

# Triumph of the AKP: Challenges Ahead for Turkey in 2016

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## Introduction

### *At a Crossroads*

Situated at the crossroads of Europe and Asia, Turkey is thought of by some as a country that bridges different cultures and peoples and, by others, as a flashpoint for clashes between competing ideologies and influences. The G-20 Summit in Antalya, held in the wake of the Paris attacks of November 13th, provided an opportunity for Turkey to present the former, positive image, with Western powers and Russia coming together under Turkish chairmanship to proclaim unity against terrorism and set a plan for global prosperity. Just a week later, Turkey shot down a Russian fighter jet, symbolizing the discord among the world's major powers over the key geopolitical hotspot of today: Syria.

International affairs aside, the Summit also appeared to be a celebratory moment for Turkish President Recep Tayyip Erdogan whose Justice and Development Party (AKP) had just emerged victorious in the November 1st parliamentary elections. This marked an end to the uncertainty that hung over the country in the five months following the June elections, during which no party held a majority in parliament and the competing factions failed to form a coalition government.

However, as for the case of Turkey's international relations, positive images can betray underlying challenges. While the AKP has restored its dominance, the inter-election period represented a break in its more than decade-long rule—a rupture that was not without reason. After analyzing these election results and their causes, this paper then explores Turkey's challenges in depth, seeking to explain how the political, security, and economic situation have evolved over time and what may lay ahead in the new year.

### *The Elections*

Before Turkey's "snap" elections of November 1st, polls predicted yet another stalemate. Effectively, after losing its 13-year parliamentary majority in June and failing to form a coalition government, the AKP decided to roll the dice by calling for this second shot. It happened to succeed, returning to power with 57.6% of parliamentary seats (49.5% of the vote). Turnout was high at about 84-85% of registered voters in both elections.

The predominantly Kurdish People's Democratic Party (HDP)—which fashions itself as the liberal party supporting a broad spectrum of Turkish minorities—made headlines in June when it became the first Kurdish party to surpass the 10% threshold for representation in parliament, winning 13.4% of the vote. This time around, its performance was less stunning, but it still gained parliamentary representation with 10.8% of the vote. The traditional opposition Republican People's Party (CHP)—suffering from its longstanding elitist reputation even as it is trying to refashion itself as a modern, social democratic party—edged up very slightly in the polls, but continued to hover at around a quarter of the vote. The greatest losers were the far right Nationalist Movement Party (MHP), who saw its number of votes decline by 4.4 percentage points to 11.9%, while the apparent beneficiaries of these votes was the AKP.

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**Table: Turkey's 2015 General Election Results**

Percentage of votes and seats of parties crossing the 10% threshold for parliamentary representation, as well as the participation rate and number of registered voters in June and November.

	June 7th, 2015		November 1st, 2015	
	Vote	Seats	Vote	Seats
AKP	40.87%	46.91%	49.50%	57.64%
CHP	24.95%	24.00%	25.32%	24.36%
MHP	16.29%	14.55%	11.90%	7.27%
HDP	13.12%	14.55%	10.76%	10.73%
Participation rate	83.92%		85.23%	
Registered voters	56,608,817		56,949,009	

Source: Supreme Electoral Council of Turkey (YSK): [June](#) & [November](#) results

Note: \*Total seats = 550. \*\*Seats allocated based on a [combination](#) of proportional representation and electoral districts won by each party for those parties crossing the 10% threshold of total votes to gain representation in parliament. Seats could also go to independents without a threshold, but that was not the case in the 2015 elections.

The discrepancy between the results can be explained by the change in context over the five-month inter-election period. Before the June vote, President Erdogan had unveiled his bold hope that the AKP would win enough seats in parliament to be able to amend the Constitution into an executive presidential system. Such a change would have required at least three-fifths of seats to put the issue to referendum (vs. two-thirds to amend the Constitution without a referendum). A year earlier in 2014, Erdogan had ascended from the position of Prime Minister to President. Although Prime Minister Ahmet Davutoglu took over as the new head of Government, Erdogan still appears to be calling the shots from behind the scenes. The bid for an executive presidency appears to be seeking legitimacy for this arrangement and enhanced presidential powers.

However, as the June elections approached, it became clear that the move to an executive presidential system did not sit well with many Turks, who feared it may be a power grab, especially in the midst of corruption investigations targeting Erdogan and a sluggish economy.

