations with the EU. In general, there were two conditions that Turkey had to follow. First, Turkey was required to abolish tariffs on manufactured goods when trading with the EU and, second, to reduce tariff rates on imports from non-EU countries to the levels applied between Turkey and the EU. However, until the 2000s, this agreement had just a symbolic value because there were no substantial rises in trade volumes after the agreement. The reasons for this are that Turkey already had low tariff rates before the agreement and fiscal and monetary problems deeply affected economic activities (Pamuk, 2014: 280). On the other hand, the symbolic value was the belief that this agreement would pave the way for EU membership.

In these years, in short, the Turkish economy was largely and essentially dependent to the world economy. Not only in industrial sector but deepening financial integration made Turkey unable to live without foreign economic activities. Every

crisis has led the Turkish state to seek foreign loans from international economic organisations, while even the daily economy has been sustained by foreign loans. With such a dependency, any crisis in the world economy would easily affect Turkey's economy as well. To mention them, the Gulf War in 1990-1991 was the first crisis to affect Turkey's economy regionally during this period when the Turkish economy was plunged into stagnation due to the outflows of foreign capital. Secondly, the 1997 Asian financial crisis partially affected Turkey's economy, but when the 1998 Russian financial crisis was added, Turkey lost a significant amount of foreign capital, resulting in the collapse of financial systems. In conjunction with that, Turkey experienced another economic crisis in 1999, which was the result of the fiscal instabilities of the decade. This crisis made the government realise that a new structural programme was needed to overcome a decade of fiscal instability. The IMF was summoned and appointed to propose a new economic program; nevertheless, the program mainly focused on the issue of inflation. Boratav (2016: 201) calls this program as a new 'experiment' of the IMF, suggesting that inflation would be controlled by the exchange-rate targeting. In this programme, exchange rates were set on a daily basis, and the Central Bank's entire role was to adjust and lower the prices of foreign currencies step by step. Thus, while the Turkish economy was suffering from structural problems, the IMF was only proposing new mechanisms for monetary policy.

Eventually, Turkey had to compromise a new structural program in 2000 to overcome high levels of inflation (or hyperinflation), fiscal deficit and interest rates. The new program aimed to decline the rates of these in a two-year period by (1) restricting the mechanisms of public spending and privatisation of SOEs, (2) fixing the exchange rate regime to control inflation and (3) restricting mechanisms of monetary expansion of Central Bank and converting those mechanisms to the foreign asset accumulation (Orhangazi, 2020: 88).

This stabilisation program failed in February 2001 and was abandoned. Boratav (2016: 201) asserts that this program contributed to the 2001 financial crisis, and it can be reasoned as follows. While the program restricted the policy-making mechanisms of the state, it further increased the free and uncontrolled circulation of international capital in Turkey. Turkey was hungry for foreign investment and the

early years of the program attracted high amounts of inflows that the initial “success” of the program can be reasoned from that point of view. However, due to the determined rates of exchange rates, any speculative actions were made possible in financial markets. Foreign inflows seemed at first to recover Turkey’s economy; yet, the profit-seeking foreign investors were not guaranteeing to stay and continue to invest in the country. As a matter of fact, “[t]he last week of November [2000] alone witnessed a \$5.3 billion outflow as a result of short-term speculative actions, causing a severe liquidity shortage in domestic financial markets and increasing overnight interest rates as high as 2000%” (Dufour & Orhangazi, 2009: 105).

That can be viewed as the preview of what later happened in February 2001. Further and more devastating volumes of capital continued to leave Turkey. Another 5 billion dollars of capital were outflowed just on February 19, the reserves of Central Bank eroded as it became less than 20 billion, overnight interest rates mount up to thousands and, in the end, inflation experienced to rise by high figures, government debt enormously increased and interest rates could not be suppressed (Dufour & Orhangazi, 2009: 105). Thus, all three goals of the IMF program could not be fulfilled and ended up in a failure.

Later solution to the crisis was found in further liberalisation with an institutional build-up. In other words, the crisis was partially due to the IMF program and the management of the crisis was transferred to the IMF again. It is later argued by IMF staff that a successful liberal economic transformation can be achieved through institutional setups that Turkey previously was lacking. Thus, right before the 2002 election, Ecevit¹⁴ summoned Kemal Derviş, who had been the vice president of the World Bank, to the management of the crisis. With the supervision of the IMF, Derviş initiated ‘Transition to Strong Economy Program’ (TSEP) and Turkey’s economy found itself in a new and reinforced political economy of liberalisation.

¹⁴ Bülent Ecevit (leader of CHP during the 1970s and later DSP) had significant impact on the neoliberalisation process of Turkey’s economy. Although he was clearly against and resisted to IMF programs during 1978-79, Boratav (2016, 196) argues that he was the one that “dragged” Turkey’s economy to the “tutelage of IMF/WB” from 1999 to following ten years.

On May 3, 2001, in the Letter of Intent provided by Turkish government to the IMF for requesting financial support, it is stated that

[the] goals will be achieved through a three-pronged approach based on: (i) structural policies aimed at correcting the distortions directly underlying the recent crisis, including in banking, and at enhancing the transparency of economic management and the role of the private sector in the restructuring of the economy; (ii) fiscal and monetary policies geared towards restoring financial stability and resuming the disinflation process; and (iii) an enhanced social dialogue aimed at price and wage policies consistent with macroeconomic stability, growth, and the protection of the most vulnerable parts of the society.¹⁵

Followingly, the TSEP was announced in two phases, on April 14 and May 15, 2001. The programme, which was implemented in three stages, had targets that included bringing the financial sector under control in the first stage, eliminating the external deficit and lowering inflation in the second stage, and increasing growth rate with practises aimed at structural change in the third stage (Uygur, 2001). The main goals of the program were to establish the infrastructure for economic restructuring and guarantee the continuity of that infrastructure, as well as to establish the public administration required to quickly resolve the confidence crisis and eliminate the instability brought on by the abandonment of the exchange rate regime (cited in Kol & Karaçor, 2012: 387).

Table 2. Summarising Transition to Strong Economy Program

Components	Objectives	Means of Implementation	Implementation Results
Structural Reforms	Autonomy of the central bank and regulation of the market economy	Central bank law, regulatory authority laws for natural monopolies and network industries	Establishment of supreme councils on telecommunication, tobacco and sugar
Banking Sector Reforms	Establishing sound banking system	Banking law	Establishment of the Banking Regulation and Supervision Agency, making the The Savings Deposit Insurance Fund operational

¹⁵ Retrieved from <https://www.imf.org/external/NP/LOI/2001/tur/02/INDEX.HTM>.

Interest Rate and Exchange Rate Policies	Providing medium term perspective for investors	Exchange rate systems	Transition to floating exchange rate system, managed floating, implementation of implicit exchange rate anchor
Economic Growth Strategies	Tight fiscal policy, anti-inflationary approach, stable economic growth	High rate (6%) primary surplus, control and financing of the current account deficit/national income ratio	Reflection of the current account deficit caused by the low exchange rate policy on external borrowing figures

Source: Taşar's (2010)

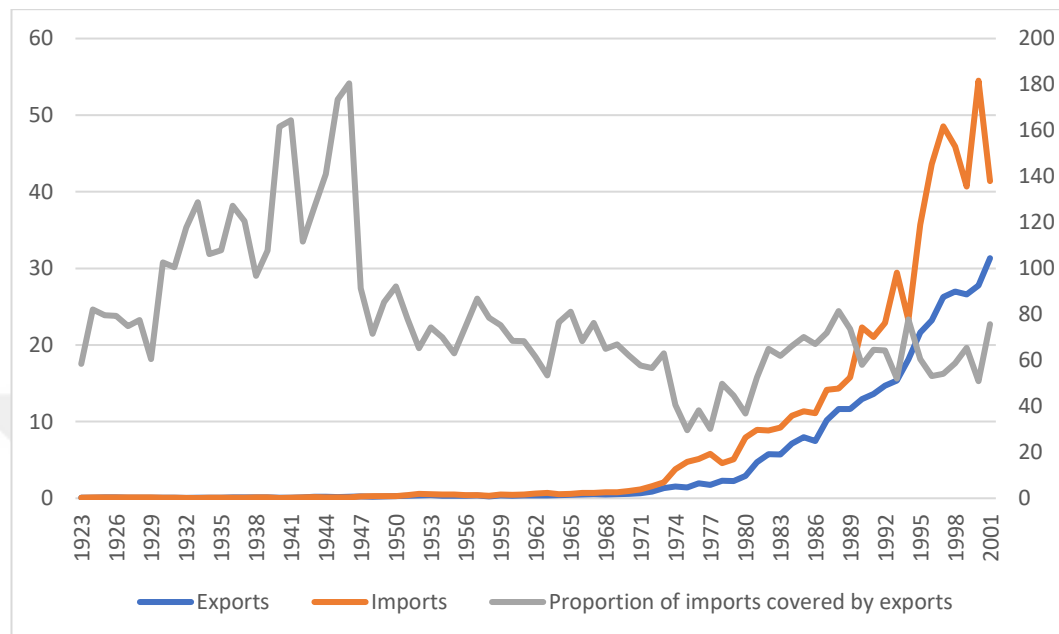
To sum up the program in terms of its liberal transformative effects on capitalism in Turkey, Akçay (2023) argues that TSEP has three important pillars such as monetary policy reform, fiscal consolidation and labour market deregulation.¹⁶ First two to can be summarised respectively to have independent central bank to conduct monetary policy and to “reduce the ratio of public debt to GDP below the Maastricht criteria”, both of which were also essential for EU membership process (Akçay, 2023: 57).

Before concluding the chapter, I summarise some statistics that help us to understand Turkey's historical integration into the world economy. First of all, Figure 2 shows Turkey's average export and import volumes historically, with a percentage proportion of imports covered by exports. Accordingly, the volume of foreign trade increased significantly after the 1970s and gained increasing trend with the 1980s. Except for the declines in the crisis years, exports and imports began to rise sharply after 1993 and 1994, respectively. As Pamuk (2014: 280) notes, since the 1960s, Turkey's largest trading partners had been EU countries. Additionally, if we look at the first 5 years after the Customs Union (1996-2000), we see that the EU remained Turkey's main foreign trade partner, accounting for 48.6% of Turkey's exports and 48.9% of its imports on average (TURKSTAT, n.d.c). Moreover, during this period, UNCTAD (n.d.a) data shows that while Turkey was the 61st largest trading country in

¹⁶ Labour market deregulation has been realised by the Labour Law in 2003, which is illustrated in the next chapter.

the world (based on total volume of merchandise trade), its position ranked up to 30th in 1990, 38th in 1995 and 39th in 2000.

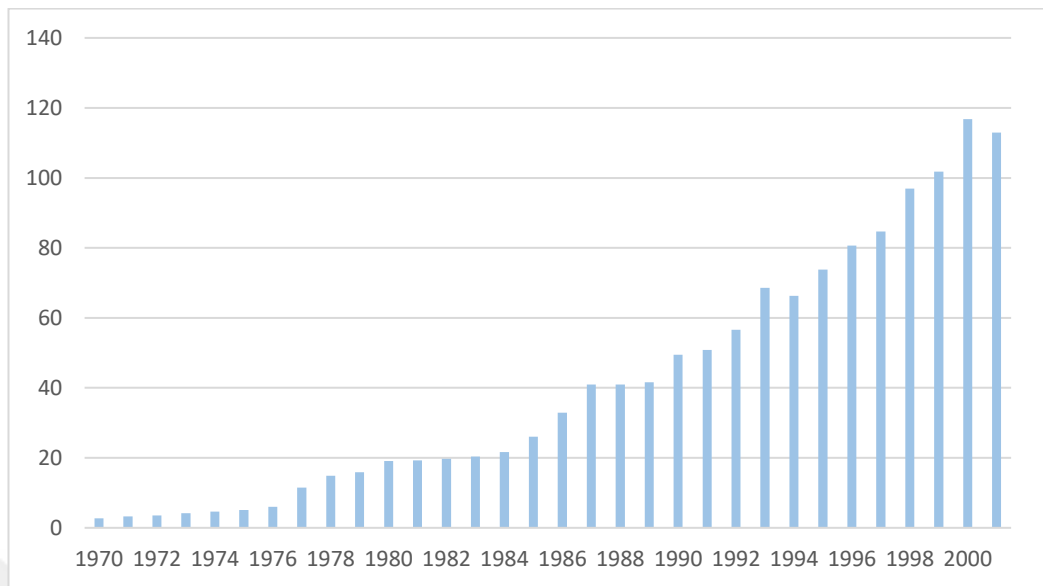
Figure 2. Historical Trade Indicators of Turkey (Billion US Dollars)



Source: TURKSTAT

Regarding the Turkey's financial integration into the world economy, we unfortunately have no available data goes back to the early Republic years. In the post-1946 period, I mentioned that Turkey found itself on good terms with Western financial institutions and Turkey shifted toward open economic policies through memberships to several institutions and received financial aids and credits from them. However, with the coup d'état in 1960 and the ISI policies that followed, we see that open economic policies did not increase much further. We see that Turkey's financialisation relations deepened mostly in the post-1980 neoliberalisation period, which seems to be in line with the statistics given below, and as a part of the neoliberal project (Akçay & Güngen, 2022).

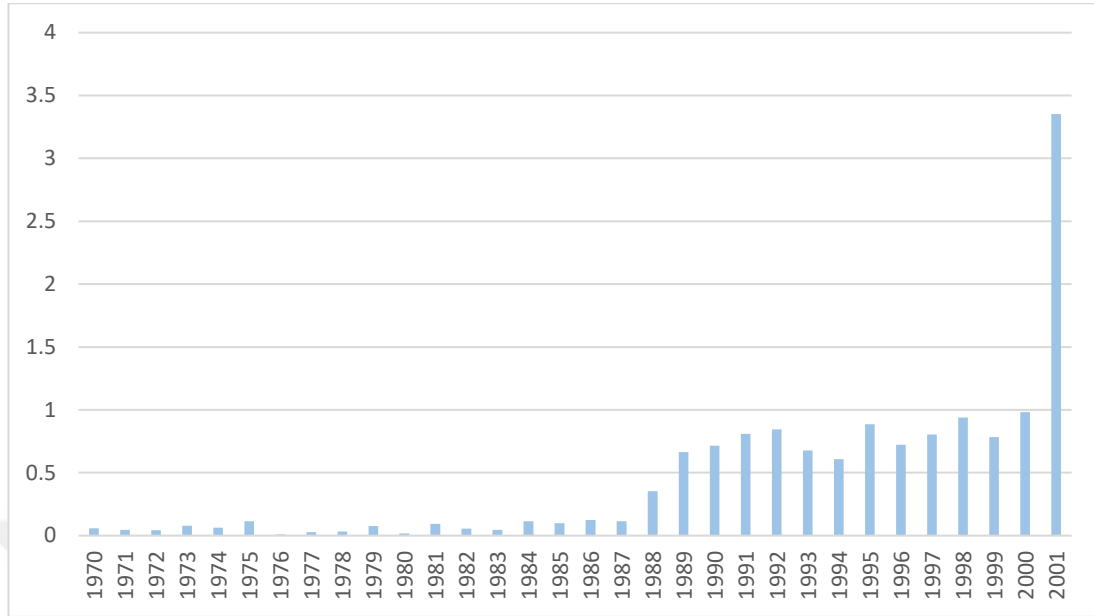
Figure 3. Total External Debt of Turkey (Billion US dollars)



Source: World Bank

While financial integration is linked to the policies brought about by the transition to neoliberalism, it is also linked to the fiscal imbalances and rising inflationary pressures of the 1980s. Akyüz and Boratav (2002) argue that the response against these pressures was fully to liberalise the capital account in 1989. Previously, I mentioned that financial sector was partially liberalised as indicated above (e.g., establishment of İstanbul Stock Exchange, liberalisation of the possession of foreign currency accounts). The novelty of the 1989 legislation was that it “effectively lifted restrictions on inward and outward financial transactions by residents and non-residents alike, thereby exposing the economy to the whims of international capital flows” (Akyüz & Boratav, 2002: 5). Following Figure 4, we observe radical increases in equity flows from 1988 onwards and the following period witnessed a new trend in equity flows. Post-1989, after the liberalisation of capital account, brought a new paradigm for Turkey’s economy that a financial activity has begun to surpass and dominate growth activities as well, i.e., “changes in the level and direction of capital movements generated a financial cycle of boom/bust/recovery which, in turn, resulted in rising volatility of the growth rate” (Boratav & Yeldan, 2001: 10).

Figure 4. Foreign Direct Investment Equity Flows (Based on Balance of Payments, Billion US Dollars)



Source: World Bank

As a result, Turkey's economy became vulnerable to external financial relations and entered a deepening process of financialisation in the 1990s. Akçay and Güngen (2022) argue that there is a process of dependent financialisation in Turkey and assert that economic vulnerabilities in Turkey are due to the external dependence of the financial system, which have spread in such a way as to affect all economic activities. Although mostly focused on the present, the liberalisation of the capital account in 1989 is regarded as the first phase of dependent financialisation process in Turkey, which it had the greatest impact on the crises of the 1990s.

3.5 Turkey's Economic History in a Nutshell

In this chapter, I have summarised the developments and changes of capitalism in Turkey since 1923. The economic developments we have examined here have an important place in the formation process of AKP-era capitalism. It is important both to understand the domestic dynamics that led to the transformation of the economy and to show the dynamics of international integration in order to understand the ways in which Turkey's economic history has shaped current economic policies and at the same time to understand where current policies originate from. In essence, this

narrative provides us with a holistic understanding capitalism in Turkey and its potential dynamics of change.

We observe various major changes and shifts of the political economy in the economic history of Turkey. Although these may not correspond exactly to today's conceptualisations, we see that the first period (1923-1946) was shaped by a form of state-led capitalism. The relatively more liberal environment in the first years of the Republic was transformed with the global crisis of 1929, and we observe a period in which the state organised the economy in perhaps the strongest way in its history. Afterwards, with the economic conjuncture brought by the WWII and Turkey's shift toward the West after the war, the period (1946-1960) in which liberal policies come to the fore in Turkey began. Turkey started to be integrated in the new Western international order through various international organisations and began to abandon the strict statist policies of the 1930s. However, with the 1960 coup d'état, Turkey entered a new era in which the state seized more control over the economy, albeit without a major break with liberal policies as in the 1930s. During this period (1961-1979), the SPO was established to undertake Turkey's macro-scale economic planning, SOEs came to the fore and ISI policies implemented with an emphasis on national production. New policies provided a relative prosperity during the first decade of the period, yet the new crisis dynamics and foreign dependency in the 1970s created new issues and Turkey's economy started to transform to a brand-new economic regime with the January 24th decisions and the 1980 coup d'état.

Neoliberalism enabled Turkey's economy to become more integrated into the global capitalism, but at the same time, Turkey became more dependent on international markets. As a result of external vulnerabilities and the election-oriented populist policies pursued throughout the 1990s, Turkey went through a series of economic crises, resorted to the IMF several times and was unable to find long-term solutions to these crises until 2001. In Turkey's economic history, post-1980 can be characterised as Turkey's most open period to the global economy, as the liberalisation of capital flows in 1989 was important in this respect. However, it is not possible to talk about a complete transition to neoliberalism with this period, even though the role of the state in the economy was reduced, it still had an undeniable power. This was exemplified by the fiscal spending that shook the entire

economy and the absence of a proper banking system to regulate capital flows, especially with the presence of a non-independent central bank.

In short, the last period reflected a period of a certain degree of state influence in the economy compared to the principles of neoliberalism. The fact that the Turkey's economy, which was not fully neoliberalised in the last period leading up to the AKP's first election, reflects to a certain extent the tradition of state capitalism will be important for making sense of the policies to be pursued during the AKP period. As shown in the chapter, to put it more clearly, Turkey has a historical process in which the state has been influential in the economy, and investigating the role of the state during the AKP rule will be important to see to what extent the state has been used to adopt different policies, strategies and economic models.

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CHAPTER IV

CAPITALISM IN TURKEY: INVESTIGATING THE STATE-PERMEATED CAPITALISM MODEL

The year 2002 marks a crossroads in Turkey's political and economic atmosphere. The election of the first AKP government was not surprising if one tracks the rise of political-Islamist tendencies and the constant crisis environment of the 1990s. In fact, the 2001 financial crisis was one of the most severe ones, as it can be understood as a result of short-term crisis management interventions during the 1990s.

With the IMF program, the liberal institutional and structural setups were initiated before the first AKP administration, and the election of AKP and its economic agenda can be seen as the consolidation of the new economic program or the "completion" of the transition to neoliberalism in Turkey.¹⁷ However, one important aspect of the AKP's election was to conceal its neoliberal agenda from its elector groups. The consequences of previous unsuccessful IMF programs were deeply experienced by the public and their reactions could not be overlooked. The political parties that constituted the last coalition government had already encountered a strong reaction from the public. Any supportive action toward IMF agreements would have hampered the election campaigns of the political parties. Although AKP

¹⁷ Orhangazi underlines that the logic and institutions of neoliberal capitalism widely spread, deepened and mostly completed in Turkey's political economy during 2001 and 2002. Before that, we can only mention partial transition attempts to neoliberalism during the Özal years as well as in 1989, when the movement of capital was deregulated (Orhangazi, 2020: 94).

concealed its commitments to neoliberalism and the IMF during the election campaign, it maintained its adherence to IMF until 2008. Prior to 2005, it conformed with the previous stand-by agreements and then it made a further three-year stand-by agreement in May 2005.

This chapter investigates Turkey's political economy with the components given in the SPC framework from 2002, when the AKP government first came to power, to 2022. The chapter begins with the analysis of coordination between the state and business fractions to reveal the patterns of relationship between AKP and the business elite in economic sectors. The second section delves into the institutional spheres of Turkey's political economy by investigating the institutional domains of corporate governance, finance for investments, industrial relations, education and training, innovation, and the domestic markets. In the following section, I will analyse and discuss the extent to which institutional complementarities and clusters emerged during the AKP period by exploring the relations between each institutional domain. The final section of this chapter will discuss the extent to which Turkey has moved closer to the SME model in the light of the information gathered, compare successful SMEs and Turkey, and explain the findings of the SPC framework as a whole.

4.1 Coordination in Turkey's Political Economy

The mode of coordination, which is one of the main components of the SPC framework, will help us to understand how the state and business relations in Turkey are structured. As in the SME model, the state's relationship with private sector actors is fundamental for understanding the form of networks through which the state creates and sustains these relationships. Here I will focus on the leading business associations in Turkey and examine the state's relationship with them.

The early years of the AKP government are sometimes characterised as the 'golden years' of their entire administration. By strengthening ties with the Western economic institutions, the government was able to gain the trust of international economic and political actors. Western democracy and liberalism were deemed to be "viable" for

Turkish geography.¹⁸ The first AKP government aimed to create good relations with capitalist classes in both domestic and international markets. One important convergence to the so-called Western democracy was to abandon the principles of the National Vision Movement of Welfare Party (WP). Recep Tayyip Erdoğan was previously a member of the WP and a supporter of the National Vision, which proposed ideas blended with religious-political dispositions such as opposition to the US and European hegemony, anti-imperialist vision and praising a just society (Boratav, 2016: 196). However, with the establishment of the AKP and its election, Erdoğan and the AKP administration started to retire from those ideas and indicated their market-based (more neoliberal) and moderate religious tendencies.

Followingly, the AKP administration implemented policies which the domestic and international bourgeoisie would idealise under the term neoliberalism. Those policies were realised by various structural reforms that the neoliberalisation of Turkey's economy was systematically constructed. Being a market-friendly government opened a door for good state-business relations although the private sector came to dominate the overall economy and the state's role was diminished. To exemplify, the mechanisms enabling populist action were tried to be abolished in legal, institutional and financial frameworks (Boratav, 2016: 202). This eventually led to the diminishing power of the state and state interventions in any economic circumstance became hard to realise. As the bourgeoisie idealised free-marketism in all areas of the economy, the AKP tried to maintain such an economic approach for the goal of economic development and prosperity. The privatisation of SOEs became the motto of their initial years – as Öniş (2011) describes this as a privatisation boom and hyper-privatisation, the state's most powerful industries were planned to be privatised without hesitation. Those SOEs were eventually acquired by Turkish businesspeople belonging to rich and famous Turkish families. It was the first step of the AKP government to show its desire to establish close ties with TÜSİAD.

¹⁸ The so-called progressiveness was more to the benefit of Turkish businesspeople, as the first AKP governments were clearly underlining the importance of private sectors for economic development. It is not surprising to see that with the AKP governments, the wealth distribution between the bourgeoisie and the working/farming classes began to deepen even more (Boratav, 2016: 219).

It is important, however, to note that state-business relations have a historical basis in Turkey's political economy. Most of the time, it was structured according to different governing parties and their political dispositions, given that "political actors necessitate reciprocal public-private alliances" to realise their developmental goals (Yagci, 2021: 761). It is important that because the AKP's agenda in the aftermath of the 2002 election promised a stable and safe environment for capital compared to the instabilities during the 1990s, the first election of AKP constituted a new era in state-business relations. Concerning AKP's early pro-business identity, Öniş (2004: 8) asserts that

The JDP [AKP] leadership has also seen the purely economic benefits of Turkey's closer integration with the EU. Not surprisingly, therefore, the JDP has established itself as a vocal and active member of the pro-EU coalition in Turkey, a coalition in which civil society organizations led by key business associations such as the representative of big business in Turkey, TÜSİAD and MÜSİAD are also key elements.

In other words, the close state-business relationship during the early years of the AKP period is more about sharing the same vision for embracing an economic programme and goals, which were mainly in accordance with the Western (neo)liberal paradigm. In Western countries, especially in the EU, we observe close ties between governmental organisations and business associations (or more broadly interest groups) and close collaboration of business associations is seen as an important element of "representative democracy" during the policy-making process (Eising, 2009: 3). Thus, it is important to note that state-business relations have a variety of utilisations depending on economies and the relationship mechanism given by the SPC framework is utilised by the informality of coordination. Toprak (1995) historically argues that the state had always had an essential role in shaping and evolving the business groups in Turkey. Although it had been mostly shaped by the polarised political conjunctures, Somer (2019) further asserts that there has been a lasting state-business relationship in Turkish economic history with a variety of relationship types. This brought new networks of relations with TÜSİAD and MÜSİAD, and state-business relations in Turkey have taken different forms with successive AKP governments.

TÜSİAD (established in 1971) and MÜSİAD (established in 1990) are two dominant and influential business associations in Turkey. While TÜSİAD's economic

and political interests have changed over the years, it generally reflects the secular and Western-oriented big businesses and conglomerates. MÜSİAD, on the other hand, characterises itself by the Islamic orientation and conservatism and consists of small and medium-sized enterprises (SMSEs). With the election of the first AKP government and the AKP's promised reforms on the economy toward more democratic and Western standards, TÜSİAD explicitly welcomed and enjoyed the AKP's governance during the early years. This was not a surprise since "TÜSİAD became a vocal supporter of democratisation efforts" since the 1990s and the first AKP government undertook the role of democratisation efforts (Yagci, 2021: 767). Moreover, although the first AKP government's right-wing ideology was not cryptical, many big businesses and secular TÜSİAD members gave their support due to the AKP's pro-market policies compatible with Western standards (Aytaç & Öniş, 2014). Adherence to new structural reforms and pro-business discourses of the first AKP governance made TÜSİAD praise the new developments.

For MÜSİAD, likewise, the election of AKP was significantly promising because the party's right-wing, religious and pro-market identity would establish a ground for MÜSİAD's interests (Gumuscu & Sert, 2009; Yagci, 2021). MÜSİAD is a religiously oriented association that the so-called 'Islamic capital' became a significant term for their use. That said, in Turkey's context, political Islamist tendencies in policymaking become a significant part of their ideology and their support to the governments is mostly determined accordingly. The AKP's admission to the political arena was a crucial factor for MÜSİAD since the WP was banned from politics owing to secular reasons given in the constitution. Ban on the WP was seen as a 'backlash' against political Islam as well as Islamic capital that Muslim businessmen were highly concerned (Öniş & Türem, 2001). Since some establishing figures of AKP such as Erdoğan and Abdullah Gül were previous members of the WP, which shows their Islamic orientation in Turkish politics, the brand new AKP was delightedly welcomed by the MÜSİAD as well.

In order to understand how state and businesses mutually established relations with each other during the AKP governments, most sources point to three directions in which the state has a fundamental role to intervene: the public procurement

mechanism, the construction sector and mega-projects. Following the literature, now I illustrate how these factors have been implemented and changed.

Historically, public procurement did not have a solid foundation as it did not have a long history in Turkey due to the presence of SOEs. It was mostly used for election campaigns and 'rent creation' (Çeviker-Gürakar, 2016), and 70% of the project between 1983 and 1999 were uncompleted (Yagci, 2021: 771). As one of the institutional setups promised after the 2001 crisis, The Public Procurement Law was introduced in 2003 to make the public procurement system more tangible. In that way, public procurement was tried to be made more transparent and formalised (Official Gazette, 2003). However, despite the new law, the AKP government has taken advantage of some exceptions to expand the scope of the public procurement system and also used it to benefit its election campaigns (Çeviker-Gürakar, 2016). As one of the important aspects of public procurement, the open auction system was abandoned, which caused less competition and transparency among the contractors. Çeviker-Gürakar (2016: 6) notes that open auctions in public procurement decreased from 100,820 to 65,016 between 2005 and 2014; moreover, exceptional methods that broaden the scope of the law were increasingly used as it reached 47.5% from 29% between these years. Furthermore, one significant development was to remove the Housing Development Administration (TOKİ) from the law. TOKİ's main objective is to provide affordable housing for the working and middle classes, also referred to as the "Social Housing Program", and Tagan et al. (2017) argue that this program is exempted from the Public Procurement Law, which significantly reduces competition and transparency in the public procurement system. In this way, the public procurement system has been used in successive AKP periods to ensure that the state has the power to distribute tenders to the groups and individuals it wants. Accordingly, Islamic business elites have been the primary beneficiary of the amendments that its members close to the government mostly secured the auctions behind closed doors (Çevikar-Gürakar, 2016).

With that, Çevikar-Gürakar (2016) asserts that there is a type of favouritism particularly in the late AKP period. This favouritism is practised by the state to establish mutually beneficial relationships with Islamic business elites. While businesses gain political power - sometimes by gaining a seat in parliament,

sometimes by influencing policymaking, or often by making huge profits from public procurement projects - the government consolidates its power mainly through the support of those businesses. However, an important aspect of AKP governments and Erdoğan is that they force associations to build a concrete state-business network.

Çevikar-Gürakar (2016: 17) explains that

the AKP government aimed to centralize the control over the patron-client system and consolidate its power by disciplining, for instance, the business spheres that have not been known to have harmonic relations with the government. Most radically, Prime Minister Erdoğan publicly threatened TÜSİAD in 2010 with the words: “Those who fail to choose sides today will be set aside tomorrow” when TÜSİAD preferred to remain neutral and refrained from declaring its attitude on the government’s proposed constitutional amendments.