A key change before the November election was that the hung parliament since June was followed by a period of heightened instability (security, economic, and political). This surely caused a number of Turks to turn back on the idea of toppling the strongman. If a popular slogan in June was “anyone but Erdogan,” the new slogan could be [paraphrased](#) with the catchphrase: “Better the devil you know.” There are those who argue that Erdogan himself sowed chaos for the very reason of increasing popular support. If so, the strategy seems to have worked.

In terms of the instability of the inter-election period, the most serious threat was on the security front. These months featured heightened tension and polarization with regards to the Kurdish nationalist movement. In July, a two-year ceasefire between the Kurdish Worker's Party (PKK) and the Government broke down. What followed were a series of PKK attacks on Turkish security officials, followed by Government reprisals. Moreover, after a deadly attack by the Islamic State (IS) on a Kurdish gathering in Suruç in July, IS again targeted a primarily Kurdish peace rally in Ankara on October 10th, killing 102 people, the deadliest terrorist attack in Turkish history.

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One might ask why such terrorist attacks on Kurdish civilians failed to raise more sympathy for the Kurds and seemed to have increased the popularity of the AKP. There are a few reasons. First, as the PKK was carrying out revenge attacks on Turkish security forces ([killing 167](#) in the lead-up to the November elections), fears of PKK terrorism increased, along with general anti-Kurdish sentiment. This was arguably exacerbated by the pro-Government media and suppression of opposition reporting. By striking back, the Government conveyed a strong image, serving to woo nationalist voters.

In the midst of the turmoil, the HDP was put on the defensive, constantly having to explain away its members' alleged associations with the PKK and reiterate its commitment to peace. Certain Kurdish business owners who suffered the wrath of ultra-nationalist revenge attacks on Kurds after the HDP's success in June may also have decided—out of fear—that it would be safer to back the AKP. In addition, the HDP was limited in campaigning due to the insecurity.

As for the CHP and MHP, both [suffered](#) from a lack of charismatic leadership and modernization, as well as a narrow support base. The CHP is supported by Turkey's Alevi minority, educated secularists, and moderate leftists, but has little appeal among conservatives and owners of small and medium-sized businesses. Even many big businesses prefer the AKP. Regarding the MHP, its leader Devlet Bahçeli has been viewed as authoritarian and uncompromising. He expelled party members seen as threatening to his leadership and categorically refused the possibility of any coalition with other parties on the eve of the June elections.

In addition to Turkey's security challenges, which turned voters away from the HDP, and the lack of viable alternatives in the other opposition parties, a key concern leading up to the November elections was that another hung parliament would be bad for business. Of course, there are still many questions to be answered regarding the AKP's economic strategy to come, but at least the party had developed a strong record on economic issues in the past. June's inconclusive elections, on the other hand, had spurred significant uncertainty, causing the stock exchange to plummet (-8%) following announcement of the results. Similarly, foreign investors sold Turkish assets at the fastest rate on record, dragging the lira down. By contrast, Moody's [hailed](#) the AKP win in November for reducing "political uncertainty in the near term." Of course, the longer term prospect for Turkey is still an open question.

## Then & Now

### *How Turkey has changed since the AKP's rise to power and challenges ahead*

While the AKP's mandate has now been renewed, various challenges lie ahead. On the political front, Erdogan has been facing renewed accusations of corruption and a slide towards authoritarianism. On the security front, instability is on the rise, not only with regards to neighboring Syria, but also spilling over into the country's borders, the most notable manifestations of which were the breakdown in the peace process with the PKK and a string of terrorist attacks, including very recently in Istanbul on January 12th. On the economic front, the Turkish lira has been in freefall, while growth has stalled and unemployment has risen.

The irony of all of this is that just several years back, the AKP was hailed as the party that was moving Turkey in a more democratic direction, bringing peace with the Kurds, and lifting the country from a low-middle income status to one on the threshold of becoming a high income economy. So the question is: How has the situation changed so markedly between then and now?

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## *Politics*

### *Then*

For over a decade, Erdogan has exercised power via successive democratic elections with higher voter turnout than most European countries can boast. For some time, this was hailed as a symbol of the coexistence between Islam and democracy. Erdogan reversed the tide of the country's former secular rulers, who were seen as elitist. Instead, he claimed to speak on behalf of the poor and marginalized segments of society. By removing restrictions on women wearing headscarves in public places, he opened opportunities for the underclass of Turkey's Anatolian heartland. Moreover, Erdogan launched investigations into Turkey's past atrocities against Kurds and political dissidents by the secular nationalist military and bureaucracy. Between 2008 and 2011, these investigations brought justice upon those ultra-nationalist networks. In addition, Erdogan succeeded in subduing the military to civilian authority and led the path to a constitutional amendment in favor of the direct election of the Turkish president.