The political developments during the successive AKP governments crucially affected the state-business relations, especially concerning the TÜSİAD-MÜSİAD axis. MÜSİAD was the primary beneficiary of public procurements, and it gained an advantage by supporting AKP’s political agenda. On the other hand, TÜSİAD experienced several breaking points with the AKP government, and these events negatively affected their relationship in terms of favouritism. Two referendums were playing crucial factors in maintaining the relations: first, the AKP government proposed to make amendments to the constitution which had often been described as the constitution of the 1980 coup in 2010, and second, they proposed a referendum to change Turkey’s parliamentary system to a presidential one. Both referendums were not publicly endorsed by TÜSİAD. More clearly, TÜSİAD embraced a neutral stance for both referendums. However, the government was trying to legitimise their proposal by taking the support of the majority and Erdoğan ended up to threaten TÜSİAD in the first referendum (as the above quote shows). In the second, although TÜSİAD had opposing views against a potential shift to the presidential system in the 2000s,¹⁹ they also continued their neutral stance in the presidential referendum. They continued to emphasise the democratic standards over economic factors, and in

¹⁹ The former chairman of TÜSİAD, Ömer Sabancı, argued in 2005 that “while discussing the presidential and parliamentary systems, it is absolutely necessary to take into account the electoral and political party systems. TÜSİAD embraces the opinion that the presidential system is not superior to the parliamentary system in terms of political stability, democracy and efficiency in administration. Except for the US, which has a very different historical conditions and has a federal structure, no successful example of this kind of system has been found in these respects”. Retrieved from https://bigpara.hurriyet.com.tr/haberler/genel-haberler/baskanlik-sistemi-turkiye-ye-uyamaz_ID508789/

2015, TÜSİAD's vice-chairman underlined that "TÜSİAD was not choosing between the parliamentary and presidential system. Rather, [TÜSİAD's] priority was securing rights, the rule of law and freedoms" (Yagci, 2021: 775). On the other hand, MÜSİAD was publicly supportive of both referendums. In 2010, MÜSİAD's chairman Ömer Vardan explained their support as follows (haber7com, 2010):

We will say "YES" to the constitutional amendment to achieve pluralist democracy, innovation, unity and solidarity in society, the expansion of fundamental rights and freedoms, the implementation of merit, fair competition, transparency and stability, independence of the judiciary, the rule of law, equality before the law and justice.²⁰

Moreover, Yagci (2021) underlined that MÜSİAD became a member of the "Turkey Constitution Platform", which consisted of some business associations, unions and non-governmental organizations to support the constitutional amendments. That further signalled that MÜSİAD has embraced the political actions of the state.

TÜSİAD and MÜSİAD represent different layers of businesses, which may vary by sector, as well as by the size structure of companies. The close relationship between AKP governments and MÜSİAD is more prominent for SMSEs in Turkey, and the AKP may be using this coordination network to influence these enterprises and gain mutual power. Although MÜSİAD members are mostly composed of SMSEs, the latter are the largest in numbers among the whole businesses that they composed 99.8% of all businesses in 2020 (TOBB, n.d.). In this, MÜSİAD has 13,000 members and represents around 60,000 businesses as of today (MÜSİAD, n.d.). It becomes an important factor at least in quantitative terms that "MÜSİAD's large SME [SMSE] base and its mutually dependent relationship with the government is a critical factor in its pro-AKP stance" and overall pro-growth alliance in Turkey, which is heavily supported by the Turkish Islamic Bourgeoisie (Yagci, 2021: 774; see also Ayhan & Sağiroğlu 2012).

On the other hand, TÜSİAD represents around 4,500 companies, which is much fewer than MÜSİAD (TÜSİAD, n.d.). However, the fact that the companies it represents are the leading large businesses maintains TÜSİAD's influence in the economy. Currently, TÜSİAD companies account for half of the non-public national

²⁰ The passage is originally in Turkish and was translated by the author.

income, 85% of foreign trade (excluding energy imports), provide half of the formal employment (excluding public sector and agriculture) and pay 80% of the corporate tax in Turkey (TÜSİAD, n.d.). This shows us that TÜSİAD has a very strong position in the private sector. The exclusion of TÜSİAD in the current coordination dynamics in Turkey or the exclusion of such a strong association in the state-business relations axis may have shortcomings in terms of the SPC framework. This suggests that the dynamics of coordination in Turkey may not actually be very strong, as strategic close relations are not established with companies that contribute significantly to Turkey's growth and foreign trade. In short, this may indicate that the AKP may not be pursuing a holistic and coherent growth strategy concerning these networks.

Besides the TÜSİAD-MÜSİAD axis, the AKP governments have also established relations with other business associations such as the Union of Chambers and Commodity Exchanges of Turkey (TOBB) and TUSKON. TOBB is one of the largest and oldest business organisations in Turkey with over 1,200,000 members from all types of sectors, mostly representing SMSEs (TOBB, n.d.). Although it was a “quasi-public business organisation” during the second half of the 1900s and has significant influence over the governments (Özel, 2015: 62), its current relations with the AKP governments are not fully clear. It can be argued that the AKP governments have worked closely with TOBB due to its broad sectoral coverage. For instance, Özel (2015: 137-138) states that TOBB's revenues were recorded as 206 million dollars in 2012, and TOBB “lends to the state whenever the state needs it” and “sponsors large-scale public projects”. However, in terms of favouritism, it is unclear from the literature whether there is a mutually established relationship of mutual interest, as in the case of MÜSİAD or, in contrast to TÜSİAD.

TUSKON was a business organisation known for its close ties to the Gülen movement and had an important role in Turkish state-business relations before the AKP-Gülen movement split in 2013-2014. According to Esen and Gumuscu (2018: 361), the “companies affiliated with TUSKON received 75% of public procurement contracts” between 2004 and 2011 and this indicated a “major wave of capital transfer from government critics to those loyal to the AKP”. This shows us that even before the TÜSİAD divergence and during the so-called relatively more liberal period, the government established more religious-based coordination mechanisms in

addition to MÜSİAD. After the failed coup attempt in 2016, most of the landed properties given to the Gülen-affiliated companies were taken back and TUSKON's activities were suspended (Esen & Gumuscu, 2018).

One of the most important developments in the second term of the AKP government was the new business groups that the AKP started to use for its mega projects or projects that require larger capital than SMSEs. Kimya (2019: 368) classifies those families, groups and individuals as “*de novo*” companies, corresponding to the companies “which benefitted from institutional ambiguities, informality, preferential treatments, and systemic favoritism”. These companies are more commonly known as Cengiz Holding, Limak Holding, Kalyon Holding, Kolin Holding and Makyol Group, etc. Although these were not established during the AKP years, they gained significant power during the second half of the AKP period. With the use of their close connections to the AKP governments through crony business relations, they were able to get lucrative contracts in the energy, pharmaceutical, construction, mining, tourist, and health industries as well as infrastructure projects that involve the construction of airports, ports, bridges and highways (Kimya, 2019; Yagci, 2021).

Kutlay (2020) conceptualises these close relations as a “personalised network of capital accumulation strategy”, meaning financial assurances from the government and subsidies for significant infrastructure projects carried out by a selected number of contractors who have personal connections with the government. Emek and Acar (2015) and Çeviker-Gürakar (2016) argue that favouritism plays a fundamental role in designing the tender process of the projects and *de novo* companies usually acquire the tenders. According to Yagci (2021), these companies acquired tenders such as İstanbul International Airport with 22 billion euros, Avrasya Tunnel and Marmaray with 6.3 billion dollars, Çanakkale 1914 Bridge with 10.5 billion dollars, Osmangazi Bridge and İstanbul-İzmir Highways with 16 billion dollars. While the examples can be extended, it is also the case that some of the tenders can take place behind closed doors. For instance, the recent public procurement projects on railway systems show that the projects were announced to the public 3 years after the tenders

were contracted. The contractors are from *de novo* companies, and all of the projects were valued at 48.8 billion liras in total (BirGün, 2022).²¹

The transition to the presidential system in Turkey in 2018 has been important in terms of reinforcing coordination mechanisms (the impact of the presidential system on the Turkish political economy will be discussed in section 4.3). Particularly when we look at *de novo* companies, the personalised relationships and favouritism that have been established may have made a significant contribution to the tendering processes, as well as to securing financing in more flexible ways. Bedirhanoglu (2022) argues that the transition to the presidential system has created a centralisation of the economy, and when we consider the totality of economic relations, this means that the steps to be taken will be easier to take. This, as we will see later in the chapter, allowed for irregular tenders and loans to be distributed much more easily.

The AKP governments' close relationships with *de novo* companies resemble the coordination mechanism of clientelism in China and India, where the oligopolistic groups close to the government often acquire large projects when the governments decide to implement projects through private actors (Nölke et al., 2020). Although it is open to the discussion whether Turkey has such oligopolistic companies that dominate the sectors in general (it is because there are also big conglomerates that are potential competitors in TÜSİAD but have no political favouritism), it can be argued that AKP governments have created an oligopolistic structure in tender mechanisms.

To summarise, we observe a multidimensional coordination structure during the AKP period. Especially in its second half, the AKP governments maintained close relations with MÜSİAD but had more fragile relations with TÜSİAD compared to its first half. In the second half of the AKP administration, the AKP governments maintained very close relations with certain business groups, which can be categorised as *de novo*, for its major projects. Especially the relations with *de novo* companies resemble the coordination mechanisms in successful SMEs. However, the

²¹ After the time I referred to the webpage, this news was imposed a ban from the government agencies. The news regarding the ban were also banned, but relevant information can be reached through https://twitter.com/ismailari_/status/1599349853703663616?lang=en

exclusion of the powerful companies and holdings affiliated with TÜSİAD from the coordination networks questions the uniformity and strength of Turkey's coordination mechanism since TÜSİAD's economic activities constitute a very important part of the Turkish economy.

4.2 Institutional Domains of Turkey's Political Economy

4.2.1 Corporate Governance

Strategies of capital accumulation are important to differentiate forms of capitalism. One of the ways to understand these strategies is to analyse the ownership patterns of the leading companies of the countries and this will show us the role of the state and the private sector in the economy. The extent to which governments are involved in corporate governance, and in particular the extent to which they manage the leading companies in the economy, is particularly important for SMEs.

The ownership structure of companies shows that the largest enterprises in Turkey are mostly controlled by the private sector and the private sector mostly plays a decision-making role in company management (see Table 3 and 4). Historically, SOEs were the primary production facilities in most of the main economic sectors such as energy, communications and manufacturing. However, the neoliberalisation movements in the 1980s and structural reforms after the 2001 crisis increased the economic activity of the private sector and privatisation of SOEs led to the transfer of ownership of the facilities to the private sector.

In Turkey, while there were 28 SOEs out of 2.3 million enterprises in 2010 (TURKSTAT, 2012; Undersecretariat of Treasury, 2011), they increased to 35 SOEs and 3.58 million enterprises in 2021 (TUKSTAT, 2022; Ministry of Treasury and Finance, 2022). There is a big difference in the number of public and private companies, but since most enterprises are SMSEs, the small number of SOEs does not necessarily mean that they have a small share of the economy. There is no systematic and continuous data on the share of SOEs in Turkey's economy, yet Altunbağ and Türkoğlu (2015) show that the share of SOEs in GNP decreased from 13.4% in 2002 to around 4% in 2006. There is one OECD dataset that shows the size and composition of SOEs, namely country SOE shares. The indicator calculates the

value of SOEs in a country with the comparison of the sales, assets and market capitalisation of the ten largest enterprises of a country and provides a value between 0 (where there is no SOE activity) and 100 (where all sales, assets, market capitalisation originate from SOEs). The study was conducted in 2013, and Turkey's country SOE share was found as 2.8%, whereas the shares of China, India, Brazil and South Africa were calculated at 95.9%, 58.9%, 49.9% and 2.8%, respectively (Turkish Public Enterprises Association, 2015: 30).

Table 3 and 4 shows the top twenty largest companies according to their turnover in Turkey in 2009²² and 2022, respectively, along with their ownership by the public or private companies. Since the first AKP government, due to structural reforms initiated by the IMF structural programme, high degrees of privatisation have led to a transfer of ownership from the state to private companies. During the 2000s, the privatisation of SOEs continued in succession. Sometimes SOEs were directly privatised, and sometimes they were privatised with phases of bargains. In other words, if one would compare the data between 2002 and 2009, it can be observed that the state control over the largest companies substantially declined and private ownership of those companies significantly increased. For instance, Türkiye Elektrik Dağıtım A.Ş. (TEDAŞ) was the largest electricity distributor and one of the largest companies during the late 1990s and the early 2000s. Although it was decided to be privatised in 2004, it took until 2013 for it to be fully privatised. Due to its organisational structure and twenty-one distribution centres all over Turkey, distribution centres were transferred to different private energy companies/holdings and all of them were geographically separated (Ertılav & Aktel, 2015).

Following the below tables, the sectoral involvement of companies can be seen in the third row, following the country origins of the companies in the second. While “Public” and “Private” basically correspond to whether companies are publicly or privately owned; “Limited State Control”, “High State Control” and “Majority State Owned” refer to the degree of the state control over 10, 30 and 50% of the company shares, respectively. All of them are directly or indirectly controlled, meaning that either state owns and manages them with its institutions or owns/manages them

²² Due to available data, I chose 2009 as the initial year of the analysis.

through partially owned institutions. To exemplify, Turkey Wealth Fund (TWF) owns 80.6% of shares of Borsa İstanbul and Borsa İstanbul had already 30.83% of shares of Enerji Piyasaları İşletme A.Ş. (EPIAŞ, 2021). In that way, TWF keeps an indirect ownership over EPIAŞ.



Table 3. Top 20 Largest Companies of Turkey, by Turnover, 2009

	Company	Origins of Owner	Activity	Public	Private	Limited State Control	High State Control	Majority State Owned
1	TÜPRAŞ	TR	Energy		x			
2	TEDAŞ	TR	Energy	x				x
3	BOTAŞ	TR	Energy	x				x
4	Petrol Ofisi	TR	Energy		x			
5	Türk Telekom	TR	Telecommunication		x	x		
6	Turkcell	TR	Telecommunication		x			
7	EÜAŞ	TR	Energy	x				x
8	Shell	GBR	Energy		x			
9	ENKA	TR	Construction		x			
10	Turkish Airlines	TR	Transportation	x			x	
11	Arçelik	TR	Electronics		x			
12	Migros	TR	Retail		x			
13	Ford	US	Automobiles		x			
14	BİM	TR	Retail		x			
15	Erdemir	TR	Metals & Steel		x			
16	TOFAŞ	TR	Automobiles		x			
17	Selçuk Ecza Deposu	TR	Pharmaceutical		x			
18	Vestel	TR	Electronics		x			
19	Anadolu Efes	TR	Beverages		x			
20	Aygaz	TR	Energy		x			

Source: Fortune Türkiye and yearly business reports of companies

Table 4. Top 20 Largest Companies of Turkey, by Turnover, 2022

	Company	Origins of Owner	Activity	Public	Private	Limited State Control	High State Control	Majority State Owned
1	EPIAŞ	TR	Energy	x			x (directly)	x (indirectly)
2	TÜPRAŞ	TR	Energy		x			
3	Turkish Airlines	TR	Transportation	x			x	
4	Petrol Ofisi	NL	Energy		x			
5	SOCAR STAR Refinery	AZR	Refinery- Petrochemicals		x			
6	Opet	TR	Energy		x			
7	SOCAR Turkey	AZR	Oil and Gas		x			
8	Ford	US	Automobiles		x			
9	Ahlatçı Kuyumculuk	TR	Jewellery		x			
10	BİM	TR	Retail		x			
11	Arçelik	TR	Electronics		x			
12	Erdemir	TR	Metals & Steel		x			
13	EÜAŞ	TR	Energy	x				x
14	Anadolu Efes	TR	Beverages		x			
15	Enerjisa	TR	Electricity		x			
16	Migros	TR	Retail		x			
17	Ahlatcı Metal Refinery	TR	Metals & Steel		x			
18	Nadir Metal Rafineri	TR	Gold & Metals					
19	Tofaş	ITA/TR	Automobiles		x			
20	ENKA	TR	Construction		x			

Source: Fortune Turkey and yearly business reports of companies.

Both Table 3 and Table 4 illustrate that the top twenty largest companies of Turkey are dominantly owned/managed by the private sector and, between 2009 and 2022, there are only minor differences in the changing ownership structures. In 2009, there were four state-owned companies among the twenty leading companies in the Turkish economy, and this number decreased to three in 2022. Only EÜAŞ and Turkish Airlines (THY) stayed on both lists as largely controlled by the state; whereas BOTAŞ had removed from the top 20 list in 2022, and TEDAŞ was transferred to several private companies thus completely privatised in 2013. We see EPIAŞ as the largest company in 2022, and it was established in 2015 aiming to make Turkey “a central country in energy trade” (EPIAŞ, n.d.). Since then, it was strategically established and controlled by the state. Finally, although not on the list of the largest countries in 2022, Turkcell was transferred to TWF in 2020 and TWF became the largest shareholder of the company.

In order to better understand the transfer of company ownership between the years in question, we need to look at two fundamental circumstances which caused changing ownership structures. First, as mentioned several times, privatisation movements hold great significance for observing private-sector dominance in both years. From the 1980s onwards, there has been a significant transformation process with an increasing fashion over the following three decades. Angin and Bedirhanoğlu (2013) observe that while the state recorded a total of 8,053 billion dollars from privatisations during the 1986-2002 period, there were 35,255 billion dollars of privatisation between 2003 and 2012. There were four companies privatised in Table 3, and except Petrol Ofisi (which was privatized in 2000), TÜPRAŞ (1st row), Türk Telekom (5th row) and Erdemir (15th row) were privatised in 2005 for the total of 13,460 billion dollars, which is nearly equal to one-third of the total privatisation amount between 2003 and 2012 (Angin & Bedirhanoğlu, 2013: 76).

Second, the establishment of the TWF is a crucial step for the state to acquire and transfer ownership of some businesses. TWF was established on August 26, 2016, after the failed coup attempt in July 2016, by the bill of law called ‘The Law Regarding the Amendment of Particular Laws on the Establishment of Turkey Wealth Fund’. According to the first article of the law (Official Gazette, 2016),

[t]he purpose of this law to establish and manage the Turkey Wealth Fund and sub-funds connected to [TWF] to contribute the diversity and depth of instruments in the capital markets, to bring the domestic public assets to the economy, to obtain external resources, to participate in strategic and large-scale investments).²³

In other words, the fund aims for “value creation programs, investment in key sectors and visionary projects to support the economic development in the country” (TWF, n.d.). TWF, as it is today, holds 29 companies from different seven sectors (such as finance, transportation, energy, mining, telecommunication, agriculture, etc.) by managing a total of 395.6 billion liras of equity. When it was established, the fund was managed by the Prime Ministry, but it was later transferred to the Office of Presidency by a presidential decree. After the failed coup attempt, the government announced a state of emergency, and by utilising that function, most of the public enterprises such as Halkbank, Ziraat Bankası, THY and Borsa İstanbul were transferred to the TWF.

Regarding the illustrations on the ownership patterns, two strategic companies were transferred to TWF. First, the government was already controlling THY (see tenth row in Table 3 and third row in Table 4) but by transferring its assets to TWF, the government obtained a higher degree of control over it as it holds 49.12% of the total assets. Other than that, Turkcell was the first private communication company established in 1994, then its all-private holdings were bought by TWF, and then TWF sold 24.8% of its shares to Russian company Letterone. From then on, TWF keeps holding 26.2% of Turkcell’s shares.

In 2022, Türk Telekom, a privatised telecommunication company, was transferred to TWF, and it was back under state control after 17 years. During these years, the private Türk Telekom could not repay its debts to various private banks. In 2018, the Turkish Competition Authority decided to transfer 55% of the company’s private assets to creditor banks (T24, 2022). Those banks, by acquiring these assets, established LLC Telecommunication company to manage Türk Telekom. Because most of the assets were held by LLC, it was treated as a private company. However, at the same time, the Ministry of Treasury and Finance and TWF also held 25 and

²³ The passage is originally in Turkish and was translated by the author.

5% of the shares, respectively (Türk Telekom, 2020: 66). This made Türk Telekom a private company but with a high state control on it in 2020. In March 2022, Türk Telekom's private shares held by LLC were transferred to TWF. Now, TWF holds 61.68% of all shares whereas the Ministry of Treasury and Finance keeps 25%, and only the remaining 13.32% of shares are accessible to the public (HaberTürk, 2022). This implies that Türk Telekom is now vastly owned and controlled by the state.

In an economy where the private sector dominates most of the sectors, the TWF can be seen as a tool for the growth strategy that the state wants to achieve by controlling some strategic companies. Yet, in terms of sovereign wealth funds (SWFs), the TWF's position is not clear. Successful SWFs around the world are funds that utilise export surpluses or natural resource revenues for macroeconomic objectives whereas the TWF has no balance of payments surplus or natural resource revenues, it will rely mainly on privatisation revenues and transfers from existing state-owned enterprises (Konukman & Şimşek, 2017: 1936-1937). This brings the question that what resources are used by the TWF and how the TWF will produce sustainable financial instruments to boost domestic companies. The TWF, according to Konukman and Şimşek (2017), can be used to create a new borrowing channel and thus finance mega projects. Moreover, it is also argued that the TWF aims to provide resources in the form of borrowing from domestic and, particularly, international financial markets, as well as to enable the country's resources and natural assets to enter the financial markets through privatisation and securitisation (Demir, 2021: 225). In contrast to the conventional implementation of SWFs, Milhench (2017) underlines that

the countries launching the new funds, burdened by large current account deficits or external debt, are using them as vehicles to get their economies moving in the face of a global slowdown and lower trade volumes. And rather than splashing cash abroad, the plan is to attract finance from overseas and invest it at home to stimulate growth.

The TWF is, therefore, a sovereign wealth fund that differs from SFWs in other countries, and it appears to be more of a financing mechanism. Moreover, although the AKP government has claimed that “the TWF would eventually transform itself into a structure which is capable of generating its own resources” through its

subsidiaries (İpek, 2019: 100), the current status of the TWF remains ambiguous in terms of internal capital accumulation.

In short, we see in this section that the major state-owned companies in Turkey were privatised during the first term of the AKP period. Today, most of the leading companies are controlled by the private sector and the AKP government controls only a few large companies through the TWF. Yet, the AKP governments' ownership of some strategic companies through the TWF does not seem to have a very positive impact on Turkey's corporate governance structure. In addition, if we consider that the SPC framework emphasises the industrial production strategy as an essential part of the SME model, we see that the state does not have control over important businesses in the industrial sector and industry is mostly managed through the private actors.

4.2.2 Finance for Investments

Finance for investments is utilised to understand the funding dynamics and finance structure of countries. In addition to analysing the role of the state in funding mechanisms, the role of public, private and international banks in the banking sector and forms of funding investment strategies are important for SMEs. Therefore, investigating the financing dynamics in Turkey and how these dynamics relate to the state will show us whether the AKP governments have had an important role in this domain.

First of all, we need to distinguish how the public and private sectors are financed in the Turkish economy. According to Eğılmez (2012), financing in Turkey is generated by several factors. First, for the public sectors, domestic financing is achieved through (1) taxes, (2) general revenues from the SOEs, rents and state apparatus (such as penalties as fines), (3) borrowing, and (4), and one-time revenues (such as the revenues from privatisations);²⁴ second, for the private sector, domestic financing

²⁴ By also implementing structural reforms given by the IMF agreement, privatisations of SOEs generated enormous revenues for the AKP governments. Zaifer's (2018) calculations show that the successive AKP governments generated total of 66,77 billion dollars between 2002-2015. However, those privatization movements were not only embraced to meet IMF conditions. The state and its relations with both İstanbul (mostly TÜSİAD) and Anatolian bourgeoisie brought an accumulation strategy through the devices of privatisation. While the privatisation of SOEs benefited the state to

is provided by (1) operating income, (2), non-operating income, (3) borrowing, (4) capital increase, and (5) selling assets.

In the scope of this investigation, borrowing mechanisms or the structure of the banking system holds one of the most significance in the SME debate. That said, with the structural changes in the banking sector from the first AKP government, I mostly focus on the public and private banking systems and their transformations through time. As it is previously mentioned, the institutional setups in the post-2001 crisis aimed to establish solid institutional frameworks in Turkey's economy. Accordingly, banking sector was determined as one of the main pillars of the setup and with the lead of the Banking Regulation and Supervision Agency (BRSA, founded in 1999 by the guidelines of the IMF and the WB), the "Banking Sector Restructuring Program" was formed to provide a regulatory framework to the banking system. Suggesting four main goals, this program aimed to (1) "restructure and rehabilitate the state banks financially, with the ultimate goal of privatizing them", (2) "resolve the situation of the banks under the administration of the SDIF²⁵ through sale, merger, liquidation or transfer", (3) strengthen private banks and (4) "strengthen the regulatory and supervisory framework" (Akin, Aysan, & Yildiran, 2008: 15-16; see also Steinherr, Tukel, & Ucer, 2004: 5).

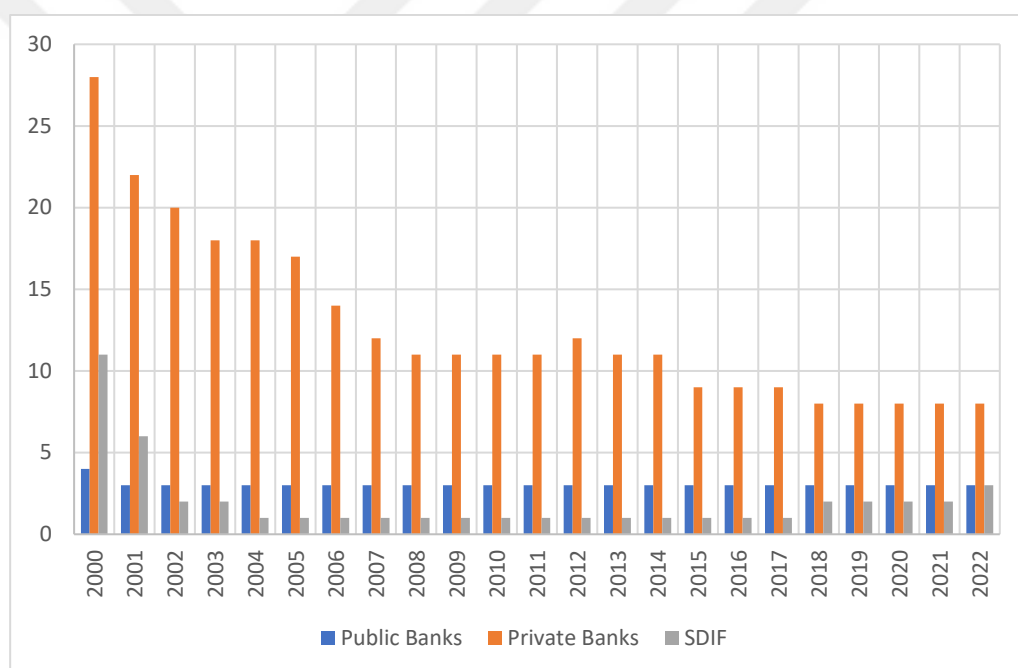
Akin et al. (2008) prefer to separate the Turkish banking sector into two periods. Starting right after the 2001 crisis, the first period is the *recovery and stabilisation period* between 2001 and 2004, when the Turkish banking system recovered from the devastating effects of the crisis and restructured the entire banking system. From 2004 onwards, the *growth period* is observed by increasing the efficiency and profitability of banks. In the first period, according to implementations by the BRSA, the first and fourth aims (given above) were successfully reached, except for the privatisation of state banks (Steinherr, Tukel, & Ucer, 2004: 5). While 21.9 billion

generate mass amount of revenues in one-time, it also helped state and certain business groups to "respond to the new imperatives of international competitiveness -mostly at the expense of labor and despite organized labor's resistance" (Zaifer, 2018: 819).

²⁵ The Saving Deposit Insurance Fund was established in 1983 as affiliated with Central Bank and is a regulatory system for the deposit accounts in the banking system. SDIF basically guarantees the protection of deposit accounts as insuring the saving deposits. During the 1990s' economic crises, SDIF took control of 20 insolvent banks (Akin, Aysan, & Yildiran, 2008: 16). For more information about the SDIF, please look <https://www.tmsf.org.tr/en/Tmsf/Info/tarihce.en>.

dollars was spent on duty losses and recapitalisation to restructure state banks, the total of 53.2 billion dollars was used to restructure and recapitalise public and private banks and the banks controlled by SDIF (Akin, Aysan & Yildiran, 2008: 19). The first period, furthermore, resulted in merger and acquisitions of banks, which resulted in declining number of banks and branches. While there was a total of 85 banks in 2000, it declined to 55 and 50 in 2003 and 2006, respectively (Akin, Aysan, & Yildiran, 2008: 48). Privatisation of state banks was essential to the program; nevertheless, despite the objective, it was not achieved. There were only four state banks in 2000, and from 2001, three state banks continued to exist (see Figure 5). These banks are Ziraat Bankası, Halkbank and VakıfBank.

Figure 5. Number of Turkish Banks by Ownership

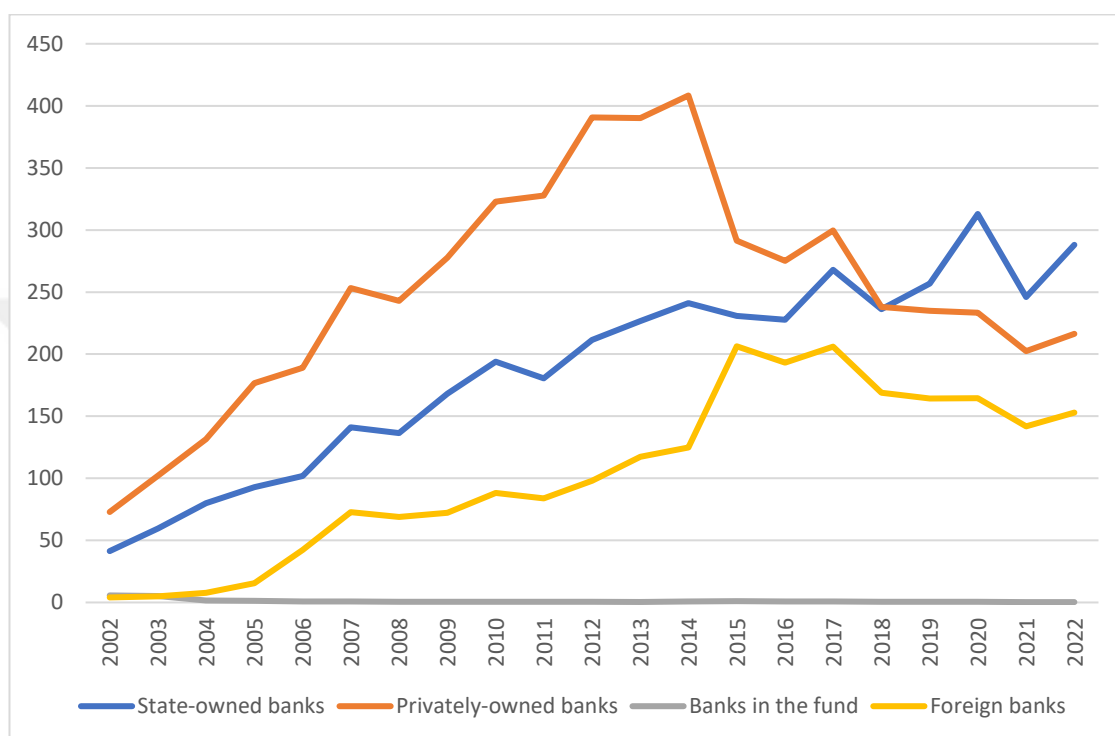


Source: Banks Association of Turkey

To understand the size and financing power of the banks according to the ownership structures, we can compare the total assets held by deposit banks in Turkey. Figure 6 illustrates the total amount of assets held by the deposit banks according to their ownership structures. Accordingly, we see an increasing trend in the total assets in each type of bank (except the banks in the fund) until 2014. However, while the total assets of private banks started to decrease from 2015 and reflected a downward trend, the total assets of public banks are continuing to increase during the 2002-2022 period. The most important output from Figure 6 is that the total assets of state-owned banks

surpassed the privately-owned banks in 2019, and on average, state-owned banks recorded 54 billion dollars of higher assets. This is an important observation that three state banks have achieved higher financing resources than eight private banks in the past four years.

Figure 6. Total Assets of Deposit Banks in Turkey (Billion US Dollars)



Source: Banks Association of Turkey

Not only has the total amount of assets of the public banks surpassed the assets of private banks in the last four years, but also public banks have recently ranked at the top among all banks in Turkey. The below table summarises the top 5 banks in Turkey's economy in 2002 and 2022. These figures show that public banks have gained stronger financing sources during the AKP governments, meaning that the state has gained a decisive and substantial role in borrowing mechanisms. Marois and Gungen (2013) assert that state-owned banks have been at the forefront of national development initiatives and the construction of public infrastructure, gathering citizens' savings and utilising them for domestic loans to finance government projects. It forms the basis for the growth and development of the economy through designed strategic plans. Second, during times of economic crisis, the government can employ public banks to maintain financial stability. For instance, the Turkish

government utilised three public banks to supply liquidity to the financial system and avert a potential collapse during the 2008 financial crisis, where all three public banks increased their loan portfolios during the height of the crisis (Marois & Güngen, 2013). The ownership mechanism in public banks resembles the situation in the Chinese banking system, where the “Big 5”²⁶ banks raise capital investments through loans and credits. Nölke et al. (2020) find that the Big 5, other commercial banks, and city banks account for about 85% of the external loans given to very large businesses while local SOEs have more access to provincial and city banks than national SOEs, which often have access to loans from the Big 5.

Table 5. Turkish Banks Ranked by Total Assets

Years	1st	2nd	3rd	4th	5th
2022	Ziraat Bankası (123.630)	VakıfBank (89.904)	İşbank (75.318)	Halkbank (74.453)	Garanti (61.619)
2002	Ziraat Bankası (22.985)	Akbank (14.912)	İşbank (14.473)	Garanti (11.931)	YapıKredi (11.481)

Source: Banks Association of Turkey

Parentheses show their volume of assets.

To understand domestic financing mechanisms, it is also important to look at the scale of foreign banks in Turkey’s economy. In 2002, there were only 5 banks established with foreign capital and 14 branches of international banks in Turkey, while in 2022 there were 16 banks with foreign capital and 9 branches of international banks (Bank Association of Turkey, n.d.a). However, it is interesting to observe that while international banks are closing their branches day by day, we observe an increase in banks established with foreign capital in Turkey. Within this increase, although there are newly established foreign banks, there is also the acquisition of Turkish banks such as Denizbank, Finansbank and Garanti by foreign companies. Figure 6 also shows that foreign banks have gained a non-negligible share of assets in the last two decades, as it increased from 3% in 2002 to 23% of total assets in 2022. While this may indicate the success of Turkey’s economy in attracting foreign investors, it may also indicate that it became a larger open economy and is more dependent on foreign capital.

²⁶ It represents the five state banks in China: Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank and Bank of Communications.

In terms of domestic investments in industry and finance, Turkey has also specialised banks known as development and investments banks (DIBs), which are common in developing countries. Along with twelve DIBs established with private capital and four foreign DIBs in 2022, there are three public DIBs active since 2002. These banks were established to finance specific sectors, such as İlbank financing local governments and infrastructure projects, Türk Eximbank financing export sectors, or Türkiye Kalkınma ve Yatırım Banası financing industrial enterprises. Although we do not have information on how much credit these banks provided to which companies, these banks ranked between 10th and 16th among all banks in terms of asset size in 2022 (Banks Association of Turkey, n.d.c).

In the previous section, while talking about the TWF, I showed the point that the TWF can be used as a financing tool. The TWF owns and controls 100%, 91.5% and 74.8% of the funds of Ziraat Bankası, Halkbank and VakıfBank, respectively. Given that these three public banks are among the four largest banks in Turkey in terms of total assets (see Table 5), the TWF enables a strong financing mechanism which could potentially be utilised for industrial development and investments in key sectors and mega projects. This situation creates an advantage for the government that it becomes an authority in distributing debt and other financial instruments in its projects. Although official datasets and the literature are missing relevant statistics, we observe that *de novo* companies have been largely financed by public banks under the TWF.

To exemplify, in 2015, a loan agreement was signed for İstanbul's third airport, namely, İstanbul Airport. Its ownership structure is a joint venture group, meaning that more than one company is included as a responsible party for the management. The tender was signed in May 2013 with Istanbul Grand Airport (İGA) contractor company, which is composed of companies Cengiz Holding, Mapa Holding, Limak Holding, Kolin Holding and Kalyon Holding. The tender was acquired with an offer of 22.152 billion euros, which is one of the highest-value tenders in Turkish history. For the first step of construction, there was a total of 4.6 billion euros of loan agreement with a total of six banks, three of them being public and the other three being private banks. If we look at the loan volumes provided by them, we see that

public banks were responsible for 3.5 billion euros, where Ziraat Bankası, Halk Bankası and Vakıflar Bankası provided 1.5, 1 and 1 billion euros, respectively (Limak, 2015). Moreover, the state also provides incentives for İGA that it recently refinanced its 5.8 billion euros debt as a result of negotiations with existing creditors; and while the maturity of the loan was extended by 2 years, interest rates were reduced (Cumhuriyet, 2021).

In short, we see that in the period following the 2001 crisis, a new banking structure was established in Turkey and the Turkish banking system became more open to foreign markets during the AKP period. On the other hand, the three state-owned banks in Turkey have grown larger over the years and started to dominate the banking sector in terms of total assets. Unfortunately, the available data do not provide detailed information on investments and credit volumes, which makes it difficult to understand the financing dynamics in Turkey. However, with the inclusion of the three Turkish state-owned banks in the TWF and the disclosure of the details of some of the projects, it can be implied that the industrial development and financing of mega projects in Turkey can be through the TWF.

4.2.3 Industrial Relations

One of the most important aspects of the SPC framework is to understand how labour conditions in countries are regulated and managed. The condition of labour is often of importance in a growth strategy in terms of the cost and educational status of the labour force. Here I will investigate what labour policies are pursued by governments from a macro perspective. This will show us the state of industrial relations in Turkey during the AKP rule.

In response to a long-standing call from capitalist circles for the labour market to become ‘flexible’ and ‘competitive’ to boost the Turkish economy’s ability to compete on a global scale (Erol, 2019), AKP introduced a new Labour Law (Law No. 4857) in 2003 where it draws the government’s first step regarding industrial relations. This law is often discussed as one of the steps toward the transition to a full neoliberal paradigm, such that the bill has been passed to “regulate/deregulate individual labour law in line with the neoliberal conceptualization of capital-labour

relations, in which labour is seen as an ordinary commodity in terms of production costs” (Özdemir & Yücesan-Özdemir, 2006: 317). The modifications in the law addressed a wide range of issues related to employer-worker relations, including the technical division of labour at work and capital-labour relations in the labour markets. The new provisions, which are in line with existing discourses on ‘flexibility of labour’ and ‘human resource management’, include a change in workers’ obligations, subsequent changes in the key conceptualisations of individual labour law, a change in the regulatory scope of labour contracts, the introduction of new types of labour contracts, and the introduction of new working conditions (Özdemir & Yücesan-Özdemir, 2006).

The new law has strengthened the employers’ power in the workplace and overall employer-worker relations in favour of employers. It has abolished pro-labour practices that were stabilised in the previous periods, and flexible and precarious working conditions have been imposed on the workers. Job security has been also restricted compared to the previous periods that it can be elaborated as follows (Çelik, 2015: 623-624):

The JDP [AKP] has used the act to restrict provisions of job security that were established by the former coalition government. Job security now applies only to enterprises employing more than 30 or more workers, up from an earlier period when it applied to enterprises employing 10 workers. In this way, more than half of the workers in Turkey have been excluded from job security. And employees who are dismissed without justification, as determined by jurisdiction, can only be paid 4-8 months of wage compensation, instead of former 6-12 months of compensation.

Regarding legislative developments concerning industrial relations in Turkey, the above law concerns the individual labour law, i.e., it concerns workers’ rights at work through the work contract. On the other hand, amendments to collective labour law were made in 2012, which concerns the tripartite relationship between workers, employers and trade unions. In other words, the “anti-democratic and authoritarian 1980 coup legislation” of collective labour law was seemingly²⁷ changed by the AKP

²⁷ From a more critical perspective, this law is often criticised as a continuation of the collective labour policies of the labour-repressive coup regime, against the image that the AKP government proposed it as a “progressive step”. More clearly, the law merely maintained the authoritarian approach towards unions that had been in place since 1980 and did not introduce any significant alterations to the way labour relations functioned. This law was favourably received by capitalist circles (Çelik, 2015).

government in 2012 by the Law on Trade Unions and Collective Labour Agreement (Erol, 2019). Although this law introduced some improvements in collective labour such as the necessity for a notary act to join a union was eliminated, the minimum percentage of industry branch representation for collective bargaining competence was reduced from 10 to 3%, the age requirement to become a union member was lowered from 16 to 15, and the procedures for forming trade unions and their internal operations were made simpler; it has brought some detrimental conditions for collective labour (Çelik, 2016; Özveri, 2012). To exemplify some of them, only industry-based trade unions are allowed at the level of specific industrial branches; the establishment of trade union confederations as umbrella organizations is permitted; several groups, such as students, judges, security guards, pensioners, and the unemployed, are prohibited from establishing and joining trade unions; shop stewards working in small companies with fewer than 30 employees are not provided with protection against discrimination related to their union activities; and only strikes resulting from a dispute during collective bargaining are allowed, while any strikes organized for political, economic, social, sympathy, or solidarity reasons are outlawed (workers participating in such prohibited strikes started to face penalties) (Özkiziltan, 2019).

Hypothetically, AKP could have used the new law to improve collective labour standards as well as compliance with international labour standards, given the heavy restrictions of the collective labour law of 1983 on collective bargaining, rights to strike and the right to establish and join trade unions. Nevertheless, as the new conditions exemplified above, Çelik (2013) argues that policymakers were heavily influenced by national business groups, and the concerns raised by national and international labour rights advocates were largely disregarded. As a matter of fact, the law “maintains the main authoritarian-neoliberal characteristics of its predecessors” (Özkiziltan, 2019: 224), and it was shaped by the influence of big business organisations such as the TOBB and TUSKON (Çelik, 2015).

Followingly, we observe a large number of bans on strikes or strike postponement during the AKP governments and it contradicts the international standards provided by the International Labour Organisation (ILO). With the recurring repressive practices against collective labour such as “judicial harassment of trade unions,

arbitrary detention of trade unionists, recourse to police brutality and violence against peaceful demonstrators relating to work or wider socio-economic issues, and the opening of investigations into those engaging in peaceful union activities” (Özkiziltan, 2019: 228), we observe that the strike rates in Turkey significantly declined during the AKP period (see Table 6).

Table 6. Strike Severity Rate Between 1985-2010

Years	Number of employees (in thousands)	Days off from work during the strike (in thousands)	Strike severity rate
1985	2614	194	74
1990	3445	3466	1006
1995	4410	4838	1097
2000	5254	368	70
2005	6919	176	25
2010	10031	37	4

Source: Çelik’s (2015) calculations based on the Ministry of Labour and Social Security data

According to the new collective labour law, the postponed strikes cannot be resumed after the 60-day deferral period. If the parties fail to reach an agreement during the deferral period, the dispute is resolved by the Supreme Arbitration Board. Therefore, a postponement of the strike *de facto* means a ban on the strike.

Table 7. Various Banned Strikes during the AKP Governments

Year	Strike	Number of Workers to Attend
2003	Petlas	350
2003	Şişecam	5000
2004	Şişecam	5000
2004	Pirelli, Good Year, Brisa	5000
2005	Erdemir Mining	400
2014	Şişecam	5800
2014	Çayırhan and Çöllolar	1500
2015	MESS*	15000
2017	Asil Çelik	600

2017	EMİS*	2200
2017	Akbank	14000
2017	Şişecam	6500
2017	Mafer	500
2018	MESS*	130000
2018	Soda Kromsan/Şişecam	890
2019	İZBAN	342
2020	Soda Sanayii AŞ	557
2022	Bekaert	400
2022	Bekaert	560
2023	Schneider Energy	350

Source: Evrensel (2022)

*The strikes for collective bargaining

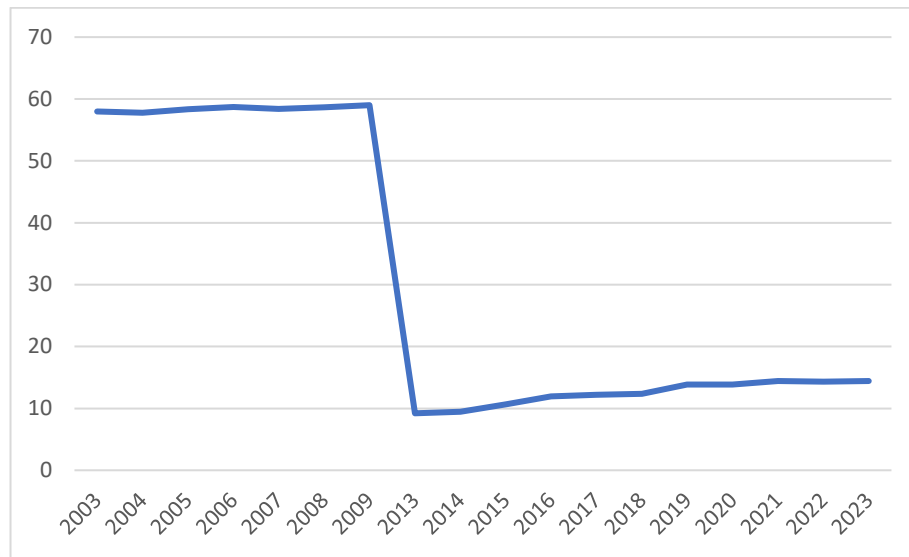
One important observation in Table 7 is that all strikes in 2017 and 2018 were banned by the state of emergency declared after the coup attempt in 2016, and with the reason of “national security”. However, Erdoğan admitted that they utilised the state of emergency for the benefit of business groups in Turkey. In the Consultation Meeting with International Investors a year after the coup attempt, he asserted the following (Bianet, 2017):

I ask you, do you have any issues or disruptions in the business world? When we took office, 15 years ago, Turkey was under a state of emergency, and all factories were constantly under the threat of strikes. Remember those days, but is there anything like that now? On the contrary, now when there is a threat of a strike, we intervene immediately taking advantage of the state of emergency. We say, “No, we do not allow a strike here because it would disrupt our business world”. That is why we utilise the state of emergency.²⁸

Following the changes in the collective labour law, Figure 7 shows a striking decline in the unionisation rate of workers (or trade union density). Although different sources may indicate different rates of trade union density in Turkey (e.g., OECD); the official data from the Ministry of Labour and Social Security indicate that while more than half of the worker population was already in trade unions by 2009, this rate declined to 9.21% after the introduction of the new collective labour law. From 2013, unionisation records a slightly increasing trend toward 15% until today.

²⁸ The passage is originally in Turkish and was translated by the author.

Figure 7. Unionisation Rate of Workers in Turkey (%)

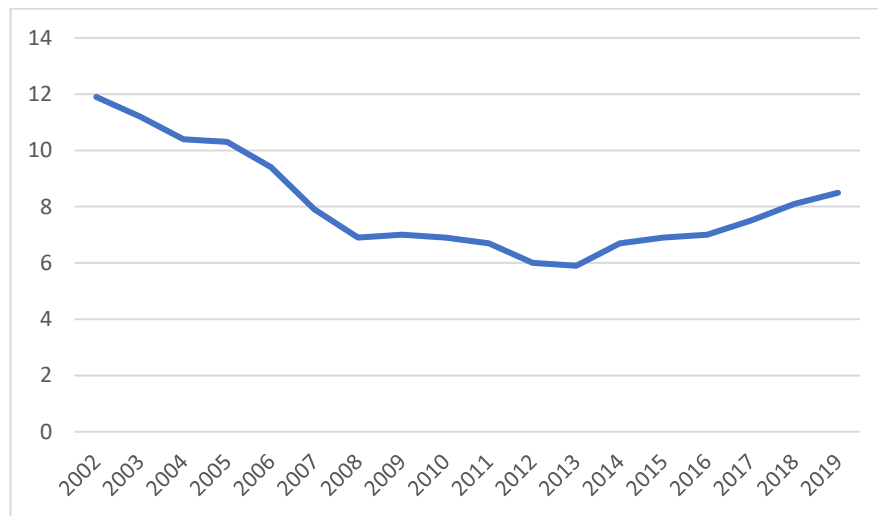


Source: Ministry of Labour and Social Security

No available data between 2010 and 2012

Furthermore, we observe a general decline in collective bargaining coverage (see Figure 8), which is a rate that indicates the proportion of workers whose wages and/or employment conditions are established through one or multiple collective agreements, expressed as a percentage of the total number of workers. There are declining and increasing trends before and after 2013, where the new law could lead to some improvements in the conditions. Nevertheless, the increasing trend in coverage is still behind the early 2000s figures (11.9 and 8.5% in 2002 and 2019, respectively).

Figure 8. Collective Bargaining Coverage (%)



Source: OECD

Last but not least for collective labour, AKP established a new relationship mechanism with trade unions to influence collective labour conditions. If setting aside the public sector, there are three major union confederations in Turkey: the Confederation of Turkish Trade Unions (TÜRK-İŞ),²⁹ the Confederation of Revolutionary Trade Unions of Turkey (DİSK)³⁰ and the Confederation of Workers' Unions of Turkey (HAK-İŞ).³¹ Özkiziltan (2019) historically argues that TÜRK-İŞ was the most influential confederation, as the state was sustaining clientelist relationships with it. This is reasonable since it was the only confederation until 1967 when the establishment of DİSK ended the monopoly of TÜRK-İŞ. Nevertheless, although DİSK's left-wing and class-based inclination provided close relationships with left-wing parties in the parliament, TÜRK-İŞ was still dominating the clientelist relationship with the state.

When the first AKP government was elected, they ended the lasting relationship of previous governments with TÜRK-İŞ and started to build closer ties with the Islamist and conservative confederation of HAK-İŞ. This is an important step to establish strong state-labour relations to influence the working class as well, as AKP wanted inclusivity for the groups that have Islamic tendencies. Figure 9 shows the proportion

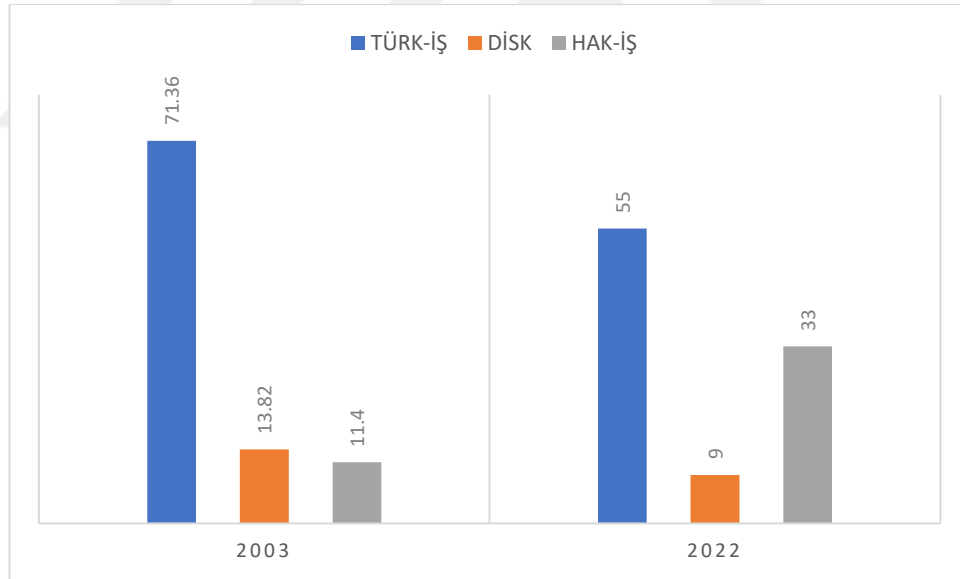
²⁹ TÜRK-İŞ is the oldest trade union confederation that was founded in 1952. It has become one of the largest and was the only confederation until DİSK was established.

³⁰ DİSK was established in 1967 as a result of the merger of several left-wing trade unions with a shared vision of advocating for workers' rights and social justice.

³¹ HAK-İŞ was founded in 1976 and is known for its conservative and nationalist orientation.

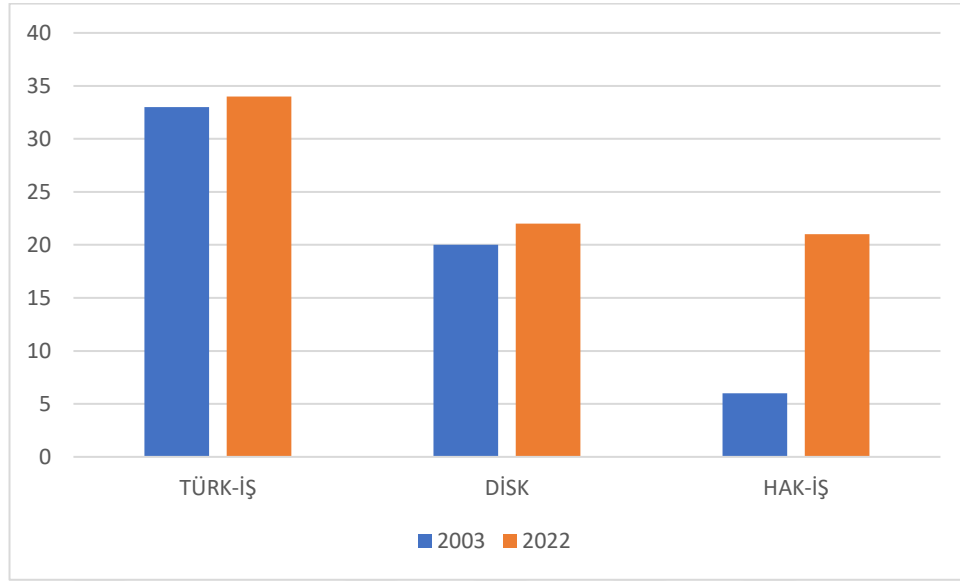
of unionised workers according to the confederations in 2003 and 2022. We see that there is a significant increase in the membership of HAK-İŞ, i.e., the proportion of workers increased from 11.4 to 33%, while membership to other trade unions under TÜRK-İŞ and DİSK has declined. As another indicator that HAK-İŞ increased its power to dominate unionisation in sectors, it increased its member trade unions from 6 to 21 during the AKP rule (see Figure 10). Several researchers argue that the trade unions associated with HAK-İŞ, along with their management, have adopted a conciliatory stance aimed at promoting and maintaining a peaceful working environment (Çelik, 2013; Erdiñ, 2014) and, in return, the AKP governments provided advantages to HAK-İŞ. To exemplify, “as it has been on various occasions reported, the party bent the rules to ease the process of HAK-İŞ-affiliated unions gaining collective bargaining competence in the workplaces” (Özkiziltan, 2019: 227).

Figure 9. Proportion of Unionised Workers According to Trade Union Confederations (%)



Source: Ministry of Labour and Social Security

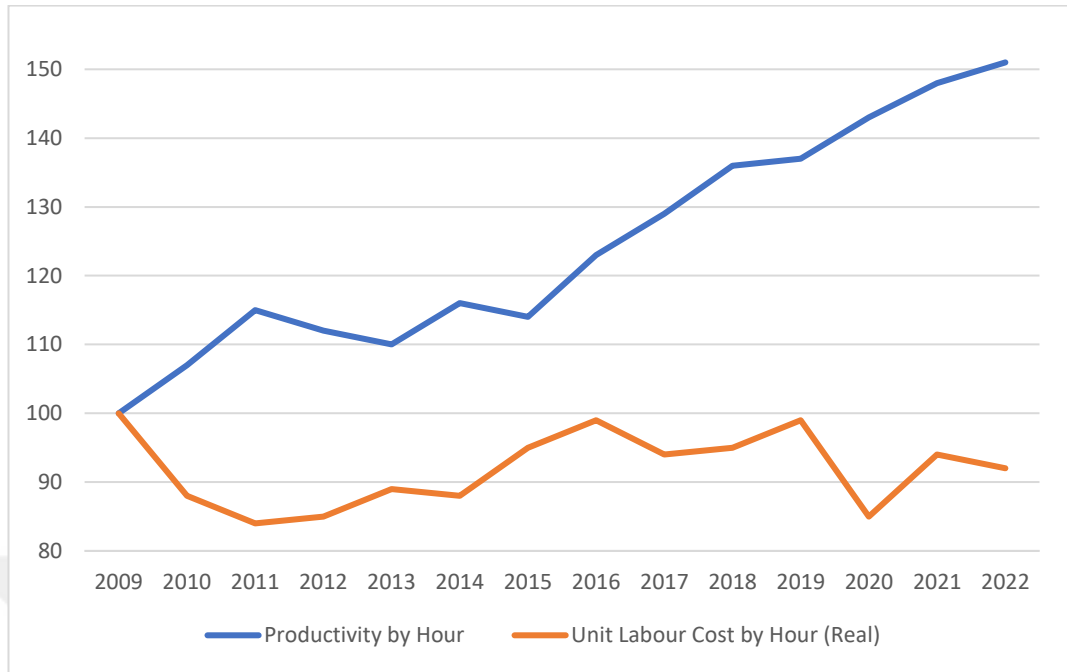
Figure 10. Affiliated Number of Trade Unions under Confederations



Source: Websites of Trade Union Confederations

Other than the individual and collective labour laws, workers have been experiencing decreases in real wages in recent years. While inflationary pressures play a role in the decreasing figures, it is also the case that the government follows low-cost labour policies to compete in international markets. It is not the case that labour productivity over the years is also declining, as there has been a negative relationship between labour productivity and real wages.

Figure 11. The Total Industrial Productivity and Real Unit Wage Index



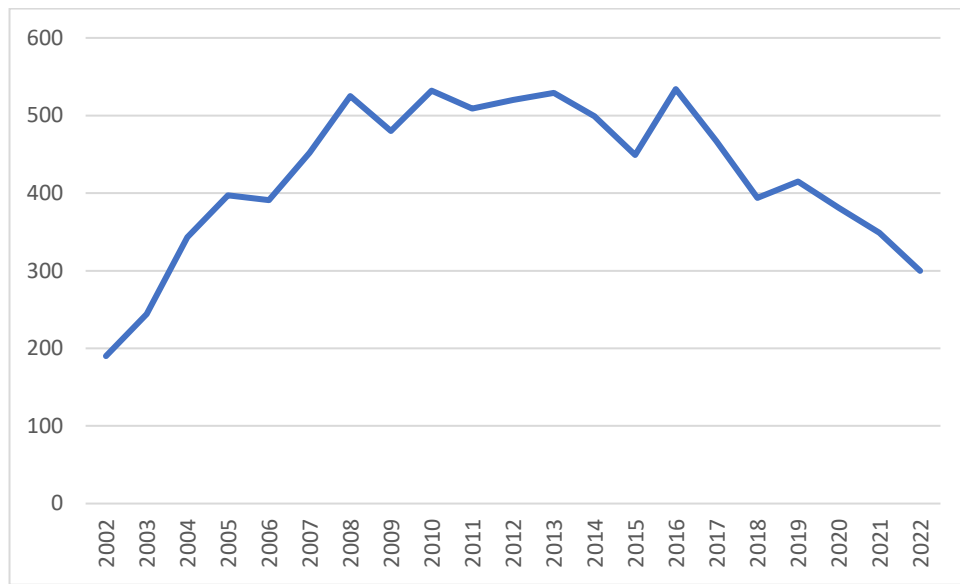
Source: DİSK-AR Analysis

Values are taken by the first quarter of each year.

Figure 11 illustrates the index of productivity of industrial workers and their labour costs by hour they worked between 2009 and 2022. According to the base point of 100, we see a sharp increase in productivity while labour cost (wages) is declining over time, meaning that wages are not adjusted to each productivity increase in the sector.

While minimum wage and average wage are increasing in nominal terms, in terms of real wages, we observe substantial decreases in recent years. To avoid high inflationary pressures and the depreciation of the Turkish lira on wages, Figure 12 illustrates the real minimum wage in US dollars.

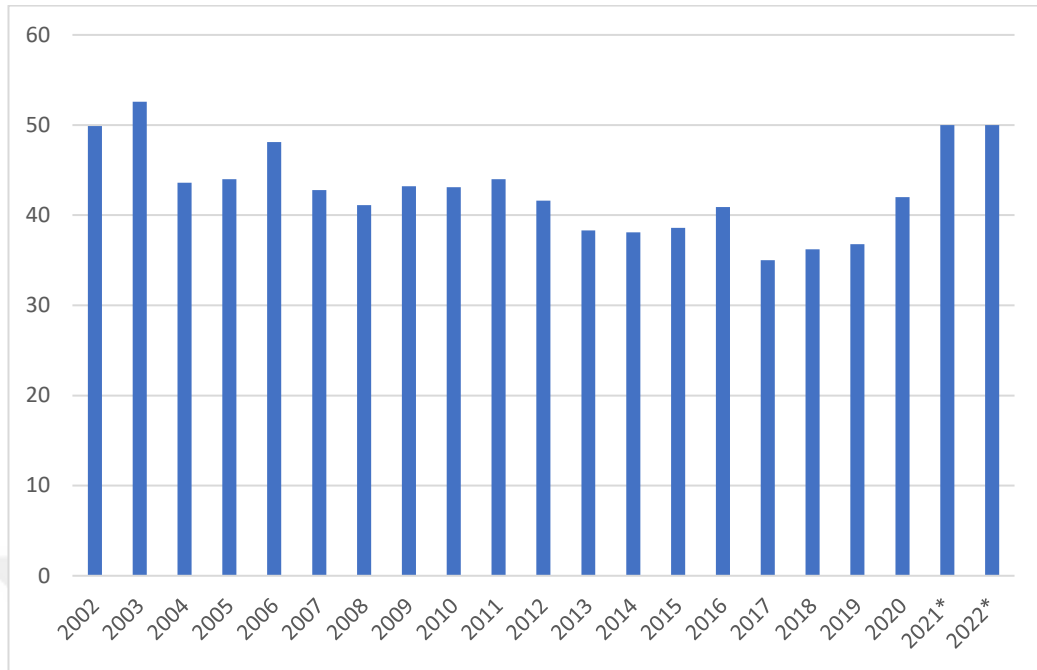
Figure 12. Real Minimum Wage between 2002 and 2022 (US Dollars)



Source: Ministry of Labour and Social Security, Central Bank of the Republic of Turkey

As the figure shows, real minimum wages reflect a decreasing trend starting from 2013, and it returned to below 2004 values as it became 300 US dollars in 2022. It is an important indicator that half of the working population is on the minimum wage scale (see Figure 13). Even though the 2010s show an improvement as the proportion of minimum wage workers decreased below 40%, the share has been increasing since 2017 and moved above 40% levels in 2020.