### *Now*

More recent years have seen a turn of events in a rather different direction. Erdogan's opponents have accused him of increasing authoritarian tendencies, including cracking down on the opposition media and substantial corruption. His path has been [described](#) as being in line with that of various "illiberal democracies," in which an elected ruler adopts a winner-takes-all approach, which involves encroaching on civil liberties, the rule of law, checks on the ruler's power, or any potential pocket of opposition.

The aforementioned court cases against the ultra-nationalist are alleged to have [turned](#) instead into a "witch hunt" against political opponents of the AKP, including activists, journalists, and military officers. A notable target of this crackdown was Erdogan's former ally, the Islamic preacher Fethullah Gülen. Pro-Gülen judges and police officers, who had previously been involved in prosecuting the ultra-nationalist cases (as well as cracking down on dissenting views regarding their own movement), were subsequently dismissed when they turned their investigations towards alleged corruption of Erdogan's inner circle and family. At around the same time as the Gülen issue rose to prominence in 2013, security forces were accused of a heavy handed approach to peaceful demonstrators in Istanbul's Gezi Park, spurring a wave of civil unrest and outrage across the country.

In a November [report](#), the European Commission criticized Turkey for a series of gaps in its respect for human rights and democratic standards. It furthered that corruption in Turkey is widespread and the fight against it "inadequate." This is particularly noteworthy given the geopolitical context, in which one would expect the EU to be rather wary of chastising Turkey. Indeed, the EU has been courting Turkey on the refugee crisis and recently struck a deal with it (just after the UN [warned](#) that a stunning 5,000 migrants per day will pass from Turkey to Europe throughout the winter).

To be more specific about Erdogan's alleged slide to authoritarianism, in the past couple of years, newspapers and magazines linked to opposition groups have faced sanctions or even shutdowns, including via excessive tax evasion fines, "terrorism" investigations, and defamation charges. For example, two journalists from Hurriyet Daily News were [arrested](#) on charges of espionage and aiding a terrorist group for alleging that Turkish intelligence were transferring weapons to Syria under the guise of humanitarian aid. And just last week, a dozen academics were arrested in Turkey on "terrorism" charges for signing a petition that criticized the Government's conduct in the fight against Kurdish militants.

Some newspapers that were previously critical in orientation have now changed hands and become pro-Government outlets. Social media platforms in Turkey have also been periodically blocked. Crackdowns on the press continued during the election period, even as Erdogan openly campaigned for the AKP, unabashedly violating the constitutional ban on campaigns by the sitting President.

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Another source of concern about Erdogan's political direction regards his penchant for lavish mega-projects, namely the more than 1,000-room presidential palace — more than four times the size of Versailles — that he is building. The aura of luxury contradicts his own rise to power as a champion of the less fortunate, as well as with the campaign video HDP Chairman Selahaatin Demirtas put out with his humble, middle class family home. These projects have thus drawn further attention to the accusation that Erdogan is interested in personal aggrandizement.

For these reasons, Erdogan's stated ambition of transforming Turkey into an executive presidency as opposed to its current parliamentary democracy has been met with backlash from the opposition, even as the measure enjoys support from large swaths of the AKP base, which argues such a move will make Turkish policy-making more “efficient.” To the extent that the new system could give President Erdogan more direct control over judicial appointments, it could further erode checks on his power and the possibility of carrying out investigations against him or his allies.

It is far from clear that Erdogan could succeed in gaining the additional 13 parliamentary votes he needs to submit the amendment for an executive presidency to referendum. First, the nationalist MHP opposes this move, given its desire to open corruption investigations against Erdogan (a key reason why it did not form a coalition with the AKP after the June elections). For its part, the HDP ran on a platform of categorically opposing this change, although some have suggested that it could reconsider if a grand bargain were to be proposed, involving the exchange of HDP support of the executive presidency for Government support of the devolution of power in Kurdish areas.

A number of AKP officials are also not fully supportive of the move to an executive presidency or the general direction of the party and Government. For example, AKP co-founder and former President Abdullah Gul [stated](#) in 2014 that “Turkey’s light, which [was once] extremely bright, is not shining in the same way.” To be seen is whether these internal critics will be able to influence the AKP’s political path to come. Also to be seen is whether new opposition elites could emerge to increase the appeal of Turkey's opposition parties.