Figure 13. Proportion of Workers with Minimum Wage (%)

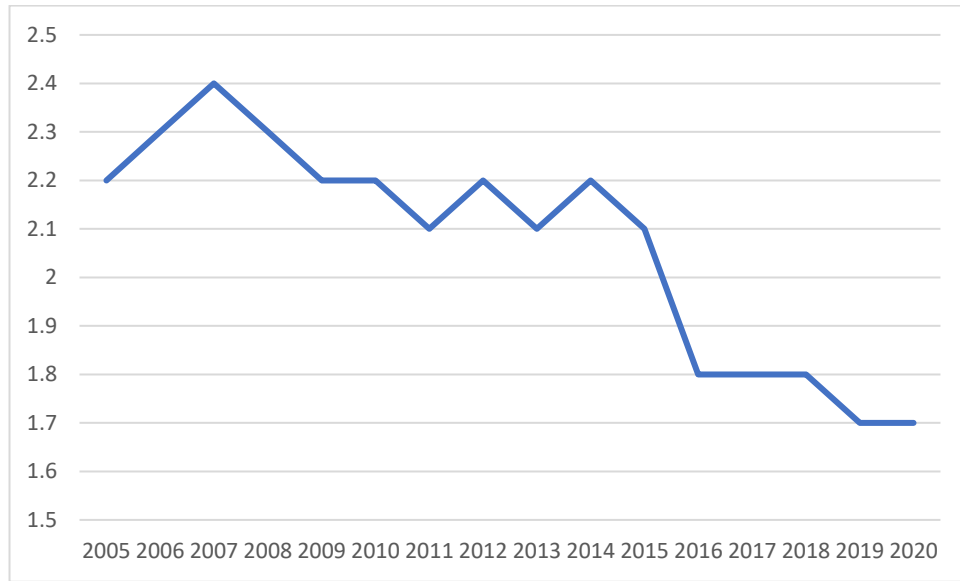


Source: Social Security Agency, DİSK-AR

*2021 and 2022 values are not published yet. According to DİSK-AR, the minimum wage proportion of workers is expected to be in the 50% band in both years.

It is also the case that the average wage in Turkey has been converging to the minimum wage over the years. As the previous figure shows, there is a value loss in minimum wages and the proportion of minimum wage workers composes almost half of the population. However, when we examine the workers with higher wages than the minimum wage, there is also value loss that their wages have been converging to the minimum wage, especially in recent years. Figure 14 shows the ratio that how much the average wage in Turkey is higher than the minimum wage, and from 2014, we observe substantial declines in the ratio. There is no data for 2021 and 2022, however, the ratio is expected to continue to decline since the minimum wage has been increased radically while other wages have not adjusted accordingly.

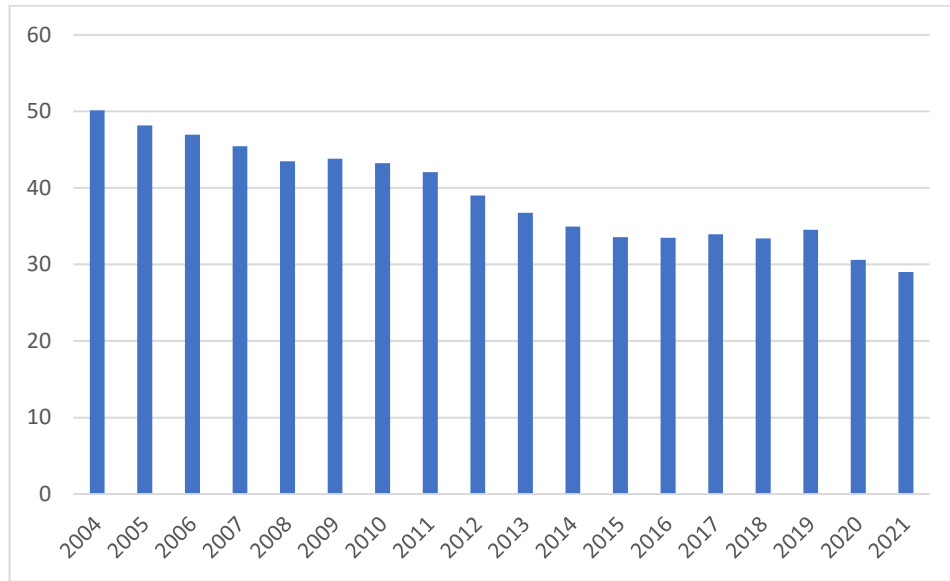
Figure 14. Ratio of Average Wage to Minimum Wage



Source: DİSK-AR (2023)

Furthermore, one of the important layers of the labour market in Turkey is informal labour, which is an important aspect of precarious work. Although the reasons for informal labour can be attributed to several reasons, the main ones are child labour, the presence of foreign workers, internal migration, and business owners increasing their income by employing uninsured workers (Kaleli & Karaca, 2019). The rate of informal labour in Turkey is undeniably high but has been decreasing over the years. The figure below shows that it followed a trend between 40% and 56% between 2000 and 2011, and then dropped below 40% after 2012, reaching 29% in 2021.

Figure 15. Share of Informal Labour in Turkey (%)



Source: Social Security Agency

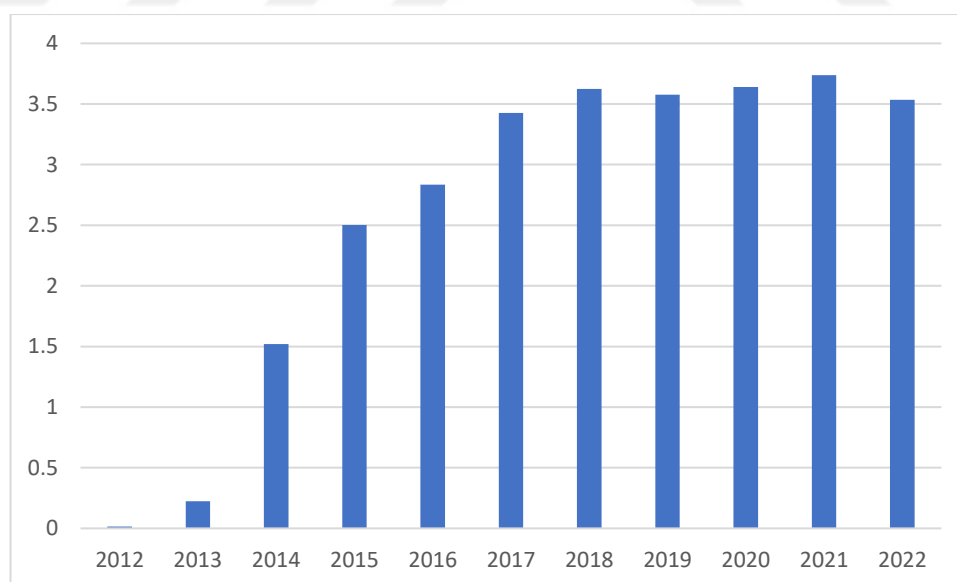
However, the agricultural sector has a more important place in this informal employment data. In the non-agricultural sectors (industry, services and construction), it is seen that the share of informal labour is closer to the total share of informal labour rate in the figure given above and it mostly recorded lower levels than the total. For example, while the non-agricultural sector had a share of 31.7% in 2002, this dropped to 17.5% in 2021, but the informal unemployment in the agricultural sector was 90.1% and 84.5% respectively (Us & Akbıyık, 2023: 28; Social Security Agency, n.d.). Although we have seen a decline in the informal labour rate since 2002, it is a very limited decline and the lowest rate of informality in agriculture between 2002 and 2021 was recorded in 2015 at 81.1%. In other words, if we consider the last two decades, the informal labour rate in agriculture has never been below 80%. Moreover, Us and Akbıyık (2023) state that women are exposed to informality in agriculture more than men, and that about half of the total informality in agriculture consists of unpaid family labour.

We observe that informality is at a very critical level in the agricultural sector, but this should not overshadow the informality rates in non-agricultural sectors. The non-agricultural informal labour rate of 17.5% in 2021 shows us that in other sectors, almost one out of every six workers is not included in the insurance system and works precariously. Moreover, in non-agricultural sectors, the sector with the highest

level of informal labour is construction. Although we do not have access to earlier data, in 2014 the industry and service sectors had an informal labour rate in the 20-21% bands, while this was 36.6% in construction; and in 2021 the industry and service sectors were around 14-17%, while the construction sector had an informality rate of 32% (Social Security Agency, n.d.). Informal labour, in other words, has an undeniable impact on the Turkish economy and production. This shows that more labour-intensive sectors include more precarious jobs in Turkey, where a substantial number of workers work with no job security.

Another aspect of Turkey's industrial relations is the role played by migrant labour. In 2011, after the outbreak of the civil war in Syria, the first large waves of migration started to arrive as a result of the 'open door policy' implemented by the AKP government. According to the official data provided by the Presidency of Migration Management, Turkey has around 3,5 million Syrian refugees in 2022 (see Figure 26). Moreover, according to Address Based Population Registration System, 1.8 million foreigners, who are mostly Iraqis, Afghans and Russians, live in Turkey as of 2022.

Figure 16. Number of Syrian Refugees in Turkey (Million)



Source: Presidency of Migration Management of the Ministry of Interior

The number of foreigners, which exceeds 5 million according to official statistics, has created new employment conditions. According to the Ministry of Labour and Social Security (2021), 168,103 foreigners have been provided work permits, with 91

thousand being Syrians, 7,750 being Turkmen and 6,251 being Russians. However, the Ministry of Work and Social Security's statistics are insufficient to draw an accurate conclusion on the foreign/refugee labour force in Turkey. This is because many Syrian asylum seekers, in particular, hold informal (unregistered) employment. According to Tanrikulu (2021), by 2020, the number of Syrians employed in the informal economy is estimated to be between 750,000-950,000. Considering that the informal economy accounts for 31% of Turkey's labour market (Tanrikulu, 2021), the presence of asylum seekers creates a significant cost "advantage" for industrialists and exporters operating in labour-intensive sectors.

I highlighted the term advantage due to the argument that foreign workers who are employed with low wages are discussed to be very "beneficial" for the Turkish economy. In other words, Esin (2023) explains that

the source of cheap labor created by Syrian refugees has started to create a huge cost advantage for medium-sized enterprises, especially those operating in labor-intensive sectors. MÜSİAD, the umbrella organization of SMEs, has also expressed its support for the government's open door policy at every opportunity. Therefore, we can say that the state-business alliance is at the heart of the government's open door policy. The capitalists' demand for the continuation of the open door policy and the fact that asylum-seekers have become one of the main carriers of the new economic model have caused Erdoğan to change his discourse on this issue.³²

Moreover, Veysi Kaynak, who was a deputy prime minister in 2016 and 2017 once underlined the use of Syrian workers in labour-intensive works as follows (Hürriyet, 2017):

Turkey should also see 3 million people [Syrians] as human capital. 3 million people include highly educated people and specialists. Right now, in Kahramanmaraş, Adana, Osmaniye, Osmaniye, Gaziantep, even in Ostim in Ankara, in many cities, if there were no Syrians, there would be no manual labourers. Our factories would stop.³³

These arguments demonstrate that Syrian refugees become important actors in labour-intensive jobs as well as a substantial part of low labour-cost policies in Turkey.

³² The passage is originally in Turkish and was translated by the author.

³³ The passage is originally in Turkish and was translated by the author.

The period of AKP governments shows a changing trend in industrial relations, compared to the more statist years of previous governments. As it is mentioned before, the first AKP government was a pro-business party, and it did not hesitate to embrace market-friendly policies that would undermine the progressive labour conditions. Not only the share of wages has decreased over the years, but also the labour movements have been restricted coming to the recent years of the AKP governments. The terms precarity, insecurity and de-unionisation could be the best descriptors of the AKP's industrial relations.

4.2.4 Education and Training

The education of workers is a significant part of the SPC framework. As “the quality of ‘human capital’ and its institutional fit with other segments of the economy are decisive criteria for socio-economic development” (Nölke et al., 2020: 63), it is important to look at the educational system as well as educational conditions of the working population. It is one of the essential factors to understand whether the state follows an educational strategy to boost its economic development and to evaluate whether the current educational structure³⁴ is suitable for the SPC framework.

I employ the education statistics of the labour force in Turkey as one of the indicators of the training of the workers. Figure 17 shows the education levels of the labour force in four aggregate levels according to the International Standard Classification

³⁴ Turkish educational system and compulsory education has reformed very loosely in Turkish education history. As a first step, 8-year compulsory education was firstly discussed in 1946 but enacted in 1973. However, it was limited to pilot schools that were determined across the nation and later enacted nationwide in 1997. The AKP government made a radical change in education system with the “Law on Making Amendments on Primary Education Law”, or simply called “4+4+4 Law” in 2012. It was a sudden submission to the Grand Assembly and enacted without prior pilot implementations. The main development provided by the law is that the compulsory education was extended to 12 years with three stages of process, which, at the first look, seen as a progressive step for students to reach better education standards. According to the previous education law (5+3 system), continuous and uninterrupted education was implemented throughout 8 years of primary education; however, 4+4+4 system removed the “uninterrupted” notion of education and provided 2-staged primary education. For instance, with the previous law in 1997 and the state of emergency of February 28, the imam hatip secondary schools were closed and the new law brought back the imam hatip secondary schools for students to apply and continue their 2nd step of their primary education. Therefore, as one of the political steps of the AKP government, the law is often criticised as having an anti-secular disposition. Moreover, it was also criticised for the potential dangers against child brides and child labour given that 8-year compulsory education increased the average education period and schooling rate of schoolgirls, and number of child brides and child labours decreased after 1997 (Gün & Baskan, 2014).

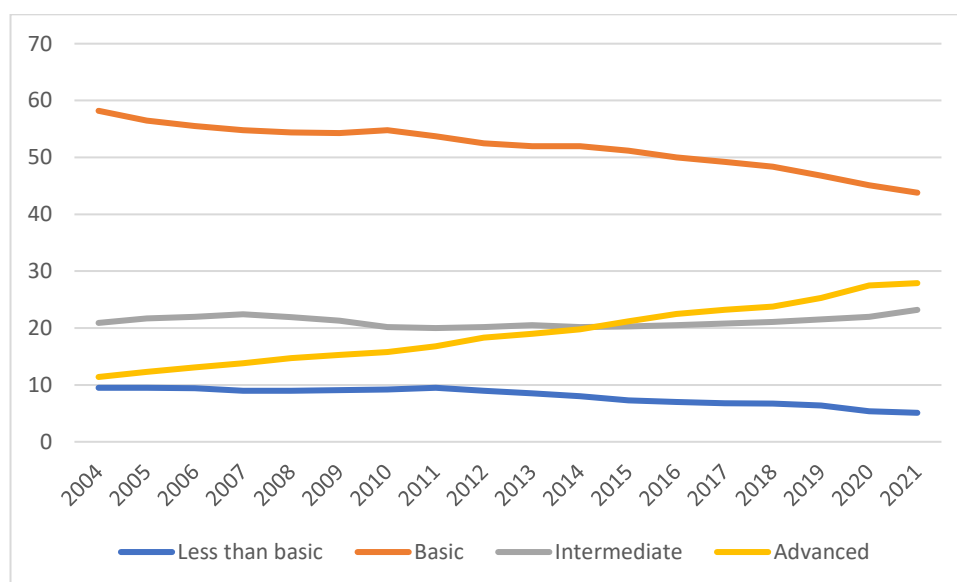
of Education (ISCED) provided by ILO. Accordingly, the levels correspond to the education levels given below (ILOSTAT, n.d.):

- Less than basic: No schooling and early childhood education
- Basic: Primary and lower secondary education
- Intermediate: Upper secondary education and post-secondary non-tertiary education
- Advanced: Short-cycle tertiary education, bachelor's or equivalent level education, master's or equivalent level education and doctoral or equivalent level education

Accordingly, in Turkey's context, ISCED classification corresponds to the following years of educational attainment after the "4+4+4" education system introduced in 2012:

- Basic: 4-8 years
- Intermediate: 12 years
- Advanced: More than 12 years, beginning from 14 to 16 years depending on short-cycle tertiary education

Figure 17. Education Level of the Labour Force in Turkey (%)



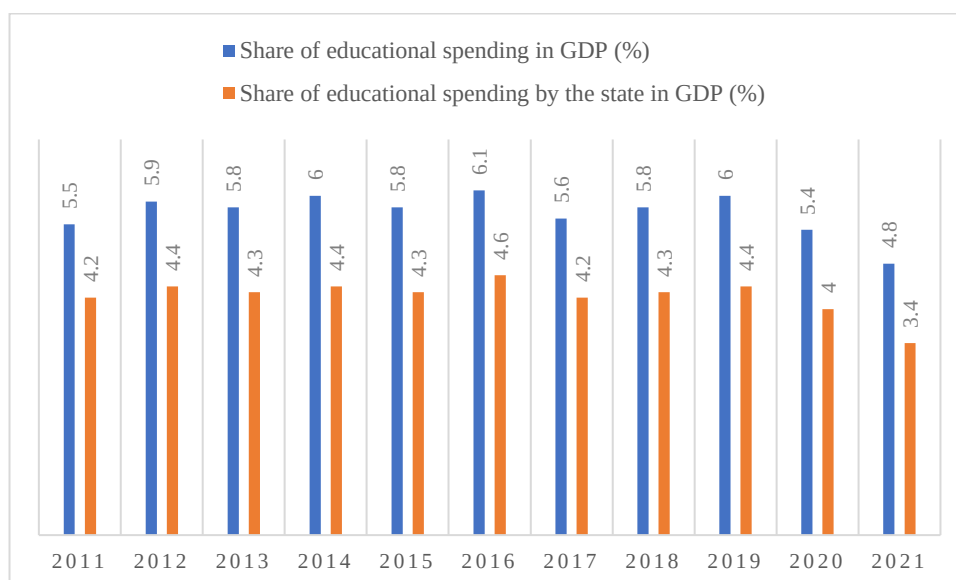
Source: ILO

Following the rates given above, we observe an improvement in educational attainment among Turkey's labour force. In other words, while the number of workers having "less than basic" and "basic" levels of education has decreased in the

2004-2021 period, the number of more educated workers, especially those who have at least a bachelor's degree or equivalent, has increased steadily. In more clear terms, the workers who compose the majority of the educational scale as having a “basic” education decreased from 58.2 to 43.8% in 2021 when workers having a “less than basic” education also radically decreased from 9.5 to 5.1%. Subsequently, while workers having high school diplomas are recording a very slight increase, the number of workers who have completed at least short-term higher education or a bachelor's degree has risen from 11.4 to 27.9%. This is an indication that the potential labour force has started to spend more years in the education system before they enter the labour market, regardless of the quality of curricula.

On the other hand, although the level of educational attainment increases, the AKP governments have been decreasing public spending on education since 2019. Figure 18 shows that there is overall steadiness of the share of spending on education in GDP since 2011; however, spending has started to decrease since 2019. In 2021, the share of public spending on education decreased to 3.4%, which is the lowest between 2011 and 2021.

Figure 18. Spending for Education in Turkey

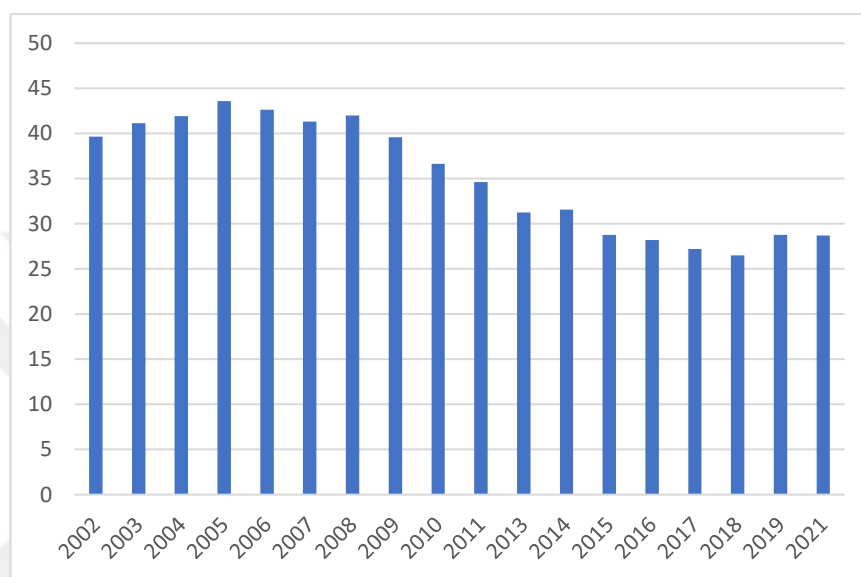


Source: TURKSTAT

In addition to the increase in the level of education in Turkey, there is also a significant share of young people who are not in employment. The figure below

shows the share of those aged 15-29 who are not in employment, education or training (NEET), which averaged 40% in the first half period of the AKP and 28% in the second period. While this has led to an increase in employment in Turkey, the lack of employment of young people in Turkey in recent years may indicate something important.

Figure 19. Youth not in Employment, Education or Training (NEET, 15-29 years old)



Source: OECD

Accordingly, the below table shows the NEET between 2020 and 2022. While it might be expected that those with lower levels of education would be more likely to be unemployed, this table shows that in the last three years higher education graduates have been more unemployed than people with other levels of education, except for the group with illiterate education. This could mean that people with a university degree today are less likely to find a job, or that university graduates are oversupplied in labour markets.

Table 8. Level of Education Completed by the Young Population who are Neither in Education nor in Employment (%)

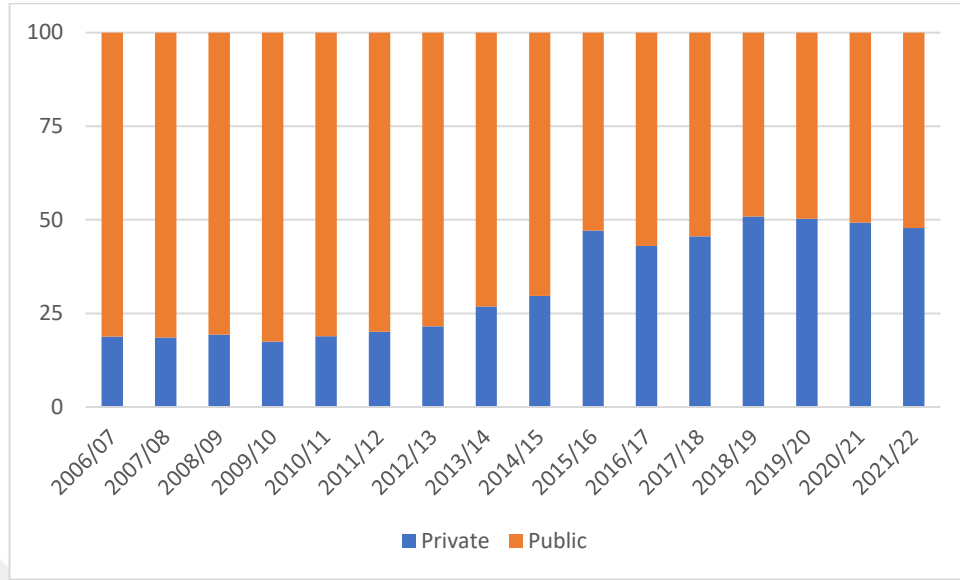
Years	Total	Illiterate	Less than high school	High school	Vocational high school	Higher education
2020	28.4	80.6	23.3	26.8	34.1	41.8
2021	24.7	82.9	19.9	23.3	29.1	36.7
2022	24.2	79.5	18.6	26.4	27.8	33

Moreover, the education system has been getting segmented in Turkey. Historically, Turkey had a strong structure of public schooling and the private schools were very low in numbers. Some scholars assert that private education became popularised³⁵ after the 1980s' neoliberal agenda (Altun Aslan, 2019); however, the crisis environment of the 1990s was effective in the inability of private schools to fill their capacity (Uygun, 2003). Accordingly, we observe a sharp increase in the number of private schools during the first AKP government, after the crisis environment started to be absorbed. Uygun (2003) states that while there were 300 private Turkish schools in 1985, this number rose to 1780 in the 2001-2002 education year. It is also the effect of the state's support mechanisms on the private sector, where natural and legal persons are encouraged to establish private schools.

Accordingly, to illustrate the privatisation of education in general secondary education, Figure 20 shows the ratio of public and private high schools among the total number of high schools in Turkey. The number of schools has risen significantly during the AKP governments, yet the ratio of private high schools in general secondary education has risen significantly. It increased from 18.9 to 47.8% between 2006/07 and 2021/22 education years. This means that almost half of the high schools in general secondary education are now separated from the state.

³⁵ Private schools were allowed and existed before the 1980s. However, on June 23, 1985, a regulation was issued with the aim of regulating the establishment and operation of private educational institutions. In order to ensure the complete opening of the private education sector to the market, Decree Law No. 326, dated June 2, 1988, was adopted. With this decree, freedom was granted in determining student fees for private educational institutions. Thus, this regulation facilitated the complete opening of the education sector to competition (Uygun, 2003).

Figure 20. The Ratio of Public and Private High Schools (General Secondary Education, %)



Source: Ministry of National Education's Annual Statistics Reports

One of the most critical observations in Figure 20 is that the number of private schools jumped in 2015/16, from 29.7 to 47.1%. The reason behind this rise comes from the political conflict between the AKP government and the Gülen movement, known as the “2013 AKP corruption scandal”. Since the Gülen movement was claimed to have around 60% of *dershanes*³⁶ (Cumhuriyet, 2012) and have a dominant role in the *dershane* system, the government decided to shut down the *dershane* system and paved the way to transform the previous *dershanes* into private schools after the power struggle. Thus, in 2014, the legal process regarding the closure of *dershanes* or their conversion to private schools has been initiated with Law No. 6528 on the Amendment of the Basic Law of National Education and Some Laws and Decrees.

As another part of the education system in Turkey, Vocational Education and Training (VET) has an important place in the education system. Within secondary education, VETs are divided into two parts: vocational-technical Anatolian high schools and vocational training centres, with the former being more education-oriented and the latter being vocation-oriented (Özer, 2019). If we look at the data for

³⁶ Supplementary private teaching institutions outside of the formal/mandatory education.

the academic year 2021-2022, 28% of the total number of high school students in Turkey are in the VETs (Ministry of National Education, n.d.).

Although the use of VETs is shaped according to the economic structures and needs of countries, VETs are considered to be an important education system for economic growth and provide qualified personnel to labour markets (World Bank, 2019). Students who graduated from VETs in Turkey are considered to have a significant contribution to employment (Özer, 2019). For example, in recent years, we see that students graduating from VETs have more labour force participation than students graduating from regular high schools, and their employment rates exceed those of regular high school students. In 2022 data, the labour force participation rate of VET graduates is 66.7% and the employment rate is 59.1%, while this is 55.5% and 48.4% for regular high school graduates, respectively (TURKSTAT, n.d.d). The position of VET in labour markets is smaller than that of higher education graduates. Higher education graduates are numerically twice as many as VET graduates both in the labour force and employment (TURKSTAT, n.d.d).

While Özer (2019) says that the contribution of VET graduates to the labour force is important, he expresses this from a more general perspective because when we look at the sectors where VET graduates are employed, we see a different picture.

According to a report published in 2018, in the years between 2008 and 2014, a very large proportion of VET graduates were observed to be working outside their graduated fields. Even in aircraft maintenance and laboratory services, which have the highest rates of employment by students' fields, the proportion of graduates working in their sectors is 17.91% and 18.28% respectively (Ministry of National Education, n.d.).

In brief, although VET education in Turkey gives it a better position in employment compared to regular high school students, it does not create a distinctive positive advantage compared to the employment rate in higher education. Moreover, the fact that the majority of VET graduates are employed outside their specialised fields does not come close to creating a positive impact in terms of the main objectives of VETs. Apart from these, Özer (2019) asserts high dropout and absenteeism rates in schools

due to relatively lower academic achievement of students entering VETs, as well as the very low share of public investment in VETs over time as other problems.

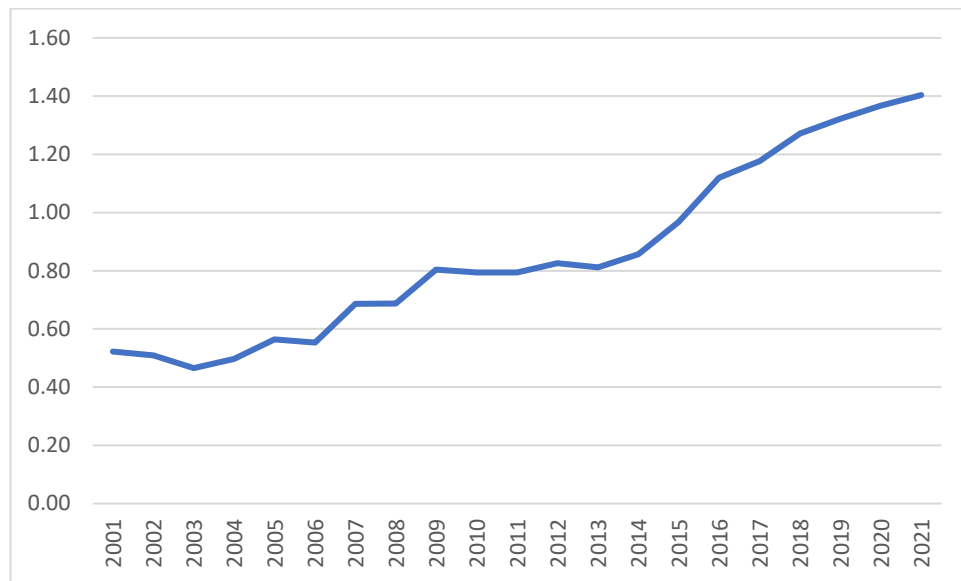
In conclusion, when we look at the structure of education and training in Turkey, we come across a situation where the level of education is increasing day by day, but at the same time, the state has not increased its expenditures on education much. Furthermore, we see that private schooling in Turkey has increased during the AKP period, making the education system more segmented. When we analyse employment by education level, we observe that while the share of university graduates in employment has increased over the years, they are currently out of employment more than people with other levels of education except for the illiterate group. Finally, we do not observe that VETs, which have a quantitatively important place in the education system, make a big positive difference in Turkey.

4.2.5 Innovation

Innovation and R&D studies are important indicators, especially for the manufacturing industry that it is one of the important indicators of a country's capability of higher economic development in technology-driven world markets. SMEs are not necessarily expected to become leaders in high-tech production, but being in a position to compete with other countries in medium-technology production is important for growth strategies.

As one of the first developments toward innovation and technological development, the AKP government prepared the “Turkish Industrial Strategy Document: 2011-2014” to provide medium to long-term industrial development. The main goal of the strategy is to place Turkey as the production hub for medium and high-tech products in Eurasia. According to the general aim, the document specifically aimed to (1) increase the share of medium and high technology sectors in production and exports, (2) ensure a transition to high-value-added products in low technology sectors and (3) increase the weight of companies that can continuously improve their skills in the economy (Ministry of Industry and Trade, 2010: 11). Followingly, Turkey's R&D expenditures started to increase with a higher trend from 2013 onwards.

Figure 21. The Share of R&D Expenditures in GDP (%)



Source: TURKSTAT

According to the new development strategy of the 2010s, which is based on innovative activities (Kutlay & Karaoğuz, 2018), the state increased the investments in R&D activities through governmental channels such as the Ministry of Science, Industry and Technology,³⁷ Scientific and Technological Research Council of Turkey (TÜBİTAK),³⁸ Small and Medium Enterprises Development and Support Administration (KOSGEB) and regional development agencies.³⁹ However, these investments were not mostly used for any state institution, they are used as financing mechanisms to the private sector to boost their innovation capabilities.

Moreover, Turkey has boosted its R&D activities by also establishing new R&D centres. In 2008, the government enacted “the Law on Support for Research and Development Activities” and this opened the way for establishing R&D centres all over Turkey. While there were 300 R&D centres in 2016, it increased to 1254 in 2021 (Ministry of Industry and Technology, 2021). The "Technopark Law" (or the Law of Technology Development Zones) was also amended by the government

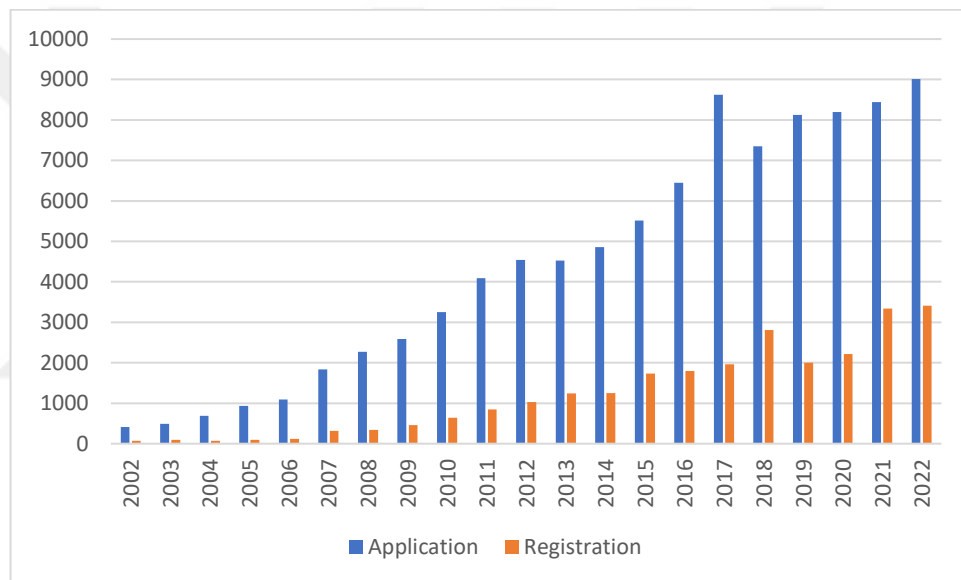
³⁷ The Ministry had established and replaced by the Ministry of Industry and Trade to “improve the coordination among acting state organisations in the economic realm” (Kutlay & Karaoğuz, 2018, 298). In 2018, the name of the Ministry has been changed to Ministry of Industry and Technology.

³⁸ TÜBİTAK is the main responsible governmental body on technological development and innovation.

³⁹ Development agencies were established in 2006 and are regional governmental organisations to mobilise local development dynamics, make the best use of the region’s resources and potentials, and ensure that development covers the whole country in a more balanced and comprehensive manner.

several times to promote high-tech manufacturing and "Technology Transfer Offices" are mandated by law, and it is encouraged to do so to spark the university-industry partnership that is a typical practice of developmental states (Kutlay & Karaoguz, 2018). Thereafter, we observe a rise in the number of technology development zones as they increased from 2 to 51 between 2002 and 2016 (Cansız, 2017) and to 83 as of 2023 (Ministry of Industry and Technology, 2023). On the other hand, the improvements in the policies on technological development may also have a positive impact on the patent applications and registrations that both record an increasing trend during the AKP governments (see Figure 22).

Figure 22. Patent Applications and Registrations



Source: TURKPATENT

If we examine the innovation activities in more detail, then it is clear that the defence industry holds a special place in the overall R&D developments in Turkey. During the AKP rule, there are various strategic plans specific to the defence industry that comprises “the management of defence procurement and defence industries” in 4-year periods of 2007-2011, 2011-2016 and 2017-2021; the Defence Industry Strategy Document for 2009-2016; the UAV⁴⁰ Road Map 2011-2030; and Technology Management Strategy 2011-2016. One of the common core principles in these documents “is to increase the share of domestic products in weapons systems and to

⁴⁰ Unmanned Aerial Vehicle

move forward indigenous designs” (Kurç, 2017: 263). In other words, for the higher development of military technology, one of the primary goals is to boost R&D activities as well as high technology production for the domestic defence sector. Although the historical data is lacking, Table 9 illustrates that five defence companies are on the list of companies with the highest R&D expenditures in 2021, which, at least in relative terms, support the aims of strategic plans.

Table 9. Top 10 Companies by R&D Expenditures in 2021

Companies	Activity	Number of R&D Projects	R&D Expenditure (in million liras)
Aselsan	Defence industry	1094	5615
Tusaş Aerospace Industry	Aerospace (defence industry)	104	4390
Roketsan	Defence industry	132	1446
Turkcell	Communication	56	681
Ford	Automobiles	-	680
Tusaş Motor Industry	Engines (defence industry)	45	604
Havelsan	Defence industry	102	600
Tofaş	Automobiles	44	553
Arçelik	Electronics	-	444
Vestel	Electronics	-	406

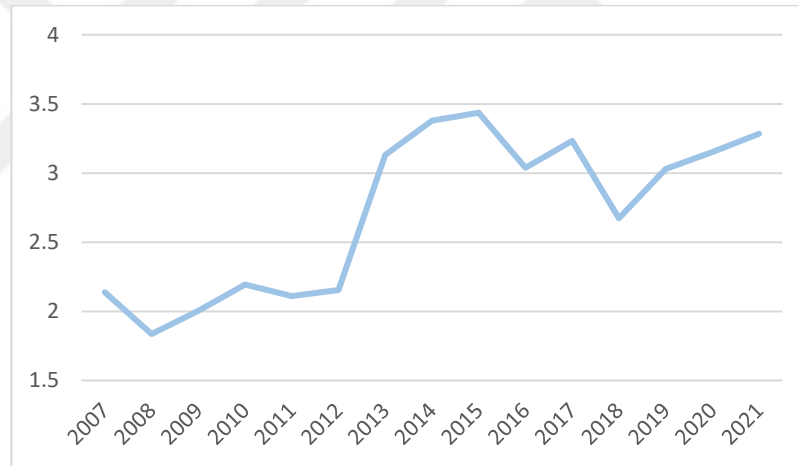
Source: Turkishtime

In recent years, Turkey’s technological transformation efforts started to be named under *Milli Teknoloji Hamlesi* (National Technology Move) and it is aimed to develop policies that will increase Turkey’s global competitiveness, its economic and technological independence, and ensure a breakthrough in critical technologies (see 2023 Industry Strategy Document, Ministry of Industry and Technology, 2019). In this vision, the notions of “local”, “national” and “authenticity” are foregrounded and six primary priorities are defined: (1) inclusive, holistic and "stakeholder-oriented" approach, (2) data-driven, impact-oriented and accountable targets, (3) policies that closely monitor the world and guide pioneering breakthroughs, (4) agile, change-

oriented and adaptive policies, (5) policies prioritising human capital development and (6) independence and globally competitive. Although the results of these objectives are not yet clear, TÜBİTAK announced that various projects have been prepared and developed in accordance with *Milli Teknoloji Hamlesi* (TÜBİTAK, 2023).

Although the levels of R&D exports are behind those other types of commodity groups, increasing volumes of R&D-based commodity groups show a minor success of the development path given in the strategic plans of Turkey. Regarding high-technology production, Turkey is still behind the industrialised economies, but it records a higher rate of high-technology export in the overall export volumes than the first half of the AKP period (see Figure 23).

Figure 23. High-technology Exports (% of Manufactured Exports)

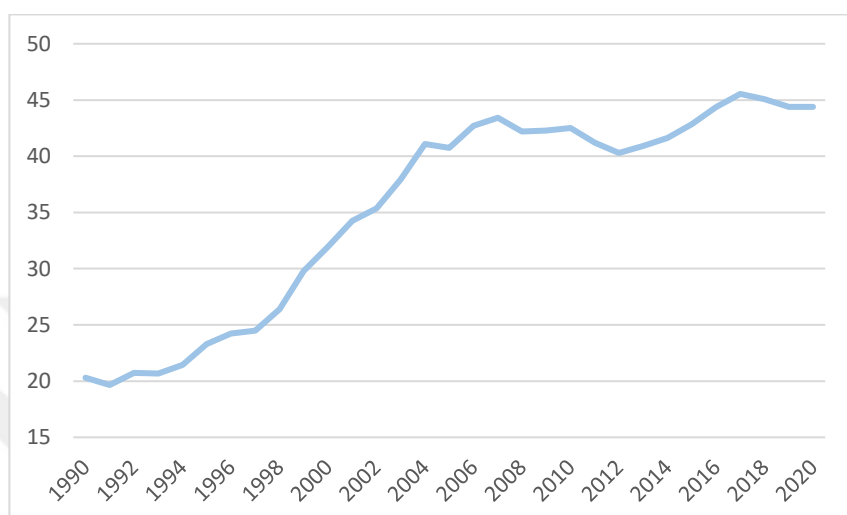


Source: World Bank

Even though high-technology production has been largely emphasised in recent AKP policies, Turkey's technology-based production dynamics are mostly in medium technology. If we look at the medium and high-technology goods exported in the total manufactured goods, we see that Turkey has started to increase its share of them substantially (see Figure 24). While their share is 24.5% in 1997, it increased to 35% in 2002 and peaked in 2007 as being 43%. Until 2012, we observe a slight decrease of 3% but later it surpassed 45% levels after 2016. These figures imply that although Turkey has presented low levels of high technology production and thus has no substantial comparative advantage on it, its medium technology production and trade

have increased during the AKP period and have become an important part of the industrial sector. In the next sections, I will also investigate the global value chains and show other data regarding the commodity types of Turkey's trade, which would also help us to understand technology-based production in Turkey.

Figure 24. Medium and High-technology Exports (% of Manufactured Exports)



Source: World Bank

As a result, the AKP governments seems to be willing to roll up its sleeves for high-tech production but has not gained a high momentum except for the defence industry. Rhetorically, innovation seems to be the dominant strategy in Turkey, but only time will tell if and to what extent the AKP government will succeed. Nevertheless, medium technology production composes an important part of domestic production as well as foreign trade.

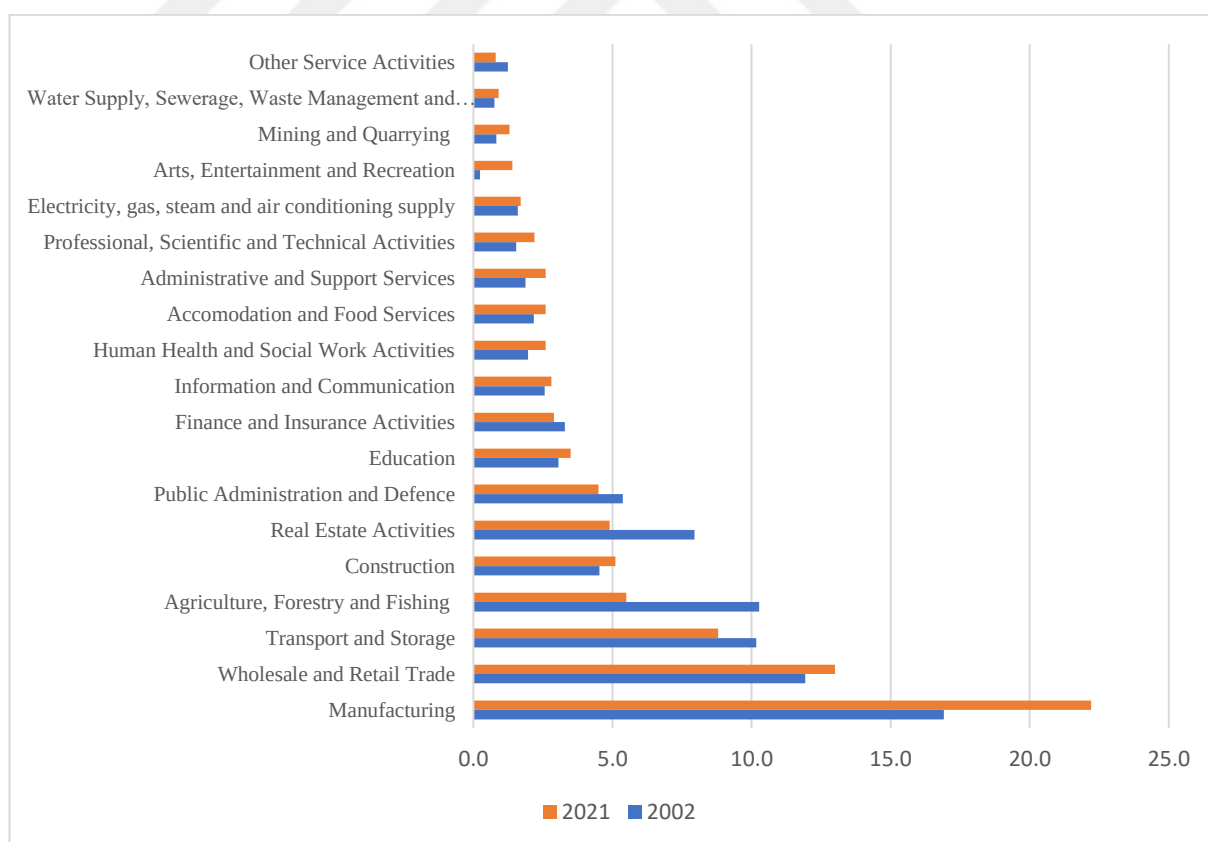
4.2.6 Domestic Markets

Investigating the domestic markets of countries will help us to understand SMEs' political economic dynamics and their relationship with the international economy. Particularly, industrial production holds the keystone of economic activities for SMEs, rising manufacturing will be an essential factor in understanding its capitalist dynamics. It is therefore essential to examine countries' production dynamics and sectoral advantages, as well as their position in global capitalism. Along with domestic production dynamics and foreign trade, the advantages and disadvantages countries have in world markets, the extent to which they are dependent on or

independent of global capitalism, or the extent to which they influence global markets are important for understanding countries' growth strategies and potential forms of capitalism. In other words, I will in this section investigate Turkey's domestic markets by analysing both domestic and foreign economic activities and its financial ties with global capitalism.

First of all, Turkey seems to have a growing domestic market, at least in terms of its rising population from 65 million in 2002 to 85 million in 2022 (TURKSTAT, 2023), and to understand the density of sectors in Turkey, Figure 25 illustrates the percentage shares of sectors in Turkey's GDP in 2002 and 2021. In relative terms, Turkey has a strong domestic manufacturing industry, given that it has obtained the largest share in overall sectors both in 2002 and 2021. In fact, between these years, the manufacturing industry has increased its share from 16.9 to 22.2%, which signifies the increased production in the overall manufacturing industry.

Figure 25. Sectoral Breakdown of Gross Domestic Product in 2002 and 2021, (%)



Source: TURKSTAT

As investigated in the previous subsection, the AKP governments underline the importance of development through industrialisation and innovation. This can be achieved through higher industrialisation plans and provided with particular policies and incentives for industry and the manufacturing sector. According to the strategic documents and plans published by the Ministry of Industry and Technology (e.g., 2023 Industry and Technology Strategy, Strategic Plan: 2020-2024, Strategic Plan 2019-2023), we can summarise the following policy actions that the AKP government aims to achieve:

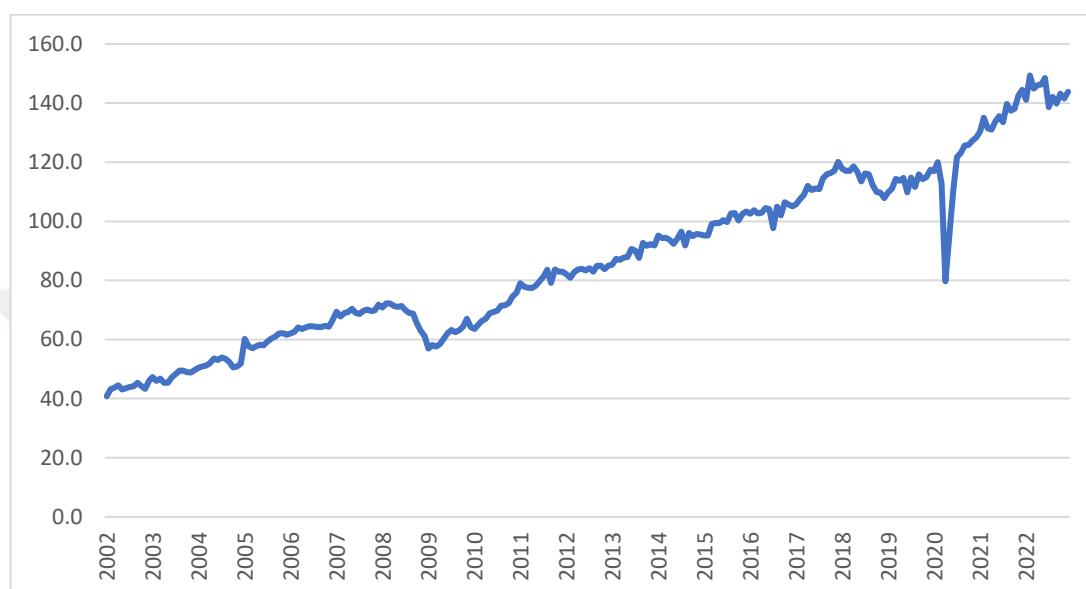
- To attract both domestic and foreign investors, the government has introduced several investment incentives. These rewards range from tax discounts and exemptions to reduced and waived customs duties for imported machinery and equipment.
- Throughout the nation, the government has created organized industrial zones.
- To encourage innovation and R&D activities, the governments built technological development zones.
- The governments have put in place programs to aid the expansion and development of SMEs, which account for a sizable component of Turkey's industrial sector. These aids are mostly funded by the Small and Medium Industry Development Organization (KOSGEB), which is subject to the Ministry of Industry and Technology.
- The Turkish government has taken steps to increase exports and make Turkish goods more competitive in global markets.
- To support particular sectors, the AKP governments have implemented tailored policies and actions. For instance, the government has offered incentives in the car industry to entice foreign automakers and promote indigenous production. Industries including textiles, electronics, and machinery have all launched similar sector-specific initiatives.

These actions may have had a positive impact on the development of industry, as the share of the manufacturing industry in GDP in Turkey has been higher than in other sectors every year. Figure 26 shows the industrial production index,⁴¹ which has a

⁴¹ Measured by the TURKSTAT through survey with 7000 companies, Industry Production Index is calculated in order to measure the positive or negative effects of the developments in the industrial part of the economy and the economic policies implemented in the short term. The index consists of production quantity and value, sales quantity and value, sale price and turnover for each company surveyed.

positive trend during the AKP rule. Nevertheless, it is important to note that the manufacturing industry has the highest exporting sector in Turkey. A particular share of the production is expected to be exported since export-oriented growth is also aimed in recent years, as the strategic reports underlined.

Figure 26. Industry Production Index

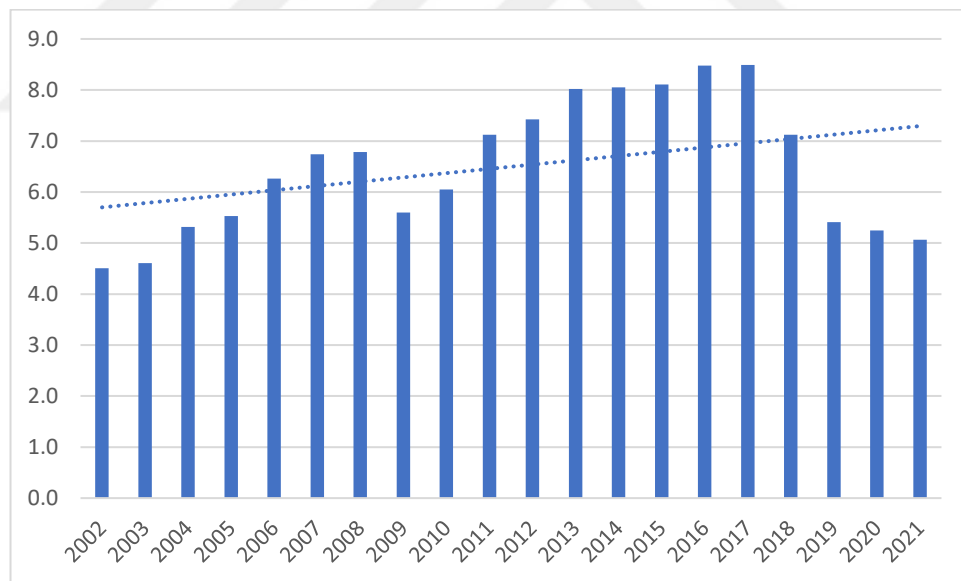


Source: TURKSTAT

Back to Figure 25, the other sectors generally have minor changes in shares (except the construction sector which is illustrated below); however, we see substantial decreases in shares in the sectors of Agriculture, Forestry and Fishing and Real Estate Activities. Agriculture, Forestry and Fishing is the third largest sector in 2002 and we nearly see a semi-decline, meaning that its shares declined from 10.2 to 5.5% in 2021. I use Figure 25 to show overall changes in Turkey's domestic markets; yet, if one looks at the annual data, Agriculture, Forestry and Fishing sector has a steady decrease in this period, meaning that there is no sudden decrease in a year to be influenced by any sudden development. The decrease in agricultural production is often discussed with the IMF conditions of 2001 and the Agrarian Law of 2006 that agricultural production has been liberalised and commodified (Aydın, 2010; Keyder & Yenal, 2011). During the AKP governments, the total hectare of cultivated areas decreased from 41,196 to 38,462 thousand hectares and agricultural growth decreased from 8.7 in 2002 to 0.6% in 2022 (BirGün, 2023).

Another major change in Figure 25 is that Real Estate Activities decreased from 8 to 4.9% between 2002 and 2021. However, declines in this sector could not be explained for the same reason as in the agriculture sector. This sector keeps its 2002 rates until the second half of the 2010s. The annual data shows that Real Estate Activities sustained its 8% band until 2016, after which we observe minor decreases over the years until 2020. A major decline in the sectoral share is observed in 2021 when it decreased from 6.3 to 4.9% in a year. The reason for this decline is generally explained by the housing crisis that is experienced in the last two years. According to the Sahibinden.com data, (1) from July 2021, rental prices have started a trend where rental prices will rise greatly; and (2) from November 2020, a downward trend in the number of rental ads has started concerning the rising levels of rental prices with high inflation (cited in Duvar, 2022). In short, decreasing levels of Real Estate Activities are explained by the recent housing crisis in Turkey, rather than a policy choice as in the agriculture sector.

Figure 27. Share of Construction Sector in GDP (%)



Source: TURKSTAT

One of the most important changes during the AKP governments is the rising share of the construction sector although Figure 25 does not reflect a major change due to the specified years. Figure 27 shows the share of the construction sector in GDP between 2002 and 2021 and we observe an increasing trend by 2018, reaching up to 8.5% of GDP. Some political economists discuss that the AKP governments have

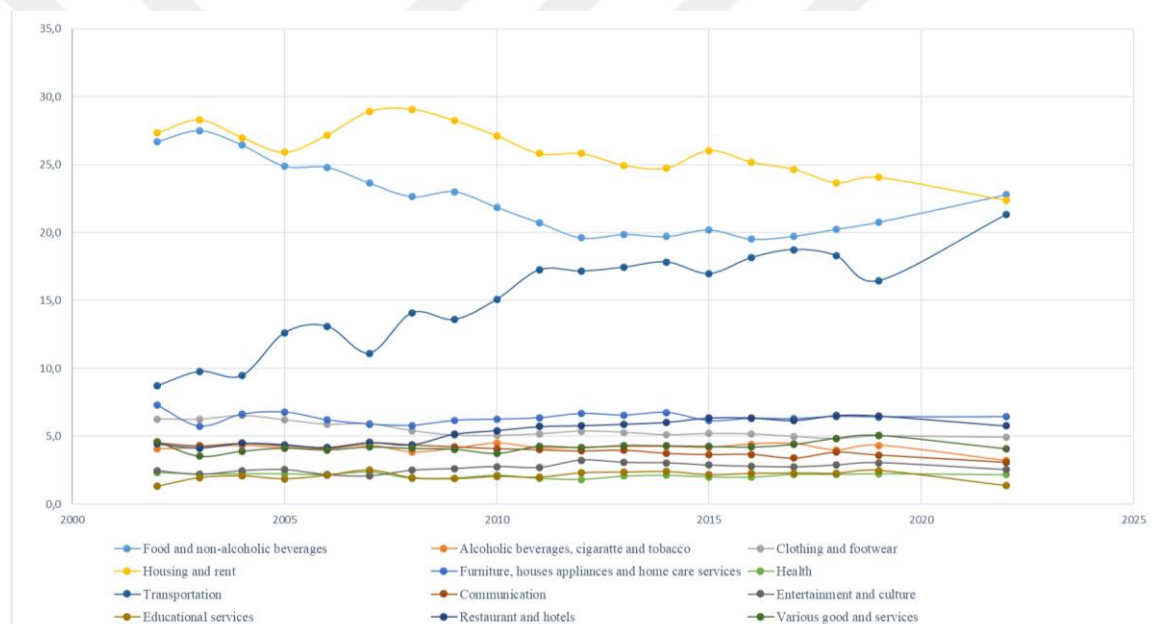
pursued a policy called the ‘construction-led growth model’ or ‘accumulation regime’ to boost economic growth in Turkey. It has been argued that the construction and real estate sectors have been placed at the centre of the economy as a variety of growth engines during the AKP period, and it has been further argued that the construction boom has developed due to the strategic choice of the AKP governments (Yeşilbağ, 2016). Although neoliberalisation moves began to be taken in the 1980s with Özal and the construction-based economic model first emerged in this period also with the establishment of TOKİ, Eğılmez (2020) discusses that this model is mainly utilised during the AKP governments. The relatively stable macroeconomic environment of the 2000s (except the crisis year of 2009) enabled the construction sector to strengthen the overall economic growth in Turkey, giving the stable exchange rate of Turkish lira and low inflation rates. In other words, during the first period, there was so much demand for housing that housing prices increased exponentially. Housing investment has become the best investment for those who have savings as well as for those who have insufficient savings but can use credit (Eğılmez, 2020).

Moreover, one of the critical characteristics of the growth in the construction sector during the AKP governments was that it was debt-based. In this period, indebtedness and the increase in the amount of debt have been significant trends both for households seeking to own a house and for private companies doing business in the sector. In 2002, housing loans amounted to 3.32 million liras, while in 2014 this amount increased more than tenfold to 36.52 million liras (Yeşilbağ, 2016: 610). For the AKP governments, the construction sector was a strategic choice and Penpecioglu (2011: 66) explains it as follows:

The main actors of the [2000s] are the AKP government with the laws it enacted and the powers it redistributed regarding urban transformation and planning, and the construction companies with large capital, mostly organized as "real estate investment trusts". Since 2002, the growth phase in the construction sector has been supported and encouraged by the AKP government's policies and laws. It is even possible to state that this increase in the production of the built environment after 2002 is being realised under the leadership of state intervention. With 198 new legal regulations since 2002 (new laws and regulations, amendments to existing laws and regulations, decrees with the force of law, etc.), the state has made numerous law-making interventions that encourage the production of urban built environment.

Lastly for domestic dynamics, consumers⁴² in Turkey mostly spend their household incomes on basic life requirements. Figure 28 illustrates the distribution of household consumptions, and except in 2022 (where the increase in food expenditures slightly overtakes housing and rent expenditures), expenditures on housing and rent, food and non-alcoholic beverages and transportation are the first three expenditures that are most spent by household income, respectively. One important aspect of household expenditure is that other expenditure types do not change over the years, there are only slight increases/decreases while the top 3 expenditure types compose 64% of all expenditures on average.

Figure 28. Distribution of Household Consumption Expenditures by Expenditure Types (%)



Source: TURKSTAT

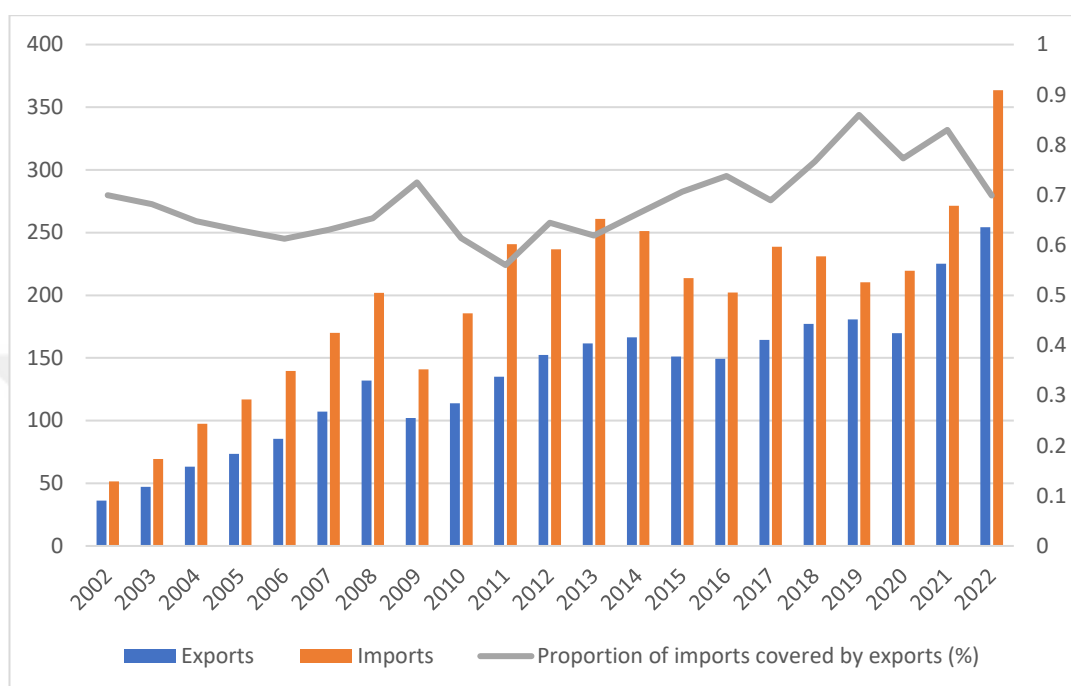
No available data for 2020 and 2021.

Concerning Turkey's foreign economic relations, first of all, we see an overall increase in trade volumes, in both exports and imports. The proportion of imports covered by exports (the ratio of exports to imports) has also risen during the second half of the AKP period, especially when it increased to 86% in 2019. This implies

⁴² Due to the unavailability of data, it is hard to discuss about consumer behaviour in Turkey. As Figure 28 shows, TURKSTAT only publishes household consumption according to the expenditure types. Other than that, the databases and literature are lacking consumer preferences on specific goods and services in Turkey's domestic markets.

that, except for the decline in 2022, export volumes have been approaching the import volumes, where Turkey's foreign trade is relatively encouraged to export rather than import.

Figure 29. Export and Import Volumes of Turkey (Billion US Dollars)



Source: TURKSTAT

Moreover, as SMEs need to prioritise industrial development and production, Turkey's import figures give a piece of useful information about understanding industrial production in Turkey. The available data shows that Turkey's economy mostly imports intermediate goods, which are used in the production of final goods (or producing next-level intermediate goods, see Table 10). This means that the last ten years' imports are mostly utilised for industrial production, whether they are produced as final goods and consumed domestically or exported again.