## *Security*

*Map: Southeast Turkey, bordering northern Syria and Iraq*



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### *Then*

Turkey's conflict with the Kurdish Workers Party (PKK) dates back three decades and has claimed more than 40,000 lives. Atatürk sought to create a modern, Western-style State, but based on a model rather different than certain liberal, multi-cultural ideals of today. The Turkish nationalists had not tolerated public displays of other identities, whether the religious one of the Anatolian underclass or the Kurdish one of the Southeast. Turkey's military rulers who came to power by coup in the early 80s, banned the Kurdish language in public places. Years later, these issues continued to fester: The 90s became known as "the lost decade," featuring kidnappings, torture, and executions of thousands of Kurds by state-linked ultra-nationalist assassination squads. The victims included a variety of civil society leaders and intellectuals, thrown into mass graves or "disappeared."

When Erdogan rose to power, it seemed that both the religious Turks and the Kurds were on the same side against the elitist, nationalist establishment. Erdogan eased the restrictions on speaking Kurdish and permitted Kurdish radio and TV stations. He also invested billions of dollars in developing the predominantly Kurdish Southeast. Moreover, he became the first Turkish leader to speak directly with the PKK, including its jailed leader Abdullah Öcalan. Öcalan then agreed to withdraw the PKK from Turkey. In 2013, a ceasefire was established between the Government and the PKK, a crowning achievement for the AKP.

### *Now*

#### *Kurdish Nationalists and Urban Warfare*

In July, the two-year ceasefire with the PKK fell apart. The trigger came after the July 20th bombing in Suruç by IS, which killed 33 people. The attack targeted a gathering of Kurds preparing to assist the reconstruction effort in Kobani. The PKK struck back by assassinating two police officers it accused of sympathizing with IS. In August, it declared numerous southeastern towns as an "autonomous region," provoking further crackdowns by security forces. In the ensuing conflict, Southeast Turkey has faced curfews and a new upsurge in urban violence, Turkish airstrikes have targeted PKK positions in Iraqi Kurdistan, and hundreds of suspected PKK militants have been arrested. Most recently, on January 14th, a Kurdish militant group exploded a truck bomb at a police headquarters in Diyarbakir, killing six.

The overall body count in this spate of violence since the breakdown of the ceasefire includes a couple hundred Turkish security personnel (a few hundred more, according to the PKK); a couple thousand PKK militants (according to the Government); and [150 civilians](#) (namely Kurds), according to a December report by the International Crisis Group (ICG), which also claims that some 200,000 people in Southeast Turkey have been displaced. Moreover, allegations of abuse of Kurds by the security forces have spread on social media. For example, HDP Chairman Demirtas shared on Facebook the image of a dead Kurdish activist being [dragged](#) by police vehicles, and the picture of the violated corpse of a female PKK militant [incited](#) online outrage. Human Rights Watch [accused](#) security forces of "severe ill-treatment and abuse of detainees" in its fight against the PKK.

To be sure, even before recent events, antagonism between the Government and PKK may have been brewing beneath the surface. Just because there was a ceasefire does not mean that the two sides stopped arming themselves for the next fight. In fact, the Government accuses the PKK of always having held the intention of rekindling the fight and lacking sincerity in the peace process. Of course, that still does not explain why the peace held for two years and only unraveled this summer.

The best explanation of the cause of Turkey's current fissures is the conflict in Syria and Iraq, which represents a geopolitical rupture not seen since the breakup of the Ottoman Empire. This could not but impact Turkey. While Kurdish groups have emerged as the key foot soldiers against IS, they are also carving out autonomous zones in the crisis-ridden countries. For example, one such zone in Syria is now under the leadership of the Democratic Union Party (PYD), a sister-group of the PKK. A key fear of the Turkish Government is thus that greater Kurdish self-rule across its borders could embolden the Kurds at home.

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On the Kurdish side, the turning point of greater mistrust towards the Government came as Kobani was threatened by IS in the summer of 2014. The Government refused to send in its tanks, stationed within view of the potential massacre of Kobani's Kurdish inhabitants just across the border. Under international pressure, the Government finally agreed to provide aid to the city that October and it was saved. But the Government's delay left lasting resentment on the part of many Kurds, spurring riots within Turkey, during which dozens were killed. This undoubtedly contributed to Kurdish mobilization in favor of the HDP.

In terms of prospects moving forward, of course the actions on the Kurdish side matter too. While HDP Chairman Demirtas has said that he is for peace, going as far as to [say](#) that he is the only leader who could bring about disarmament of the PKK, many Turks view him as too close to the group.