Table 10. Commodity Type Shares in the Total Amount of Import (%)

Commodity Type	2013	2016	2019	2022
Capital goods	14.4	17.8	12.4	11.1
Intermediate goods	72.5	67.2	77.3	80.4
Consumption goods	12.8	14.8	10.1	8.4
Others	0.2	0.2	0.3	0.1

Source: TURKSTAT

Followingly, Table 11 shows the sectoral distribution of exports in the total volume of exports of Turkey. Accordingly, we observe that the manufacturing industry takes a very large amount of the total exports and, in the last ten years, composed above 90% of total exports. Although the below table does not provide such information, we also see that there is a low level of mining and quarrying activities in export volumes, which signifies that raw material-intensive exports declined during the second half of the AKP period, compared to the 15.11% of the raw material-intensive ratio of exports by the commodity groups in 2009 (see Table 13 in the next section).⁴³ It becomes another significant point for Turkey's development path that the manufacturing sector has been creating most of the exports.

Table 11. Sectoral Distribution of Exports (%)

Sectors	2013	2016	2019	2022
Agriculture, forestry and fishing	3.3	3.8	3.1	3.1
Mining and quarrying	2.4	1.8	1.8	1.8
Manufacturing	93.8	94.0	94.7	94.6
Others	0.5	0.4	0.5	0.6

Source: TURKSTAT

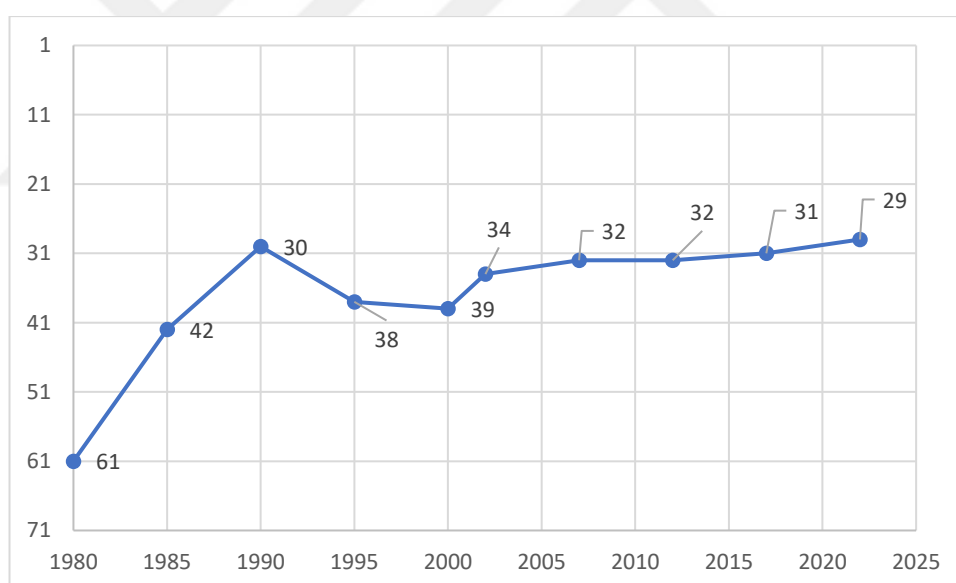
Therefore, the second half of the AKP period records a higher integration of Turkey into the world markets, at least in terms of trade volumes. However, it must be regarded that the world economy has been also expanding largely. The trend of world trade became much more steeper after 1986 and especially between 2003 and 2008, and then continued to increase with each year (WTO, n.d.). Since 1995, the average annual growth in world commerce volume and value has been 4% and 6%, respectively (WTO, n.d.). In 2022, the total trade volume increased to 32 trillion US dollars from 28.5 trillion in 2021, where Turkey recorded 1.02 and 1.42% of exports and imports in merchandise trade and 1.27% and 0.6% in services trade, respectively (UNCTAD, n.d.; WTO, n.d.). That is to say, the increasing trade volumes of Turkey

⁴³ These two statistical observations of exports are not the same and indicating different aspects of sectoral production process. However, due to the missing recent data on commodity groups, I infer and imply both types of statistics as they may be complementary to illustrate the general picture.

might be just a result of higher international transactions of commercial goods, rather than particular policy actions.

To investigate this, I look at the country ranking of total trade volumes of each country (in terms of total trade of merchandise), and Turkey's position in the world economy has improved with the AKP period (see Figure 30). Before the 1990s, while Turkey's position was below 40, it ranked up to 34 in the first year of the AKP government. From then, with the small increases in the total volumes of merchandise trade, Turkey became the 29th biggest trading country in the world. Yet, it requires a discussion that whether Turkey's increasing trade volumes have provided any significant improvements during the AKP rule since Turkey's position has not improved largely.

Figure 30. Turkey's Rank Among the Other Countries Based on Total Volume of Merchandise Trade

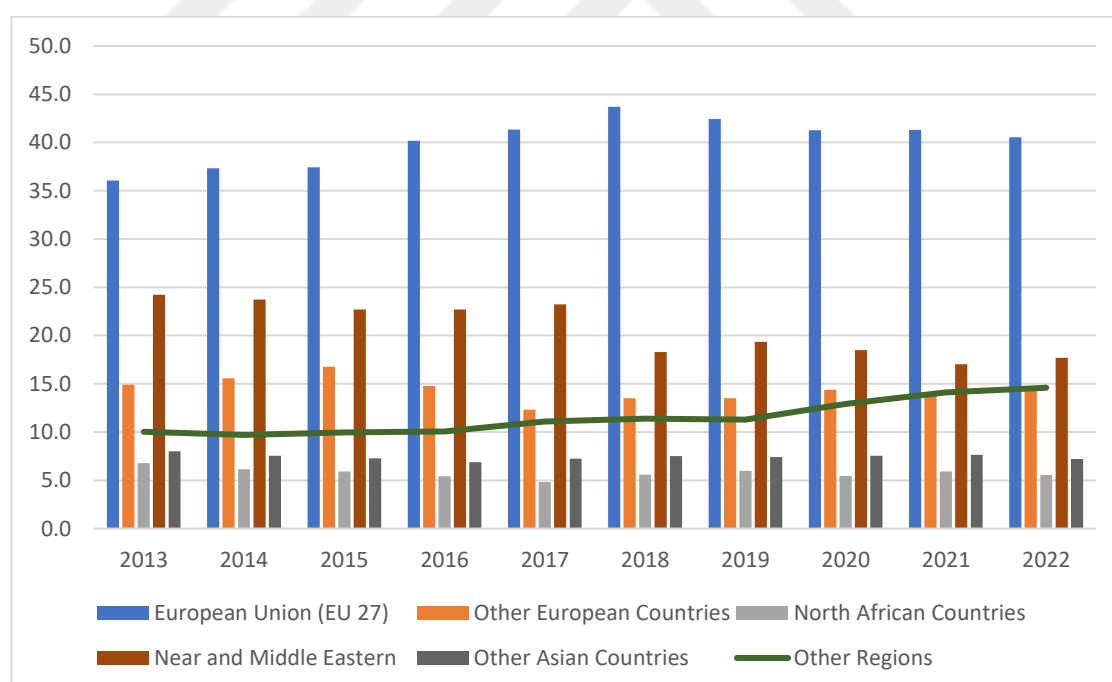


Source: UNCTAD

Turkey's integration into the world economy is essential for the SPC framework, and in terms of the data provided above, we can say that Turkey has a much more important position in world trade compared to the pre-2000 period. Keeping that in mind, we also need to look at Turkey's relations with economic regions and blocs to better situate the position of Turkey in world markets.

Historically, Turkey's biggest trade partner was the EU since the Ankara Agreement. It was signed in 1963 and from then on Turkey and the EU have had an association relationship.⁴⁴ The historically extensive economic ties between Turkey and the EU, particularly in trade and investments, have greatly improved as a result of this high level of integration although Turkey's EU membership has not been realised. From 33 billion US dollars in 1996 to 178.6 billion in 2021, the amount of commerce with the EU increased in this regard. The sum of Turkey's exports to the EU and imports from the EU combined to reach 93 billion and 85 billion dollars, respectively, by 2021 (Ministry of Trade, 2023). Accordingly, as of 2022, (1) Turkey is the sixth-largest trading partner of the EU, accounting for 3.3% of imports and exports of goods between the EU and the rest of the world, (2) the EU is by far Turkey's biggest trading partner for goods, the EU accounted for 26% of Turkey's imports of products, while 41% of its exports of goods were to the EU (European Commission, n.d.; see Figure 31 and 32).

Figure 31. Turkey's Export Shares by Regions (%)



Source: TURKSTAT

⁴⁴ The Ankara Agreement, which came into effect on December 1, 1964, established the basis for the parties' institutional relationships and paved the path for Turkey's full membership in the EU. In this context, the Ankara Agreement seeks to integrate Turkey into the European Single Market by establishing free trade in products as well as in labor, services, and money between Turkey and the EU.

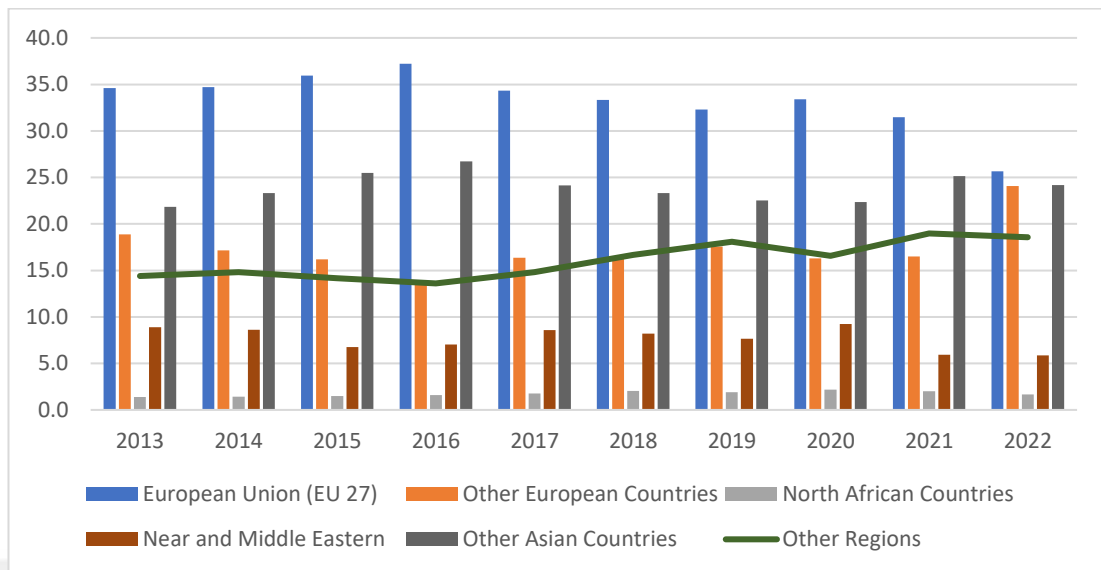
In more specific terms, Germany accounts for about 10% of Turkey's exports and has been Turkey's largest export destination over the years (TÜİK, 2021). However, it is only valid for exports that Germany has been the second or third importing country in the last 10 years, given that either China or Russia takes first and second place for exporting to Turkey (TÜİK, 2021). Both countries became significant in trade relations since the beginning of the 21st century and it may be argued that the trade relations with China and Russia may be as significant as the relations with the EU (Orkunoglu-Şahin, 2022).

Analysing Turkey's trade relations with China, it can be seen that they forged a strategic alliance in 2010 and a long-term friendship and collaboration in 2000. Turkey exported an average of 2 billion dollars to China between 2007 and 2018, although it imported almost 20 billion dollars during the same time. Adıgüzel (2020) argues that the New Silk Road is at least as important as the EU Project, and increasing trade relations with China will allow pandemic-induced crises to be turned into opportunities.

When Turkey-Russia trade relations are analysed, it can be said that foreign trade between the two countries has been increasing continuously except after the economic crisis in Russia in 1998.⁴⁵ Until 2011, the Russian Federation was Turkey's largest importing country. Therefore, it is one of the countries with which Turkey has the largest foreign trade deficit. On November 24, 2015, relations between Turkey and Russia were strained after a Russian bomber was shot down by Turkish jets after it violated the Turkish border while bombing the Syrian border; yet, its effects were overcome in the second year of the incident. In other words, while the import volume is 20,401 million dollars in 2015, it decreased to 15,162 after the year following the incidence; but it increased to 19,514, 21,989 and 23,115 million dollars in 2017, 2018 and 2019, respectively. In particular, the Russian Federation exports mainly oil and gas products, grain products and iron and steel products to Turkey.

⁴⁵ However, the reason for Turkey's trade deficit is the fact that although Turkey met a significant portion of its energy needs from the Russian Federation in the 2000s, the export of goods in exchange for natural gas could not be sustained due to the Natural Gas Agreement signed with the USSR in September 1984. This is argued as the main reason for Turkey's foreign trade deficit with Russia (Orkunoglu-Şahin, 2022)

Figure 32. Turkey's Import Shares by Regions (%)



Source: TURKSTAT

I mentioned that the EU is the biggest trade partner of Turkey in terms of the volume of trade. Yet, I should emphasise that Turkey holds no particular membership in European economic agreements such as the European Economic Area or European Communities but has a Customs Union agreement. Against this, with the rising economic power of BRICS, Eastern economies and particularly China, Turkey applied to the Shanghai Cooperation Organisation⁴⁶ (SCO) for the Status of Dialogue Partnership in 2011. In 2012, the SCO Summit of Heads of State approved Turkey's bid to join a Dialogue Partner. The SCO and Turkey as a dialogue partner signed a memorandum outlining the terms of their collaboration in 2013 and the adoption of the Cabinet of Ministers Decision marked the end of the ratification procedure for the agreement in 2017. Turkey still holds the Status of Dialogue, and first attended to Shanghai Cooperation Organization summit in September 2022. Before Erdoğan expressed that they aim to become a member of the SCO, he stated Turkey's situation with SCO as follows (Anadolu Ajansı, 2022):

Of course, we are not a member of the Shanghai Five. We are here as a special guest at the invitation of the host Uzbekistan. ... Now the next process is a step

⁴⁶ Under the moniker "Shanghai Five," the SCO was established in 1996 by the People's Republic of China, the Russian Federation, Kyrgyzstan, Tajikistan, and Kazakhstan with the goals of fostering mutual trust among members, disarming border regions, and promoting regional cooperation. The organisation's mission is to strengthen friendly, neighbourly relations and mutual trust among its member states; to work together to protect regional peace, security, and stability; to combat terrorism, extremism, separatism, organized crime, and illegal immigration; and to improve cooperation on issues related to politics, the economy, science, technology, energy, and the environment.

towards the most advanced stage of the work. Of course, this step will perhaps come to the agenda at a more advanced level during the talks in India, which will be the host of the next semester. To be a member or not to be a member are all different, but our relations with these countries will be moved to a much different position with this step.⁴⁷

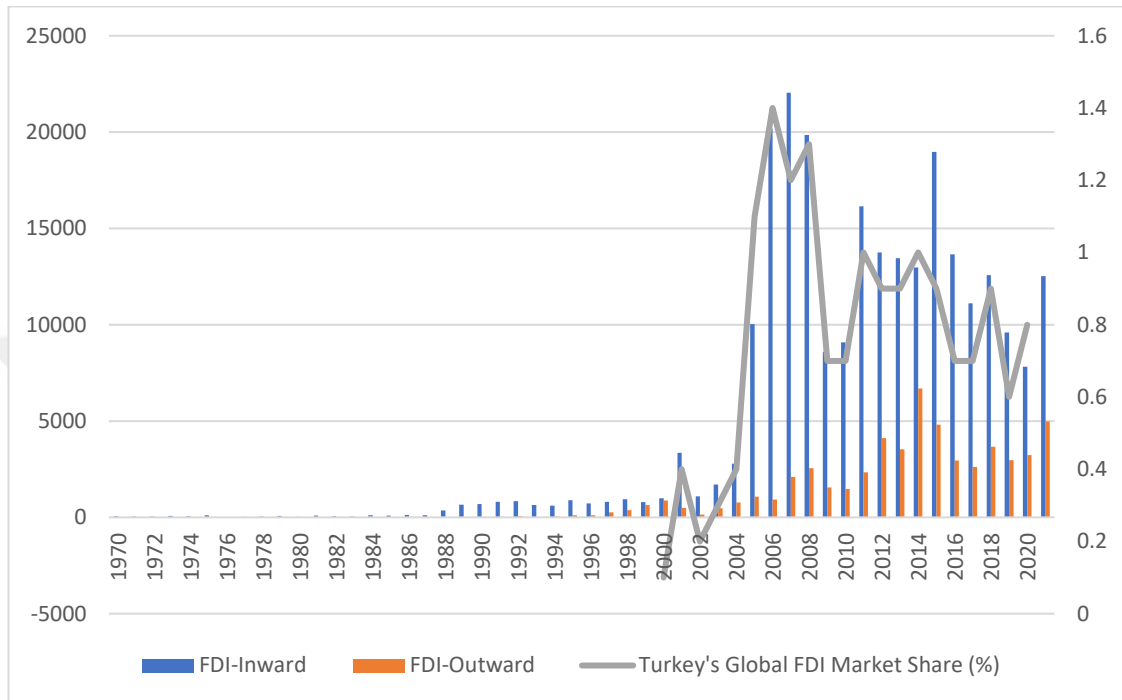
Exports-wise, Turkey's share from the EU countries keeps relatively stable above 40% in all exports (see Figure 31). However, import shares from EU countries record a declining trend, where the highest share of 37.2% in 2016 declined to 25.6% in 2022 (see Figure 32). Further observation in Figure 32 shows that the declining numbers of EU-27 are compensated by an increasing share of other European countries, where imports share of them increased to 24.1% in 2022. If we detailly look at the country-level import levels, we observe that Switzerland became the 4th largest import partner of Turkey with a share of 7.6% in total import volumes, rising from 1.1% and 20th rank in trade partners in 2021 (TÜİK, 2022). If we further scrutinise the reason for this increase, there is a critical increase in the import volumes of jewellery items. While there is only a total of 3.06 billion dollars of imports from Switzerland in 2021, only the jewellery imports from Switzerland recorded 13.56 billion dollars in 2022. It is argued that most of the goods in this category are non-monetary gold (i.e., it is for consumer goods such as jewellery, watches, and electronic components, not for the gold reserves of the Central Bank). Although the causes are unclear for the high demand for gold, it is argued that buying gold and gold-containing products are safe choices for reliable investment in an unstable economy (Bakır, 2023).

I will also illustrate Turkey's FDI inflows/outflows since it is a source for showing the ability to attract capital and invest in foreign countries. As Figure 33 illustrates, we see substantial increases in FDI inflows and outflows during the AKP period. While the inflows to Turkey could not surpass 1 billion US dollars during the 1990s (annually), we see the enormous increases especially in the first half of the AKP period, where the inflows rose to 24 billion US dollars in 2007. In the other half of their governance, we observe a small decreasing trend in FDI inflows (except 2021) and 12.6 billion FDI inflows are recorded between 2012 and 2021, which is slightly higher than the 11.1 billion FDI inflows in the early half of the AKP period.

⁴⁷ The passage is originally in Turkish and was translated by the author.

Comparing it to the increasing trade volumes of Turkey in AKP's second half of the administration, we can say that we are not observing such a success in terms of further FDI attraction.

Figure 33. Turkey's FDI Volumes (Million US Dollars)



Source: UNCTAD

According to the Central Bank of the Republic of Turkey (CBRT, 2022), the top sectors that Turkey attracted foreign investment are finance (31.6% of all FDIs), manufacturing (24.2%), energy (10.6%) and so on, between 2003 and 2021. Moreover, we also observe for the same period that Turkey mostly attracted FDIs from the Western investors of the Netherlands (15.7% of all FDIs), the US (8.1%), the UK (7.5%), the Gulf (7.1%), Austria (6.2%), Germany (6.2%) and so on.

FDI attraction is something critical for Turkey's political economy and the state has emphasised boosting FDI inflows. The first and only FDI strategy document has been published by the Investment Office of the Presidency with the signature of Erdoğan, covering 2021-2023. This document brings a fresh look at understanding FDI dynamics for Turkey and established

- A defined institutional framework in the field of FDI, which was previously missing,

- A new roadmap in the field of FDI in line with the changing global trends, which was previously missing.

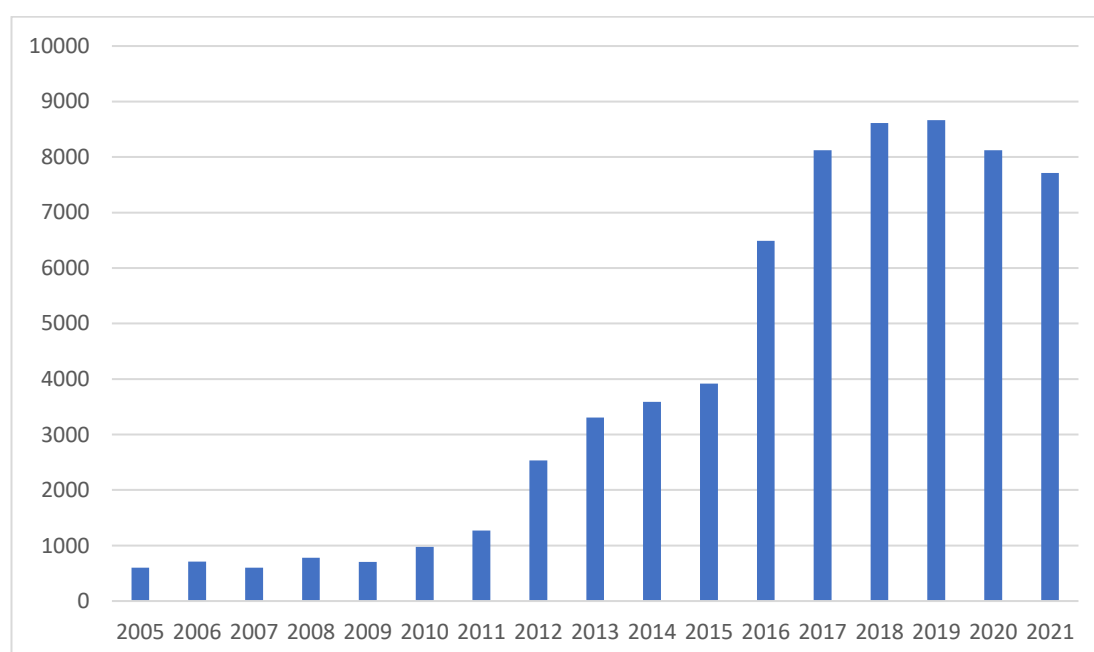
Although time will show the efficiency of the new approaches and the possibility of implementation of new policies, the important point here is that the state has developed a new approach for attracting FDI inflows. The reason for this is partially about declining trend of FDI inflows during the second half of the AKP period, which is often reasoned by the shrinking FDI market in the globe (2021-2023 FDI Strategy of Turkey, 2020).⁴⁸

In terms of FDI outflows to other countries that originated from Turkey, we see a rise in (1) 2005 when it was the first time the FDI outflows surpassed 1 billion US dollars and (2) 2008 and afterwards, especially when the FDI outflows are significantly increased during the second half of the AKP period. In the last 20 years, Turkish investors have realised a total of 58.4 billion US dollars worth of direct investments abroad (Dünya, 2022). In this period, the highest amount of investment was made in the Netherlands with 17.4 billion US dollars, followed by the US with 9.3 billion and Azerbaijan with 6.8 billion where the largest share in foreign direct investments to date has been taken by mining with 15.1 billion and banking/finance and insurance with 11.2 billion (Dünya, 2022). According to Figure 33, we observe that FDI outflows have increased during the second half of the AKP period, and almost tripled from 1,340 to 3,954 in average terms between the 2002-2011 and 2012-2021 periods. It is a very important finding that Turkey has strengthened itself in terms of investing abroad, or Turkish capital become to be more “internationalised” (Yıldırım, 2023); however, when we take Turkey’s position in the overall global FDI market, it could not reach its 2005-2008 levels and recorded a declining trend in the second half the period.

⁴⁸ Further and potential ability of attracting FDIs to Turkey is discussed by its position in Eastern and Central European context. Accordingly, with a share of 10.8% between 2005 and 2019, Turkey is the second largest FDI attractor in these two regions (after Russia with a share of 26.3%). And, contrary to the total FDI figures, Turkey increased its capacity to attract FDI in these two regions by 3.5% in the 2015-2019 period compared to the 2010-2014 and become the highest 4th country in these regions by FDI inflow growth (2021-2023 FDI Strategy of Turkey, 2021, 20).

Although not directly related to FDI outflows, the Turkish Cooperation and Coordination Agency (TİKA) plays an important role in Turkey's foreign relations and it aims to increase Turkey's strategic position in near geographies (Demirkaya & Çelik, 2021; TİKA, 2022a). TİKA is Turkey's foreign development aid agency, established in 1992, focusing on the development of regions and countries by assisting mostly in the sectors of health, education, agriculture and livestock, governance and infrastructure development. Although the volume of aid differs in each country, TİKA provided aid to 170 countries with more than 30 thousand projects (TİKA, 2022a). During the AKP governments, we observe an increase in the amount of official foreign aid, especially after 2011. According to 2021 data, we see that aid is mostly concentrated in the education sector, administrative expenses and administrative and civil infrastructures. In that, out of the 7.7 billion dollars of foreign aid, only 6.7 billion dollars was provided to Syria, 52 million dollars to Somalia, 44 million dollars to Azerbaijan and 34 million dollars to Palestine (TİKA, 2022b). An important aspect of this aid is that it is mostly carried out by the state and the share of the private sector in direct investments is relatively small in recent years. In 2021, the share of direct investments by the private sector was only 4%, and this share has decreased over the years (TİKA, 2022b).

Figure 34. The Volume of Official Development Aid of Turkey (Million US Dollars)



Source: TİKA (2022)

Therefore, we may conclude that AKP experienced its golden years in terms of FDI attraction right before the 2008's financial crisis affected Turkey in 2009. From then, FDI outflows have risen critically rather than declining as inflows. This was also supported by Turkey's foreign aid after 2010 when Turkey's foreign investments increased further.

As the last dimension of foreign trade, I will investigate Turkey's position in the global value chains (GVCs), a concept that has become increasingly important in the world economy and has been defining trade relations for some time. The overall success of the period is argued by the deepening of Turkey's GVC linkages and the fact that exports have become part of the GVCs, as can be recalled from the increased exports and FDI in the first half of the AKP period (World Bank, 2022). Moreover, around 2007, Turkey's GVC participation in exports is argued to increase significantly, i.e., "the share of Turkey's export value that was either imported or that went on to be used in another country's exports increased by 50 per cent over the period" (World Bank, 2022: 25).

In the first half of the AKP period, Turkey's exports are playing a positive role in OECD countries in terms of producing value-added GVC-related goods. Until 2007, Turkey was exporting products for final demand relative to the average of OECD countries, but after this year there was a shift in this relative position. Until 2011, Turkey's export products tended to be used as intermediate goods in foreign markets and, taking into account the relative decline in the OECD average, more value-added was created abroad on Turkish exports (CBRT, 2019). In other words, Turkey can create more value added to the products imported from foreign markets compared to OECD countries. According to the study conducted by Dağıstan (2017), the share of imported inputs used in Turkey's exports, i.e. the level of vertical specialisation,⁴⁹ has changed significantly from 8.94% in 1995 to 25.73% in 2011. In other words, the share of national value added in Turkey's exports has decreased while the share of foreign value added has increased. Accordingly, his calculations show that the sectors with the highest level of foreign value added in Turkey's exports as of 2011 were the

⁴⁹ Vertical specialization happens when an economy interacts successively with other nations to manufacture an end product, using imported intermediate parts to build a product it eventually exports.

basic metal industry, motor vehicles and trailers, other transport vehicles and the metal goods industry. In relation to the specialised sectors, he further finds that the Turkish economy is located in the middle of the GVCs, that is, in standard labour-intensive sectors and stages of production (Dağıstan, 2017). This makes Turkey a preferred destination country for final assembly platforms.

Furthermore, the Turkish economy has argued to have relatively long value chains in most of the main manufacturing sectors. These sectors are close to the world average at the domestic level and above the world average at the international level; and manufacturing industry sectors in the Turkish economy tend to participate in mostly European-based value chains and specialise in the production/assembly stage (WB, 2014). Although it creates important trade relations for especially EU countries and the Turkish economy was able to generate more production and trade volume than in the 1990s, its capacity to create domestic value added, especially in high-tech and medium-high-tech sectors, is still underperforming (Dağıstan, 2017).

Gündoğdu and Saracoğlu (2016) search for the technology-level of exported goods in GVCs and finds that Turkey has mostly participated in the GVCs through backward linkages (i.e., incorporating imported content into exports) in the mid-high and high technology sectors. Turkey is integrating into the global markets primarily through mid-high technology products (see Figure 24), which are primarily transport equipment (which implies that Turkey participates through assembly into final goods at the low-end of the production chain) despite Turkey's increased vertical specialization (Gündoğdu & Saracoğlu, 2016), the share of high technology exports in total exports of Turkey is still rather low at about 3% (see Figure 23). Another important aspect of his research suggests Turkey's shift towards Eastern countries in the GVCs that while China is the sixth largest country and has only 3% of vertical specialisation of Turkey's exports on manufactured goods, it became the largest country with providing 13.2% of goods that were later exported by Turkish manufacturers (Gündoğdu & Saracoğlu, 2016: 32). World Bank's (2022: 65) report finds that more than half of Turkey's gross exports come from sectors that are closely integrated into GVCs:

Sectors such as motor vehicles, metals, apparel, machinery and electrical equipment, but also coke and refined petroleum collectively represented over

60 percent of Turkey's gross exports in 2018. Most of these sectors rank highly compared to other sectors concerning either the backward or forward GVC-intensity in global trade.

While it is also discussed that Turkey's trade in the GVCs has grown faster than the world average, it is also the case that Turkey's businesses continue to have close ties to leading international businesses in a variety of fields (World Bank, 2022). To exemplify, particularly in the automotive sector, Turkey has a variety of relationships dating back a decade with top global companies (e.g., Renault, Ford, Mercedes-Benz, and Honda, etc.), and Vestel collaborates with Toyota and Sharp from Japan in the fields of consumer electronics and home appliances (World Bank, 2022).

Unfortunately, there is no available statistical information regarding the current GVCs for Turkey's economy. However, Yıldırım (2023) summarises the current situation from the eyes of Turkish businessmen as follows:

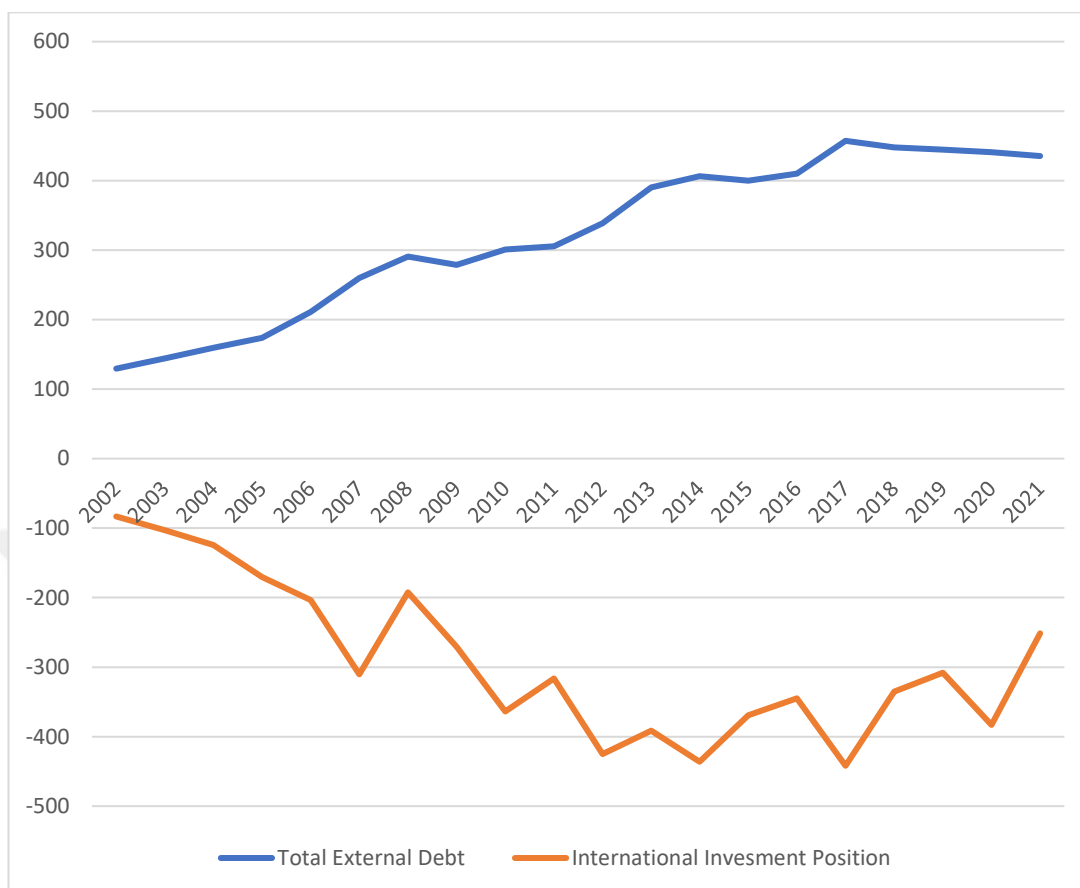
At the beginning of the pandemic, ITO President Şekib Avdagiç said, "Many European and American companies are now seriously questioning the option of manufacturing in China or sourcing from China. The tide is turning in favor of Turkey and the Turkish private sector more than ever." A year later, a similar view followed in the October issue of MÜSİAD's "Z Report" magazine. It was written that the permanent change in the supply chain caused by the pandemic and war had made Turkey the strongest actor, and that industrialists needed to increase their capacity to take part in this change. In 2023, at the conference on "Transforming Economies with Sustainable Supply Chains" organized by TÜSİAD, Orhan Turan said that the European Union was reviewing its trade policies to strengthen its competitiveness in a destabilizing world, reduce its dependencies, and make its supply chains more resilient and that although exports have reached significant levels, they are 50 per cent below potential. "We must become a competitive actor in the supply chain," Turan said.⁵⁰

This shows that Turkey's prominent businesses are foregrounding the higher specialisation on the GVCs and they expect the government to provide the necessary infrastructure and policies. As a significant part of exporting mostly manufactured goods, medium-technology products and most importantly intermediate goods as being the backbone of vertical specialisation, Turkish businesses want to pursue a more GVC-based production to further integrate into the world markets.

⁵⁰ The passage is originally in Turkish and was translated by the author.

The last part of this section will investigate Turkey's domestic markets through its integration into financial markets. First of all, as indicated in the previous chapter, Turkey's external debt has been growing since the early years of the 1970s and especially after 1989. From a mere look, there is nothing wrong with the increasing levels of debt that external debt is sometimes used to show how economies are active in international markets. In other words, external debt indicators can be used to show the financial integration of economies into the world markets. Figure 35 illustrates that Turkey has a growing trend of external debt during the AKP period until 2017. In normal circumstances, growing external debt while growing domestic markets are expected, e.g., China had 2.7 trillion dollars of external debt in 2021 (World Bank, n.d.d). Yet, the problem in the case of Turkey is argued to be the high risk of balance of payments, where the "economy is running too hot relative to Turkey's ability to borrow externally, and Turkey can no longer bridge the gap between its imports and exports by running down its reserves" (Setser, 2023). Besides its potential impacts, the increased rates of external debt show the increased integration and dependency of Turkey to international flows. The figure also shows the measure of the international investment position (IIP). The IIP is mainly used to measure the sustainability of external debt, i.e., financial stability, as well as the financial openness of countries. Accordingly, we see a decreasing trend of the IIP starting from the early AKP years, with the IIP following a steeper downward trend until 2014. After 2017, as in the case of external debt, although it has been on a relatively improving trend, it is still around 300 billion dollars, indicating that Turkey has a heavily indebted economy.

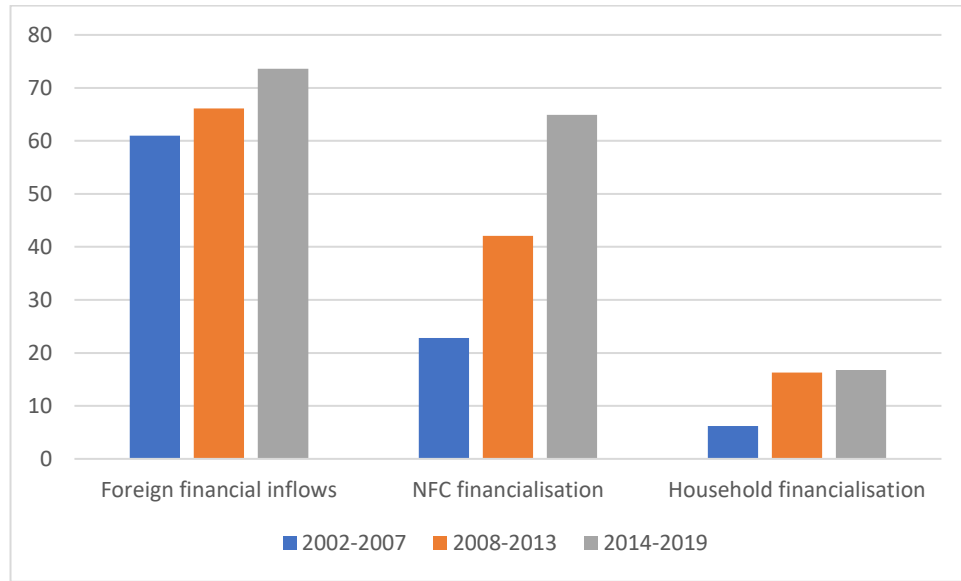
Figure 35. Total External Debt and International Investment Position of Turkey (Billion US Dollars)



Source: CBRT

Apart from these, the figure below shows Turkey's main financial indicators periodically. In general, we can see that Turkey has been attracting more financial investments (given the declining rates of FDI-inflows, the increase in financial flows mostly based on portfolio investments) over the periods, its non-financial corporations have been borrowing more, and households have been living with more debt, especially compared to previous periods. These statistics show that Turkey is becoming more financialised at almost all levels, both at the macroeconomic level, the corporate level and the household level.

Figure 36. Various Macroeconomic Financial Indicators of Turkey (% of GDP)



Source: Akçay & Güngen (2022)

Foreign financial inflows show the stock of foreign liabilities including portfolio investments, FDI and other financial inflows; NFC financialisation shows the debt of non-financial corporations and household financialisation shows the household debt.

With financial integration deepening, Turkey's current issue of devaluation of Turkish lira is also an indicator that how fluctuations in world markets can resistlessly influence Turkey's domestic economy. In relation to these, Akçay and Güngen (2022: 293) assert that the financialisation of Turkey's political economy has experienced a dependent path (or as it called "dependent financialisation") where Turkey "has structurally higher interest rates and a high dollarisation rate due to Turkey's mode of integration into the hierarchical global financial system" and "economic activity increasingly depends on capital inflows, which make the country's economy vulnerable to the negative effects of the monetary policy decisions of major central banks". The fragile structure of Turkey's financial economy has found itself in a crisis conjuncture that started in 2018. Although it is sometimes discussed as an outcome of structural problems through populist policies (Çakmaklı et al., 2020; Öz, 2019) and 'institutional decay' (Orhangazi & Yeldan, 2021), scholars of critical political economy agree that the currency crisis is mostly the result of weak and dependent financialisation of the Turkish economy (Akçay & Güngen, 2022; Orhangazi & Yeldan, 2021). Orhangazi and Yeldan (2021: 461) elaborate on the reason for the crisis and argue that it is a "homemade crisis, but one that is re-made this time under the conditions of unprecedented liquidity in global

financial crisis” compared to the 2001 crisis of Turkey. Concerning it being a homemade crisis that is affected by global fluctuations, Orhangazi and Yeldan (2021) assert that the crisis is a result of a speculation-led economic growth model, as it supports the “debt ridden speculative growth model” of AKP’s policies (Yeldan & Ünüvar, 2016).

To summarise, although Turkey has a relatively large domestic market, it is both industrially and financially dependent on foreign markets. While the positive developments in the industrial sector are reflected positively in Turkey's trade relations, the more fragile and dependent structure of the financial sector shows that Turkey has a large open economy from which it cannot easily exit. In addition, Turkey’s economy, which hopes to gain a larger share of GVCs through its articulation with GVCs, is internationally integrated in almost every aspect, and this relationship may deepen over time.

4.3 Comparative Advantages, Institutional Complementarities and Clusters

In the previous section, I separately investigated each of the featured domains to provide a base analyses to identify the conditions of each institutional sphere. If the concern is to understand the dynamics of capitalism, then it may not be proper to think of institutions as separate entities that the state would organise the economy in totality to carry out desired economic programs or models. Thus, I will investigate the potential institutional complementarities and clusters of Turkey, where some of the distinct and mutually compatible conditions of Turkey’s political economy may emerge with the clustering patterns. Yet, before that, I will first investigate the potential comparative advantages of Turkey’s economy.

Having a diverse geographical position, Turkey has potential advantages in all basic economic sectors such as agriculture, industry, tourism, mining and service industry with the rising levels of education and modernisation. Nevertheless, this potential advantage could not be realised due to the different levels of development of regions, where dominant economic sectors are regionally separated, and the education of workers highly varies between regions. To exemplify, while the metropolises are concentrated on the manufacturing and service industries to attract university graduates, more rural and eastern regions of Turkey are focusing on agricultural

production with the local population. The reason for the underdevelopment of some eastern regions, agricultural production in those regions may not influence Turkey's comparative advantage in the agricultural sector.

Table 12. Development Levels of Turkish Regions

Geographical Region	Region by NUTS-1⁵¹	Average Development Rate*
Eastern Anatolia Region	Northeast Anatolia	5.15
	Middle East Anatolia	5.27
Southeast Anatolia	Southeast Anatolia	5.45
Marmara Region	Istanbul	1
	West Marmara	3
	East Marmara	2.65
Aegean Region	Aegean	2.53
Central Anatolia Region	Western Anatolia	2.34
	Central Anatolia	4.39
Mediterranean Region	Mediterranean	3.30
Black Sea Region	Western Black Sea	3.83
	Eastern Black Sea	3.58

Source: General Directorate of Development Agencies, Ünsal & Sülkü (2020)

*Average Development Rate varies between 1 and 6, as the former corresponds to the highest development and the latter the lowest.

However, besides the development levels of regions and thus in related regional sectors, Turkey had enjoyed the advantages of labour-intensive and raw material-intensive sectors in the world markets. Much earlier research comparing Turkey with the EU countries indicates that in most of the countries where Turkey has a comparative advantage, labour-intensive and raw material-intensive sectors constituted the majority (e.g., see Erlat & Erlat, 2005; Kaya, 2006; Şimşek et al., 2010). Although both sectors were dominant, labour-intensive sectors surpassed raw material-intensive sectors depending on the compared country. Nevertheless, with the modernisation of Turkish industries and improvements in the conditions of wages during the first half of the AKP period (see Table 13), these sectors recorded improvements in export volumes, where capital-intensive and R&D-based sectors have started to increase in favour of Turkey's comparative advantage. While labour-intensive exported goods composed the highest in the total of exported goods, raw

⁵¹ NUTS corresponds to the "nomenclature of territorial units for statistics" used for EU regions. NUTS-1 is the classification for major socio-economic regions in a country.

material-intensive sectors fell behind the capital-intensive sectors by taking the 3rd rank in the export shares in 2009. This shows an improvement in Turkey being an emerging market, which pursues a development strategy in industrialisation.

Table 13. Turkey's Exports Based on SITC⁵² Technological Classification

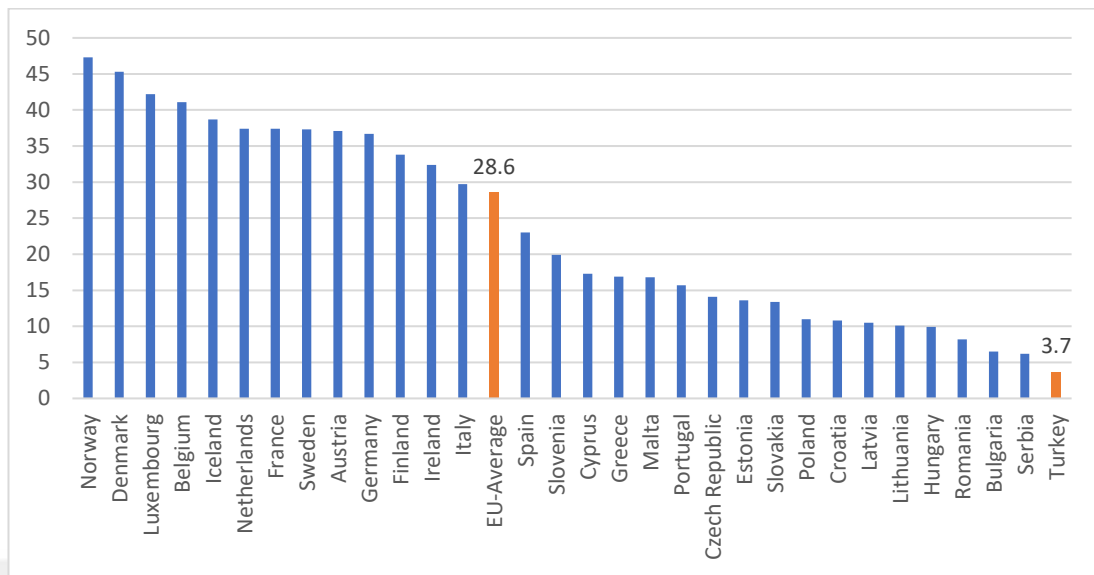
Commodity Groups	1993	Total Export Share (%)	2009	Total Export Share (%)
Raw material-intensive	3,531,835	23.02	15,429,159	15.11
Labour-intensive	7,281,511	47.46	33,940,387	33.23
Capital-intensive	3,041,705	19.82	26,343,334	25.79
R&D based which is easy to imitate	533,908	3.48	4,754,511	4.66
R&D based which difficult to imitate	959,860	6.26	15,762,275	15.43

Source: Kara & Erkan (2011)

In recent years, Turkey is experiencing low labour wages and low unemployment (or unemployment not rising) levels. As discussed previously, due to the value loss in the Turkish lira and high inflationary pressures, real wages have been recording a declining trend and the gap between minimum wage and average wage is converging to each other. Although this may not be a direct policy choice but an outcome of macroeconomic instability, the government's choice of keeping low-cost labour policies enables Turkey to become a "cheap labour heaven" for both international investors and the domestic bourgeoisie (Güngen, 2021). If we compare the figures for labour costs in the EU countries, Turkey ranked as the last among all economies. As Figure 37 shows for 2020 (the latest available data for Turkey), while the EU average is 28.6 euros, Turkey's average labour cost is recorded as 3.7 euros per hour.

⁵² The standard international trade classification.

Figure 37. Labour Cost by Hour in 2020 (Euro)



Source: EUROSTAT, TURKSTAT

Before analysing the institutional complementarities and clusters, there is one essential complementary factor that influences all institutional domains even though it does not emerge with the clustering of given institutions: the transition to the presidential system and the President's strengthened role in the overall political economy of Turkey. As a result of the overpowering role of the President and the cabinet in the presidential system of governance, the presidential system has become a fundamental component affecting institutional structures rather than a complementary element in institutions.

The presidential system of government, which was approved by referendum on April 16, 2017, and which went into effect on July 9, 2018, is a presidential-style form of government. With the transition to this system, the powers of the TGNA to form a government were transferred to the President elected by the people. Meaning that ministers are appointed by the president and can also be from outside the parliament. Although there is some resemblance with the presidential system of the US, Turkey's presidential system is very different from its pairs. For instance, in the conventional presidential systems, the legislative and executive branches are elected independently of each other and carry out their duties independently of each other. However, in *de facto*, Mehmet Uçum, the Chief Advisor to the President, argued for the Turkish presidential system that the president has sole authority to make political decisions

and ministers have no political authority and are not accountable to parliament; they are the “technical working team” of the president (Hürriyet, 2018).

In both public and academia, Erdoğan’s presidential position in this regard has been criticised as the further consolidation of his power. Especially for the economic administration, where the parliament’s authority to prepare the budget has been abolished, the new system enabled them to prepare the budget by the presidency. The system, moreover, enables the President to be able to issue presidential decrees on matters related to executive power. This gives the President the power to dismiss and appoint the Governor of the CBRT and Erdoğan often changed the governors to dictate its economic agenda. Bedirhanoğlu (2022: 106) illustrates that

It is also not a coincidence that the autonomy of the CBRT, which was under Erdoğan’s open attack since 2015, came to a de jure end under Turkey’s new economic management. The decrees legislating the passage to the PSG [Presidential System of Government] in July 2018 also made the term of the CBRT chair uncertain, cancelled his/her authority to assign deputies, and lifted the requirement of merit and experience in the assignment of upper CBRT cadres together with the ban of the chair and deputies to own private company shares or get involved in their management boards.

Another important change in the centralisation of power with the presidential system, as Bedirhanoğlu (2022) argues, is the ‘reunification’ of the treasury (formerly Undersecretariat of Treasury) and finance (formerly the Ministry of Finance) under one ministry, i.e. the Ministry of Treasury and Finance was established in 2018.⁵³ Besides this, the Ministry of Trade was also established with the unification of the Ministry of Economy and the Ministry of Customs and Trade. These unifications of the ministries can be addressed to ease the economic policy-making process, making the policy-making and controlling mechanisms more centralised, or in other words, “to monitor the cash and foreign exchange flows more closely” (Bedirhanoğlu, 2022: 106). Therefore, the presidential system has provided a new consolidated power for the state to centrally manage the main and general economic areas (i.e., policy-wise) to intervene and control.

⁵³ Initial separation of the ministries was realised after the 1980 coup, with Özal’s desire to neoliberalisation of Turkey’s political economy. Since it marked the development of an independent monetary management under the Treasury, free from internal political constraints channelled through the Ministry of Finance, it has long been regarded as a significant step in Turkey’s neoliberalisation process (Bedirhanoğlu, 2022).

Table 14. Nölke et al.'s Classification Matrix of Complementarities in SMEs

	Corporate governance	Finance for investments	Industrial relations	Education and training	Innovation
Corporate governance		Strong	Weak	Weak	Weak
Finance for investments	Strong		Weak	Weak	Weak
Industrial relations	Weak	Weak		Strong	Strong
Education and training	Weak	Weak	Strong		Strong
Innovation	Weak	Weak	Strong	Strong	

In the table above, we see the complementarity patterns expected from SMEs as a result of the analysis of Nölke et al. (2020). Accordingly, they mention two potential clusters that can be seen in SMEs as strong complementarities starting to form clusters. The first one is the cluster formed by strong complementarities between corporate governance and finance for investments and the second one is the cluster formed by strong complementarities between industrial relations, education and training and innovation domains. The authors argue that the reason why these two clusters form strong complementarities is due to the binding relationships between complementarities. For instance, the liberalisation of financial systems will directly lead to the liberalisation of ownership in these financial systems, which in turn will change corporate ownership structures in financial structure (Nölke et al., 2020: 197-198). Regarding the second cluster, if a country that largely produces medium-technology decided to switch to high-tech production, it firstly needs to improve its education and training programs to provide necessary knowledge toward innovation, and then it needs to establish “more sophisticated corporatist labour relations going beyond the high levels of informality” in order to qualified labour (Nölke et al., 2020: 198). To reveal the potential existence of such clusters in Turkey and to examine the inter-institutional relationships, I will now investigate the relationships between individual domains in question.

It can be argued that there is a strong complementarity between the domains of corporate governance and finance for investments in Turkey. In relation to the SPC framework, it can be one of the most significant mechanisms of AKP governments

that the establishment of the TWF and acquiring three public banks under it created a strong ownership mechanism for the state to control investments. As previously mentioned, the TWF was established with the goal of the development and growth of particular sectors which are owned by the state, but it has unclear situation whether the TWF has had a strong impact on improving growth strategies due to its financial resources. However, if we think of the TWF in terms of the banks that are part of it, and since these banks have become the most powerful actors of the recent banking sector, the fact that AKP governments have decisive authority over these banks and thus over the loans to be given may be one of the most powerful features of contemporary capitalism in Turkey, in terms of control. Thus, it can be argued for the recent years of the AKP period that the strong complementarity of corporate governance and finance for investments provide an institutional cluster.

The following example can be given to show how this complementarity can be utilised to finance *de novo* companies. Mehmet Cengiz (Cengiz Holding) and Fettah Tamince (Rixos Hotels) jointly bought 700 acres of public land in Cennet Bay although the tender was later cancelled and the decision not implemented. The importance of this incident is that they received 277 million liras from Ziraat Bank as an ‘irregular loan’. The tender price of 277 million liras was supposed to be paid by Cengiz and Tamince to the Privatisation Administration, yet they financed the tender price by borrowing from Ziraat Bank. As required by law, banks are supposed to carry out the sale and the mortgage simultaneously at the title deed office and transfer the sale money to the seller’s account after the signatures are signed at the office. However, this was not the case. With the loan obtained from Ziraat Bank, the tender price of 277 million TL was paid to the Privatisation Administration on 26 June 2013. On 5 July 2013, the title deed was transferred to Cengiz and Tamince. Thirteen days after the money was paid, Ziraat Bank established a mortgage of \$180 million on the title deed of the immovable property (Sendikaorg, 2021). Upon the judicial review of the issue, the Council of State Board of Administrative Appeals cancelled the tender although this clearly shows how a public bank is utilised to provide loans to the holdings that the state has close relations.

While historically it was easier to speak of a strong complementarity and a cluster in terms of industrial relations, education and training and innovation, today it is more

complex. The low participation in higher education in the past and the predominantly labour-intensive and raw-material-intensive sectors with lower wages gave Turkey a comparative advantage. If we put aside the last few years, until 2015-2016, we can discuss about a parallel increase in medium technology production with rising educational attainment, relatively rising wages and relative decreases in minimum wage earners where a strong complementarity can be found. This may be argued as an important aspect of the country's transition to the production of medium technology goods. However, in recent years, while the state of education remained largely unchanged, we see an increase in the number of minimum wage workers, a decrease in the real minimum wage, and at the same time a further decrease in the gap between the average wage and the minimum wage in the country. This can be explained differently that the decline in wages and Turkey's comparative advantage of cheap labour seem to be due to other factors such as the devaluation of the Turkish lira and the cheap labour force created by refugees, or a policy choice. Given that labour-intensive sectors still account for a significant share, decreasing real wages and that almost half of the country has a basic education level despite rising educational attainment, there may be a cluster composed of these three institutional domains.

4.4 The State of Capitalism in Turkey and the SME Model

In the previous sections, I investigated the main components of the SPC framework in the context of Turkey's political economy over the years of the AKP governments. In this section, I will discuss the relevance of the findings to the possible SME model in Turkey, i.e., the potential aspects of capitalism being or becoming state-permeated and the main changes and continuities to the framework.

Nölke et al. (2020) argue that SMEs differ from both the coordinated market economies (CMEs) of continental Europe and the liberal market economies (LMEs) of the West. In general terms, we can summarise the SMEs with the following four features: (1) high levels of state ownership where the state owns a large portion of the economy in terms of assets and control over key industries; (2) informal cooperation between state and business where the state and the private sector have a tight relationship which is characterised by informal cooperation and similar interests; (3) state intervention in the economy where the state actively interferes in

the economy to advance economic growth and promote national interests (4) a developmental approach to an economic policy where the state has a developmental policy agenda on economic policy, emphasising the value of government intervention in fostering economic progress.

Different from the popularised idea of ‘state capitalism’, where the state is believed to have the foremost dominant role in realising the economic activity of its nation, the SMEs conceptualise a variety of capitalism that is determined by the close cooperation between the state and businesses, as it draws a form of coalitions either at national or subnational levels (Nölke et al., 2020). In this system, the government actively encourages economic growth and development, frequently by implementing industrial strategy and businesses, and at the same time, businesses have strong ties to the government and frequently get special treatment. The recent economic success of countries like China and India is attributed to having a SPC style of economy by Nölke et al. although it is less effective in countries such as Brazil and South Africa.

Following the previous sections, Turkey has partially met the above general characteristics in its late governance. During the first half of the AKP period, however, an SME agenda was not possible that strategic sectors which were owned by SOEs were heavily privatised and the IMF-prescribed structural program was implemented. In fact, Turkey’s political economy was further strengthened toward Western liberal standards that the active role of the state was tried to be minimised in every aspect of the economy by the consolidation of “neoliberal capitalism” (Boratav, 2016; Orhangazi, 2020). Therefore, it may not be reasonable to claim that the early AKP governments would pursue strategies of ownership of powerful industries, state intervention in the economy and a heterodox developmentalist approach as we often face in emerging economies. The analysis shows that the early AKP government had established good relationships with the business groups, namely TÜSİAD, MÜSİAD and even TUSKON, however, this should not be evaluated in the frame of any variety of state-led capitalism. As business associations, they often expect governments to have close relations with them to ensure their business interests. In the early 2000s, the business interests of the Turkish bourgeoisie were more oriented toward pro-market policies that ideally

minimalize the role of the state in the overall economy. In relation to AKP's early pro-business identity, Öniş (2004: 8) asserts that

The JDP [AKP] leadership has also seen the purely economic benefits of Turkey's closer integration with the EU. Not surprisingly, therefore, the JDP has established itself as a vocal and active member of the pro-EU coalition in Turkey, a coalition in which civil society organizations led by key business associations such as the representative of big business in Turkey, TÜSİAD and MÜSİAD are also key elements.

In other words, the close state-business relationship during the early years of the AKP period is more about sharing the same vision for embracing an economic programme and goals, which were mainly about according with the Western (neo)liberal paradigm. In Western countries, especially in the EU, we observe close ties between governmental organisations and business associations (or more broadly interest groups) that close collaboration of business associations is seen as an important element of "representative democracy" during the policy-making process (Eising, 2009: 3). Thus, the state-business relations have a variety of utilisations depending on countries.

When we come to the second half of the AKP period, we observe that the AKP governments further improved their relations with MÜSİAD. In terms of the AKP government's growth strategies, we see *de novo* companies gained much importance during the second half of the AKP period, mostly the tenders and mega projects. It can be said that these companies have become AKP's "construction" companies where the relations are built on favouritism. However, the presence of tensions with TÜSİAD brings the question of whether the coordination mechanism is well-designed for a development agenda. The fact that TÜSİAD owns the largest companies in the economy and that the industrial sector is largely managed by the private sector leaves AKP governments with a potential capacity problem in terms of influencing the industrial sector. It can be argued that the coordination mechanisms in SMEs have a more harmonious structure where the state-business networks are constructed toward particular growth strategies. Nevertheless, TÜSİAD's externality from the state-business networks may create a contradictory structure in Turkey's coordination mechanism, in which TÜSİAD companies compose the large portion of domestic production and trade.

The political economy of Turkey is characterised by a variety of institutional domains that influence the country's economic development. The domains are important for determining SMEs, and moreover, the presence of institutional complementarities is one of the essentialities of the model that “a uniform mode of coordination across institutions... is an indispensable source of cohesion” (Nölke et al., 2020: 37). As long as there are institutional complementarities that spread, penetrate and influence the overall policymaking, the coordination of institutions and economic policy become smoother and effective for the totality of decision-making process.

Institutions in Turkey provide a mixed and complex picture of an SME. The reason may be that the institutions are influenced by Turkey's complicated nature of the political economy, i.e., there is no holistic and coherent understanding of a policy paradigm. The authoritarian nature of policymaking is widely spread in institutional domains and further consolidated with the introduction of the presidential system (Altınörs & Akçay, 2022; Bedirhanoglu, 2021). Yet, relatively more liberal forms of policymaking still exist in some of the institutions and this may create fragmentations toward an SME.

Concerning the SPC framework, first of all, corporate governance of the largest companies in Turkey is heavily dominated by the private sector actors unlike in China, India, Brazil and even South Africa. As I illustrated, the privatisation of strategic SOEs is one of the reasons for the heavy dominance of the private sector. Although the TWF was established and acquired some critical companies in various sectors, almost all the companies in the manufacturing/industry sector are still privately held. Nölke et al.'s (2020) model empirically focus on the examination of the largest companies by their turnover, but the SPC framework has a comprehensive understanding of corporate governance by also underlining the energy, telecommunication and banking sectors. Indeed, through the TWF, the Turkish government holds the most powerful banks, important telecommunication companies such as Türkcell, Türkstat and Türk Telekom and energy companies such as BOTAŞ and Turkish Petroleum. State control of these companies shows the government's desire to hold companies in strategic sectors. Nevertheless, one of the fundamental features of SMEs is to provide a development agenda through the industrial

production of the country, with a higher degree of industrialisation and innovation (Nölke et al., 2020). It is clear from the data that Turkey has a dominant manufacturing sector both in domestic markets and for exports, and an increasing rate of medium and high technology production. Yet, in terms of ownership, the state does not hold any significant company in this strategic sector but provides financial incentives and roadmaps toward further industrialisation of the private sector. Although this situation alone does not restrain us to claim that Turkey is not an SME, it makes it harder to claim vice versa since the AKP governments has been heavily dependent on the private sector for industrialisation.

Secondly, the domestic markets of Turkey show some differences from the SMEs. Although it has some similar features in openness to the international market and dependency on foreign goods, it has a more dynamic and growing domestic market than South Africa. For instance, we observe a strong construction sector which revived the financial sectors through credit mechanisms, and a strong manufacturing sector which has an increasing trend of exports that have an impactful role in GVCs. However, increasing domestic production in the country does not provide economic independence for domestic consumption that the Turkish economy has been requiring large volumes of imports especially to produce next-level intermediate goods or final goods. Moreover, the AKP governments aimed to attract foreign investments during almost the whole administration period. Regarding portfolio investments and financial inflows, Akçay and Güngen's (2019) findings show an interesting result that there is a parallelism between the rate of total foreign inflows and the GDP growth rate between 2003 and 2018. They explain the situation through the "dependent financialization" of Turkey's political economy. We know that Turkey's FDI attraction decreased in the second half of the AKP period and this led the government to prepare new strategy documents to attract higher volumes of FDI into the country. In fact, Yeldan and Ünüvar (2016) argue that the AKP's economic policies were designed to draw in foreign investment, create a model of speculative development that is heavily indebted, and ignore the need to address the country's core issues. According to the International Direct Investment Report published by the Union of Chambers of Certified Public Accountants and Sworn-in Certified Public Accountants of Turkey (TÜRMOB, n.d.), it is stated that developing countries like Turkey often suffer from structural bottlenecks and a lack of capital accumulation,

and utilising external financing sources is a mandatory and indispensable option. Therefore, Turkey's dependency on international investments differentiates its variety of capitalism from the successful SMEs.

In other words, integration into the world markets is one of the essential characteristics of SMEs. Nevertheless, it is an underlying factor that the integration should be strategically realised and selective integration and disintegration strategies have to be adopted. This means that SPC economies bring their powerful domestic markets, which do not require dependence on the international economy, to the foreground and utilise their integration as they would benefit from international trade relations. As a result, the SME model is being a development strategy mostly through industrialisation, (1) integration into global trade and manufacturing networks is much higher than integration into global finance markets, and (2) the SMEs can be more persistent bargaining partners in bi- and multilateral decision-making processes than other emerging countries due to the size of their domestic economies and appeal to global firms (Nölke et al., 2020). The authors frame the role of international economic relations as follows (Nölke et al., 2020: 197):

state managers do not necessarily have to cater to the demands of foreign multinationals but instead strive for selective or conditional opening to also allow technological modernization. Large domestic markets allow for a high degree of independence from external economic pressures and provide a stable framework for the growth of industries, as well as for a national strategy to protect this beneficial internal structure. In contrast, other forms of capitalism are oriented towards global product markets, and therefore home markets are secondary for the formulation of industrial or macroeconomic policies.

From an initial point of view, increasing trade relations brought a positive impact on Turkey's economy, especially having a higher role in GVCs recently. Yet, integrating with GVCs involves more than just lowering the percentage of foreign value-added and raising local value-added (Humphrey & Schmitz, 2002), especially in sectors with low and medium levels of technological development. We know that Turkey's export structure is dependent on imports, and it is already seen as a problem by the Ministry of Development of the day (see Eleventh Development Plan, Report of the Working Group on the Relationship between Production and Foreign Trade, 2018).⁵⁴

⁵⁴ Moreover, the report illustrates that difficulties in obtaining capital and financing for the private sector, firm productivity, barriers to implementing government support mechanisms, the private sector's access to an educated and skilled workforce and employment, as well as additional costs and

Moreover, As Dağıstan (2017) shows, the creation of value-added in GVCs with medium-high and high-technology goods is underperforming and the labour-intensive manufacturing sector gives a specialised position in world markets. The highest competitiveness index among low-technology sectors was found in the tobacco, textile, apparel accessories, tanning and leather goods, and furniture industries as of 2016 (Eleventh Development Plan, Report of the Working Group on the Relationship between Production and Foreign Trade, 2018).

It may be argued that while these relatively low to mid-technology labour-intensive manufacturing sectors boost the overall exports and economic growth of the country, it has also led to reliance on medium to high technology on imports. Given the overall economic conditions in the country and plans for economic development, it may further deepen the dependence although it may be strategically implemented. Nölke et al. (2020) argue that China's success, and the success of SPC economies, lies upon the intensive production in medium technology sectors, where further technological expertise is not greatly prioritised. However, they also argue that these countries have the capability to, and no dependence on, high-technology products and that the reason for medium-technology specialisation is for the profitability and higher value-added potential in world markets. However, as SMEs should pursue development through industrialisation, it is expected from countries to have a competitive role at least in medium-technology products.

As in domestic markets, Turkey's domestic production and trade volumes (according to technology levels) show that Turkey largely produces and exports low-medium and medium-high-technology products. Yet, the problem in Turkey's integration, in terms of the SPC framework, can be explained by the dependence of exports on imports (as is the case for Turkey's integration in GVCs), the exports of low-value-added goods and insufficient developments in local technology production (Orkunoğlu Şahin, 2022). On the other hand, Turkey's deep financial integration and dependence and the fragile nature of its financialisation are very different from the successful SMEs and it can be argued that Turkey has no sufficiently powerful

bureaucratic burdens, can all be identified as major challenges in Turkey as it transitions towards high value-added production and, as a result, in the area of foreign trade (Report of the Working Group on the Relationship between Production and Foreign Trade, 2018).

domestic markets to break its dependence. Referring to Nölke et al.'s description of the ideal international integration of the SMEs, Turkey has larger problems in its financial integration than trade integration, which even seems to create an effect of further dependence on international markets.

Coming to the institutional clusters in Turkey's political economy, the first cluster is formed through strong complementarity between corporate governance and finance for investments. Concerning the SPC framework, as discussed, corporate governance holds a weakness in that the government has no state control over the industrial sectors. Yet, on the other hand, we observe that the AKP governments have acquired control over the public banks after the TWF had acquired them, and these banks started to hold much higher assets than their historical values. For instance, as of 2022, public banks hold around 44% of total assets circulated in the Turkish economy. First, having such financial power enables the government to allocate loans to important economic sectors like industry, infrastructure and SMSEs or projects. We know some examples of financing mega projects through state banks to private firms, which have often acquired tenders via their close relations with the government. Thus, this is an important part of capitalist dynamics in Turkey, as it provides financial power to the public banks to invest in developmental goals, strategic measures and mega projects.

The second "potential" cluster is formed through the strong complementarity between industrial relations and education and mixed complementarity between industrial relations and innovation. I rather choose to call this cluster potential because, first, we do not have data and information regarding the innovation and education and training complementarity, and second, the industrial relations and innovation show a rather mixed situation. The reason for the potential clustering of these institutional domains is due to their interrelationships that existed before and in the early years of the AKP era. While it can be argued that the strong complementarity between these institutional domains brought a comparative advantage in the early 2000s, its strong clustering pattern shifted toward a fragmentary situation during the late AKP period. If we track the levels of education, the data regarding the wages and labour costs and higher levels of low to medium technology production, this cluster can be justified by the nature of the labour-

intensive jobs in the early 2000s. In other words, the comparative advantage was on an institutional alignment between sizable low-wage industries with low and medium skill requirements and an education training system where the majority of the working population had a basic education level. It is especially important that Turkey's export strategy was determined according to the labour-intensive jobs. An export strategy based on low wages is based on labour-intensive sectors, and sectoral development that would encourage technological development was not on the agenda. According to Eşiyok (2007), by the 2000s, Turkey had not been able to leave its position as an exporter of labour-intensive, low-technology goods, and the share of labour-intensive sectors was as high as 45% on average for the 1990-2005 period.

After 2016, we observe that this potential cluster has started to bring some fragmentations in terms of the complementarities between its institutional domains. However, it is possible to claim that there were relatively consistent improvements until 2017 when the rising education levels and medium and high-technology production gained an upward trend while real wages and total productivity have a parallel trend (after the 2008 financial crisis). The existence of the earlier labour-intensive production and later shift to medium technology production during this period has some similar features to China's political economy. As Nölke et al. (2020) detailly analyse the Chinese comparative advantages, it is stated that labour-intensive jobs had an important advantage for a long time, and it paved the way for China being an important producer of technologically advanced products in medium segments through the rise in education levels of workers and innovation strategies. In other words, Nölke et al. (2020: 72) explain that

cheap, disciplined and adequately skilled mass labor force was complemented by a segment of higher-skilled laborers such as engineers and technicians. This was supported by the rising public expenditure on education as a percentage of total government expenditure. In conjunction with some progress in innovation capacity building, this helped Chinese producers to effectively focus on medium-tech production, in which skill and innovation requirements are not overly sophisticated.

One of the essential reasons for increasing industrialisation after the financial crisis can be reasoned through the adaptation of "active industrial policy" and shift to a "developmentalist agenda" especially after 2011 (Rodrik, 2009; Kutlay, 2019). We observe increasing levels of education, a more educated labour force toward having

the capability to medium-technology production, an increasing level of labour market segmentation and increasing income inequality after the crisis (see Kumaş et al., 2014; and see World Bank data for increasing GINI coefficients). Despite the increases in labour market segmentation and income inequality, it can be possible to say that minimum wages were relatively stable, real wages recorded improvements and the proportion of minimum wage workers decreased until 2016. Moreover, the steady increase of strategic plans for industrialization and innovation starting from 2011 onwards can show that the second cluster was valid and effective to provide strong institutional complementarities until 2016. Even though the variety of capitalism in Turkey is in question, some scholars are evaluating this developmental agenda through a variety of state capitalism (see Kutlay, 2019; Öniş, 2019). Thus, it can be argued that the second cluster was consistent with the SME model until 2017.

Starting in 2017, the relationship between institutional domains began to change. As I show earlier in this chapter, there is a continuous increase in industrial productivity, the share of R&D expenditures, patent applications and registrations and industrial production index as an implication of higher innovation activities. The level of innovation in Turkey is still behind the successful SMEs, yet the increasing trend in medium-technology innovation and industrialisation activities was supporting Turkey's potential transformation to an SME. Yet, in terms of the cluster, it started to have a fragmented nature that a possible comparative advantage gives a blurry result. Put differently, rises in innovation activities should have provided a comparative advantage toward at least medium-technology products by skilled labour. Yet, since 2017, real wages and minimum wages have been deteriorating, further, the divergence between the average wage and minimum wage started to decline largely. In successful SPC economies, according to Nölke et al. (2020), it is normal to have a labour market segmentation in terms of wages that educated and skilled labour is expected to acquire higher income than manual labour. In Turkey's case, however, labour market segmentation seems to decline negatively and the wages of skilled labour started to converge the minimum wage ratio.

The second cluster may not necessarily bring a contradiction since low labour conditions in both labour-intensive jobs and medium-technology production may still provide a comparative advantage. The low labour conditions as well as oppression

toward labour rights and standards widely exist in successful SPC economies (see Nölke et al., 2020). Similarly, AKP governments oppressed both individual and collective labour rights and embracing a low labour-cost policy does not exclude the SPC framework. The fragmentation of the second cluster appears through the continuation of labour-intensive jobs that it does not coincide with the domains of innovation and education, nor reflect the rhetoric and goals given in strategic plans.

The next table summarises the findings of this chapter in a generalised manner. It is important to note that there is no analytical approach to determine SMEs based on the balance between components, i.e., how many components are compatible with the framework or not.

Table 15. Turkey's Compatibility with the SME Model, 2018 to Onwards

Components	Incompatible	Mixed	Compatible
<i>Coordination</i>		X	
<i>Corporate Governance</i>		X	
<i>Finance for Investments</i>		X	
<i>Industrial Relations</i>			X
<i>Education</i>			X
<i>Innovation</i>			X
<i>Domestic Markets</i>	X		
<i>Comparative Advantages, Institutional Complementarities and Clusters</i>		X (second cluster)	X (first cluster)

After investigating and discussing Turkey's political economy during the AKP period, it can be seen that capitalism in Turkey shows a form of hybrid political economy, which still carries the elements of liberal norms being an open economy, but at the same time shows some similarities with the SMEs in the domains that concern the domestic economic structure. In other words, Turkey is far from being a successful SME as long as it concerns international integration, where the relative size of the domestic markets and dependent economy resembles the liberal model that Turkey was once fully part of. On the other hand, on matters and institutional arrangements to which the Turkish government is not directly bounded to

international provisions, Turkey's political economy displays some of the features of SMEs.



CHAPTER V

TRANSFORMATION OF CAPITALISM IN TURKEY: CONCLUSION

In the previous chapter, I analysed developments in Turkey's political economy during the last twenty years in terms of Nölke et al.'s SPC framework and concluded that contemporary capitalism in Turkey cannot be considered a SME in its entirety, but rather as a hybrid form with SME characteristics in some areas. In this concluding chapter, while proceeding chronologically and summarising developments, I will discuss how my results can be considered in terms of the transformation of capitalism in Turkey during the AKP rule, and then I will discuss the limitations of my approach and my research.

However, before moving on to a discussion of the components investigated in the previous chapter in terms of transformations, the table below summarises the overall findings for each component of the SPC framework.

Table 16. Summary of Findings

Components	Overall Findings for the First Half of the AKP Period	Overall Findings for the Second Half of the AKP Period
<i>Coordination in Turkey's Political Economy</i>	Balanced state-business relationships with TÜSİAD (being more influential) and MÜSİAD	- Existing powerful state-business relationship with MÜSİAD - Strained relations with TÜSİAD, which began to be excluded from

	• SOEs were privatised to various conglomerates and holdings, including TÜSİAD members • Relatively more formal tendering processes	state-business networks. Yet TÜSİAD still holds a major role in the economy • Rise of <i>de novo</i> companies, which are close to the government through personal relations, and utilised especially for mega projects • Tendering process became more closed and informal
Corporate Governance	• Most SOEs were transferred to the private sector and state control over industries was significantly reduced • Turkey's largest businesses were controlled by the private sector	• Turkey's largest companies continued to be controlled by the private sector • By the establishment of the TWF, the state has started to acquire some important companies and has control over them • The transfer of some state-owned companies and banks to the TWF, together with the presidential system, facilitated the government's control of these companies • The TWF offers a strong ownership mechanism but may face limitations due to financial capability and liquidity issues
Finance for Investments	• New banking reforms were introduced • Private banks held the majority of total assets but the power of public banks would not be overlooked	• Public banks (operating under the TWF) came to the forefront of the banking system and started to dominate the banking sector in terms of total assets • Through the TWF, public banks became a financing vehicle for government initiatives and projects

		• The share of foreign banks in the banking system increased
<i>Industrial Relations</i>	• Relatively higher unionisation rate of workers despite the restrictions on strikes • Increasing trend of real wages • Individual labour law of 2003	• Unionisation rate significantly decreased and restrictions on strikes continued • Decreases in informal labour but still in significant shares • Decreasing trend of real minimum wage • The gap between the average wage and the minimum wage has been converging with each other • Collective labour law of 2012 • Utilisation of refugees in labour-intensive sectors
<i>Education and Training</i>	• Education level of the overall labour force continuously increased during the AKP period • Increasing number of private schools in both periods • Introduction of 4+4+4 system in 2012 • Although the VET system has been important for the education system, it has not had a differentiating and positive impact on employment	
<i>Innovation</i>	• Relatively low levels of patent applications, registrations and R&D expenditures • No specific, focused and comprehensive strategy toward innovation activities as well as an “active industrial strategy” • Increasing levels of medium-technology production	• Relatively higher levels of innovation activities but still low • Strategic plans and development strategies have started to focus on innovation and industrial development through <i>Milli Teknoloji Hamlesi</i> • Increasing levels of medium-technology production • Defence industry has gained special attention in R&D activities, reflecting the potential international disintegration strategy
<i>Domestic Markets</i>	• Manufacturing has been the largest sector in domestic production and it performed an increasing trend during the AKP period	

	• Agriculture, forestry and fishing sectors recorded a decreasing trend over the years • Except for the developments in recent years, the construction sector has expanded and nearly doubled its share of GDP • Increasing total volume of trade over the years • During the first half of the AKP period, the decreasing trend in the proportion of imports covered by exports but it started to increase during the second half • Higher levels of FDI attraction and Turkey's global FDI market share during the first half of the AKP period • Higher levels of FDI outflows during the second half • Turkey's largest importing countries have begun to shift to the East while the EU still holds a large share in trade volumes • Turkey's integration in GVCs increased over the years • Increasing financial dependency and financial deepening	
<i>Comparative Advantages and Institutional Complementarities</i>	• Labour-intensive sector exports hold the majority of total exports, despite the decreasing trend, as a comparative advantage • Complementarity in industrial relations, education and training and innovation	• With the establishment of the TWF, corporate governance and finance for investments composed a cluster as strong institutional complementarity • Increased levels of medium and high-technology exports • Low labour cost policies in recent years with the devaluation of the Turkish lira show a fragmentation in industrial relations, education and training and innovation cluster

Tracking the prominent role of the state in the history of Turkey's political economy, the election of the first AKP government can be seen as the deepening of the liberalisation efforts of capitalism, rather than a transformation of Turkey's political economy toward a liberal economic model. As outlined in chapter 3, Turkey's fundamental transformation toward the neoliberal programme started after the 1980's coup and with the Decisions of January 24. Although the crisis environment and populist policymaking of the 1990s brought back state intervention and provided a

mixed economic program, the first AKP governments followed a strategy toward further adaptation of the neoliberal agenda. Therefore, the early years of the AKP administration can be seen as the consolidation of neoliberalism in Turkey (Orhangazi, 2020), rather than a transformative shift, where “the new phase of neoliberal retuning was well under way” by the first election of AKP (Öniş & Güven, 2011: 590).

The first AKP government took over a depression economy sourced from the 2001 crisis and the overall macroeconomic stability tried to be restructured through the IMF structural program. One of the most salient observations until 2007 is that there were increasing financial inflows through FDIs (concerning the liberalisation efforts promised by the IMF agreement and high-interest rates), mostly by real estate activities and company acquisitions, which led to the appreciation of the Turkish lira, with the US dollar depreciating by about 40% to 55% between 2003 and 2007 (Yeldan, 2010: 225). However, with the global financial crisis of 2007, FDI flows decreased significantly and Turkey’s economy encountered different conjunctures in the global economy of investments. The second AKP government, therefore, found itself with a destabilized and fragile external balance, high external debt stock and aggravated exchange rate risk, and chronic unemployment and income distribution problems (Yeldan, 2010: 227). The global financial crisis began to set the stage for the potential transformations Turkey would experience in the years to follow, as Bedirhanoglu et al. (2020) assert the years of 2007-2008 as one of the first turning points during the AKP rule, or as Kutlay (2019: 692) illustrates that it was when “Turkish policymakers also became more attuned to the policy repertoire of new developmentalist ideas”.

The second AKP government, which experienced the bitterness of international economic downfall, endeavoured for returning to “active industrial policy”, by emphasising the industrial sector as the main driver of the Turkish economy (Rodrik, 2009; 2010-2014 Strategic Plan). Examining the first strategic plan⁵⁵ prepared by the Ministry of Industry and Trade, the economy was envisioned to be a pioneer in the

⁵⁵ After the general elections of June 2007, when the second AKP government succeeded, the regulation for preparing strategic plans by the ministries have formalised under the name of the Regulation on Principles and Procedures Regarding Strategic Planning in Public Administrations.

formation of a Turkey which would become the goods and services production base of Eurasia and rank among the ten most developed countries of the world by maximising Turkey's global competitiveness and ensuring structural transformation in industry and trade (2010-2014 Strategic Plan: 36, 39). Toksoz (2023) argue that the plan influenced the 10th and 11th Development Plans, which cover the 2014-2023 period and improved the themes of the 2010-2014 Strategic Plan as a new growth strategy. Approaching the year 2014, beyond the effect of the global financial crisis, she also asserts that the taper tantrum⁵⁶ of 2013 exposed the fundamental structural problems of Turkey's economy that were hidden by the capital outflows and subsequently influenced new strategies for growth (see also Orhangazi & Yeldan, 2021).

It is commonly agreed in the literature on Turkey's political economy that the major shift that later brought a transformative action in Turkey's economic structure has taken place after the global financial crisis. Although the "renewed economic boom of 2010-2011" was ensured by stimulated "domestic demand" (Güngen, 2020: 118), the effects of the 2007 financial crisis and 2013's taper tantrum could be enough to prove the financial fragility of Turkey's economy. Nevertheless, when it comes to the question of 'economic transformation to what alternative growth regime', the literature mostly brings two approaches for the explanation: varieties of capitalism (in a broader use including state capitalism debate) and authoritarian neoliberalism.

Transformations take place in no discrete times, meaning that they appear as a consequence of serial processes through time. Following the analysis and discussions of this research, it may be implied that the transformation of Turkey's capitalism within the AKP period has begun to be realised in their second administration period. My findings do not imply a difference against relative stability in neoliberal

⁵⁶ During a speech on May 22, 2013, Fed Chairman Ben Bernanke set off the taper tantrum. Bernanke stated that the Fed was thinking about curtailing its quantitative easing (QE) programme. The Federal Reserve's announcement that it would be reducing its QE programme sparked a quick and severe sell-off in the world's financial markets. A monetary policy known as quantitative easing (QE) entails the central bank purchasing long-term assets like government bonds in order to expand the money supply and spur economic development. Investors sold long-term assets like U.S. Treasury bonds in response to this statement and demanded greater rates. Stock prices and the value of the US dollar both dropped as a result of the sell-off. For more information, see Chari et al. (2017), "Taper Tantrums: QE, Its Aftermath and Emerging Market Capital Flows".

capitalism in terms of policymaking before the 2009 financial crisis. Before asking ‘transformation to what’, the ‘transformation when’ question is also not easy to answer. Nevertheless, based on my findings, it may be implied that the year 2014 marked a starting point for the beginning of a transformation, while 2018 may be seen as the consolidation of the transformation-in-process where concrete policy changes took place, rather than ideas and policy paradigms ideally starting to take hold.

Being the first strand of the transformation, 2014 may posit an important year for several reasons. First, in relation to the 10th Development Plan (2014-2018) and Strategic Plan of the Ministry of Development (2014-2018), we observe that the strategies are no longer designed according to the EU harmonisation process and the emphasis on harmonisation was removed from the main aims of the strategic plans, unlike in the previous documents. As it is influenced by the 2010 Strategic Plan, we observe heavy emphasis on industrial activity and innovation, and the emphasis on ‘development through industrialisation’ by also aiming to improve Turkey’s position in GVCs. The 2010-2014 period has been relatively loose in terms of industrialization efforts.

The second important point may be the changing nature of state-business relations. We know that the AKP governments’ close relationship with TÜSİAD started to diminish after the 2010 referendum on the constitutional change, where the amendments “arguably designed to increase parliamentary control over the army and judiciary” (Bedirhanoğlu et al., 2020: 14). Deniz (2019) illustrated that the AKP and TÜSİAD were in close relations by being in the same ‘growth coalition’ between 2002-2013, and the AKP’s search for a new growth coalition weakened the state-business relations with TÜSİAD after 2013 (Akçay, 2023). 2013 also brought with it some major events, such as the Gezi Uprising and the AKP-Gülen movement conflict, and the AKP government’s aggressive responses to these events. It can be discussed that the authoritarian rhetoric and especially the actions against the Gezi protesters caused the government to lose some credibility and brought a “legitimacy question” to the AKP governments (Bedirhanoğlu et al., 2020). Meanwhile, the taper tantrum hit Turkey’s economy. After the “dominant capital fraction” including TÜSİAD insisted on an austerity package by implementing structural reforms to

decrease public spending, increase public revenue and the “implementation of a tighter monetary policy”, which would be rejected by Erdoğan, the AKP continued to further approach to alternative capital fractions such as MÜSİAD (Akçay, 2023: 59).

Lastly, industrial relations may have an important aspect for making 2014 as a turning point in the transformation of capitalism in Turkey. 2012 was an important year for labour that the collective labour law faced several amendments which kept the authoritarian and oppressive characteristics of previous collective labour laws, but it further consolidated the oppressive regime on the collective labour (Özkiziltan, 2019). The law reflects the formality, besides the polemics on the rights and ethics, and starting from 2014, the AKP government returned to ban strikes after ten years, when strikes were planned for collective bargaining. After their fifth strike ban on Erdemir Mining in 2005, the AKP government’s next ban on (1) Şişecam and (2) Çayırhan and Çöllolar (both being coal sector firms) take place in 2014, and it paved a way for a sequence of thirteen strike bans in the rest of their administration. Erdoğan openly stated that they ban or intimidate strikes for the benefit of businesspeople, and the government has created such a strategy *de facto* that Adnan Serdaroğlu (chairman of Birleşik Metal-İş Trade Union) expresses it as follows (Duvar, 2022):

Within 60⁵⁷ days there is no chance to go on strike again. You apply to the higher court, and that process takes 2 years. When the strike cannot be renewed within 60 days, your authorization is lost. When the decision comes years later, it doesn't mean anything.

Being the second strand of a transformation-in-process, which can be argued as the consolidation of the new form of capitalism in Turkey, the year 2018 marks itself with the regime change to the Presidential System of Government. The consolidation was not only about transitioning to the new political system in which the capacity of the parliament’s legislative power was reduced and the power of the president’s capabilities was boosted, but more about the use of new forms of political and economic institutions together. With the analysis in the previous chapter, the TWF can be counted as a fundamental mechanism for corporate governance and finance for investments. Some might claim that the establishment of TWF itself could lead to

⁵⁷ 60 day is a deferral period given by the new collective labour law, please see the previous chapter for information.

a potential change in Turkey's political economy as it provides a new ownership mechanism to the state. Yet, the TWF was established after the 2016 coup, at a time when Erdoğan's power was still rising and not yet formalised within a political upheaval of a state of emergency. In other words, the time of consolidation of Erdoğan's power would come with the regime change, as the "15 July 2016 coup attempt, not only deepened the political crisis but also equipped President Recep Tayyip Erdoğan with exclusive political-legal instruments to further transform the constitutional foundations of the state" (Kaygusuz & Aydın, 2020: 41). The TWF's ownership was transferred to Presidency after the transition to the presidential system, and this may be grasped as the consolidation and formalisation of control that the general economic management became centralised (Bedirhanoğlu, 2022).

Therefore, we can imply that the Presidency's control over the TWF is significant for realising the current form of corporate governance and finance for investments to the extent of their conditions as discussed in the previous chapter. The year 2018 is also important due to the fact that the 11th Development Plan, covering the period of 2019-2023, has been prepared as the first Development Plan of the presidential system. In this plan, although it is mostly rhetoric, we observe a further emphasis on 'competitiveness' through industrialisation and innovation, as it came to be called under *Milli Teknoloji Hamlesi*. In line with the analysis and previous discussions, industrialisation and capital accumulation are aimed to be achieved through the private sector with the strong support mechanisms provided by the state (11th Development Plan, 29). Despite the potential failure of the plan in terms of achieving the targeted outputs as a whole, the rise of industrial production, the increase of R&D expenditures, the increasing share of medium-technology produced and increasing trade volumes especially exports can partially mark the significance of the potential transformation-in-process.

As much as 2018 may consolidate the transformation of Turkey's capitalism, it may inherently consolidate 'the' new paradigm. Bedirhanoğlu (2021) and Altınörs and Akçay (2022) argue that the new regime was established through the centralisation of power where the check and balances and accountability are lacking. It provides freedom for policymaking that observing, for instance, intensive oppression against both individual and collective labour rights would not be a surprising result of the

regime. The figures of industrial relations illustrate that while the strike bans have been continuing since 2014, the proportion of minimum wage workers has been increasing since 2018, the average wage has been further approaching the minimum wage, the minimum wage has been returning to the values of early 2000s and thus labour costs have been declining further while the productivity in the industry records a non-diminishing trend since 2015.

The question of ‘transformation to what’, however, is much blurrier than the question of when. The literature questions the potential state capitalistic nature of Turkey’s economy and does not provide any clear answer whether Turkey’s economy can be claimed as a state capitalism similar to China or India. Öniş (2019) argues that Turkey’s political economy is under some economic and political shifts, which are highly influenced by the developmentalist paradigm, and is a form of state capitalism “with neo-liberal features as a dominant development strategy” (Öniş, 2019: 206). Similarly, Kutlay (2020) also argues that Turkey started to experience a post-liberal order influenced by the Eastern alternative orders. According to him, being influenced by the developmentalist paradigm in emerging markets through the trade and investment relationships (see also Kutlay & Karaoğuzoğlu, 2018 for the ‘neo-developmental turn’), Turkey has been shifting toward a state capitalism by reflecting the trend of rising illiberal tendencies in the world economy. He explains the unclearness of state capitalism as follows (Kutlay, 2020: 697):

new developmentalist ideas are not as coherent and clear-cut as the principles of the liberal market model implemented under the aegis of the US-led international organisations. In a ‘loosely coupled’ development regime, inchoate, staggered and often contradictory experimentation gives direction to policy design and implementation – as documented in the Turkish case.

Likewise, my findings point to a similar situation as discussed in the literature. But this is not because of the uncertainties of the SME model, but rather because the political economic domains in Turkey do not holistically fit the SME model. Just as the literature indicates that there is no clear paradigm of a complete transformation to state capitalism in Turkey, my findings do not indicate that a complete transformation has taken place in terms of the SME model. The findings show that Turkey has been breaking away from the liberal capitalist forms of the first half of the AKP period. At the same time, however, a complete transition to state capitalism

could not be achieved due to the failure to completely break with the economic features of liberalism. In other words, in the case of Turkey's capitalist nature, we encounter a process of ambiguous breaks and vague transformations. Eventually, as far as my research is concerned, Turkey's recent political economy has taken a hybrid form, retaining some liberal features but with some SME characteristics.

When we examine the literature on the political economy of Turkey in general, we see that authoritarianism has occupied a large place in the analyses due to the major changes that Turkey has undergone politically. The increasingly politicised socio-political environment and the fact that political economy cannot be separated from political and sociological relations have led to the inclusion of the concept of authoritarianism in many analyses. As we can see more clearly, for example, authoritarian neoliberalism, or crony capitalism, which involves political and individual relations, or competitive authoritarianism, which is used in political science in a more general sense, some approaches frequently and analytically use the concept of authoritarianism to better understand the capitalist dynamics in Turkey. In this thesis, due to the breadth and diversity of the SPC framework, I have not conceptualised authoritarianism from an analytical framework. As long as the authoritarianism approach does not interfere with the analytical framework of the SPC framework, it can be used as an underlying layer and potentially provide clearer answers to our understanding of contemporary capitalism. This should not be taken to mean that I am saying anything contrary to the authoritarianism approach. As a matter of fact, although I do not analytically construct my analysis on the concept of authoritarianism, many of the secondary sources I use from the literature are authoritarianism-based research. In other words, although not analytically, I have indirectly shown the developments shaped by authoritarianism in my analysis.

Independent of the SME model, this thesis has some limitations due to its scope. Some of these are due to inaccessible data. As one of the most important of these, Turkey lacks a well-established data set on the financiers of investments and the amount of credit provided for investments. This also applies to tenders, which form an important part of the model. Another limitation is the lack of data regarding the nexus of education and innovation, e.g., a data on job placement of university graduates would be informative to understand the state of innovation in Turkey.

Regarding this domain, while analysing TÜBİTAK project data could provide a result at the education-innovation nexus, this has not been considered in this study. Moreover, while the views of officials and experts through interviews would have enabled me to better investigate almost every component, interviews could not be organised due to the time constraints of the research. Considering the scope and limitations of the thesis, future research could be designed to provide more detailed empirical information while being more component specific. A component-specific approach would further enhance the understanding of the underlying relations and linkages within each domain. The observations presented in this study provide more general information and assessments. Related to this, the findings of this thesis could be used in comparative research to analyse Turkey's political economy in relation to other types of market economies. Lastly, potential future research could focus on Turkey's political economy to investigate whether the post-COVID conjuncture, which I could not focus sufficiently on, has changed or reinforced the overall role of the state in Turkey's capitalism.

In addition to the broad analytical approach it offers, the SME model also has some limitations. The first of these is the absence of an institutional domain at the legal level concerning economic relations. Although legal developments affecting the dynamics of capitalism can be described within the components offered by the model, more fundamentally, it is questionable whether there is a similar/common legal structure of SMEs particularly to organise, determine and regulate their economic structures. Second, at the international level, the model does not address the diplomatic relations of SMEs. The ways in which SMEs are already embedded in the international economy and the strategies they pursue is a detailed component of the SME model. However, at the diplomatic level, the model does not address the economic-political relations of SMEs with industrialised emerging and underdeveloped economies or whether there are any determinants for SMEs to establish decisive diplomatic relations among themselves. We observe that the SMEs analysed and considered to be successful are generally located within BRICS. However, the relations developed in BRICS may be due to the fact that these countries are today's prominent emerging large economies rather than being SMEs.

Finally, from a broader perspective, the SME model may leave some question marks for the challenges faced by global capitalism today. Nölke et al. (2020: 245) say of their model that “the establishment and viability of this model presupposes a certain world economic structure”. Although this structure constitutes the forms of general economic relations, the direction in which capitalism, which is currently in some uncertainties, will evolve is not yet very clear. It can be said that the public authorities in industrialised countries have started to play a greater role, that the state, which was once the biggest advocate of neoliberalism, is no longer satisfied with the current state of global capitalism and may be in search of new forms. It does not seem clear how the developments that are “quite” worrying the Western societies are perceived in relation to SMEs. Climate change may be the biggest example that can be given to that end. However, it may be important to see how issues such as migration and gender inequality, which are increasing today, can be addressed to make sense of SMEs.

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