At the same time, PKK members were not all supportive of the HDP's electoral rise, which represented the emergence of a new class of civilian rulers challenging the tested militants for leadership of the Kurdish cause. Beyond the PKK, there are also Kurdish spoiler groups, who are more extremist and unwilling to relinquish the fight. One such group claimed responsibility for detonating explosives at one of Istanbul's international airports, raising [fears](#) that the conflict could move westward, beyond the urban warfare of the Southeast. In the meantime, since mid-December, Erdogan announced a "decisive" campaign to put an end to the conflict with the Kurds and wipe out the PKK.

### *The Islamic State*

Of course, there is another related critical security concern in Turkey: the Islamic State (IS), as most recently demonstrated by the January 12th attack at a major tourist attraction in Istanbul, killing ten. Previously, Turkey experienced other IS bombings in Suruç and then at an HDP peace rally in Ankara on October 10th, killing over a hundred. For its part, the Turkish State has also declared war on "terrorism," including on both the PKK and IS. However, the Government has been accused of prioritizing the fight against the Kurds to that against Islamist militants. Some have gone even further to accuse the Government of neglecting the fight against IS or even aiding and abetting the group. To be seen is whether the latest Istanbul bombing may turn the Government towards a greater crackdown of IS, particularly those members who pose an internal threat.

In particular, opposition groups have raised questions regarding the laxity of security forces with regards to IS. They point to the [fact](#) that the Ankara bombers—who were officially being pursued by the police—were able to travel hundreds of kilometers to the HDP peace rally to carry out the bombing, while security at the event was relatively thin. A [Pew poll](#) published in mid-November determined that 8%—a far from negligible percentage—of Turks hold favorable views of IS (compared to 73% who hold unfavorable views and 19% who do not know). During a minute of silence for the victims of the Ankara bombing at a key European championship qualifier soccer match in Konya on October 13th, boos and whistles could be heard from a "vocal minority" of fans, which suggests a level of sympathy with IS and/or demonization of Kurds.

Turkey has also been accused of turning a blind eye to and possibly assisting IS in Syria. Columbia University researchers created a [list](#) of examples of this assistance, including via logistics, weapons' supplies, medical services, and financial aid. Allegations range from failing to crack down on the flow of IS militants into Syria over the 900km land border with Turkey to allowing the establishment of IS supply and smuggling routes inside the country.

It is also legitimate to raise the question of whether Turkish policy towards Kurdish nationalism and IS is in part guided by fear. With potentially deep IS networks and no shortage of sympathizers in the country, there may be concerns that a greater crackdown on the Islamist militant group could make Turkey its next target, and this time, not just its Kurdish population. On the other hand, the group just demonstrated in Istanbul that it has already expanded its list of targets.

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Given fears of IS attacks, along with the unrest in the Southeast, various Western governments have issued increased travel warnings for Turkey since July. Following [threats](#) from IS to the U.S. Consulate in Istanbul, the State Department closed the facility in December. (Although it is interesting to note that the [August shootings](#) at the same Consulate were not perpetrated by IS, but rather by a far left group, which has also continually menaced American interests in the country.)

On the international scene, there is increased pressure on Turkey on the part of its NATO allies to step up its efforts against IS. Turkey fully joined the U.S.-led anti-IS Coalition in July and provided the Americans access to its strategic Incirlik air base. Still to be seen is whether this pressure will be sustained and how far Turkey can be nudged, especially given the EU's demand for Turkish cooperation on other issues, like the migrant crisis.

Moreover, on the other side of the political spectrum, Turkey has received pushback on its increased activism against IS by Iraq and Russia. For example, Baghdad ordered Turkey to withdraw its troops from Northern Iraq, where they had reportedly been sent to work with Iraqi forces in the campaign against IS. Iraq feared that Turkey was seeking to increase its influence in the region, at the expense of Baghdad's shia allies, including its backers in Iran.

It is also worthy of mention that the Western effort to compel Turkey to focus on attacking IS is not the same as pushing the Government to pursue peace with the Kurds and stop attacking those Kurdish groups themselves vital to the fight against the Islamist militant group. In fact, the exchange for Turkish cooperation with the Coalition may be a degree of silence on the internal Kurdish issue.

### *Economics*

#### *Then*

The Turkish economy of the 90s was highly volatile with boom and bust cycles. During that decade, hyperinflation hit a high of above 100%, and Turkey was forced to accept an IMF bailout in 2001. Shortly thereafter, the AKP came to power. Though popular among the poorer classes of society, it pursued a pragmatic, business friendly approach. It cooperated with investors and the IMF in the reform agenda, including via broadening its tax collection base. The results were spectacular: growth towered above 9% in 2004 and per capita GDP more than doubled between 2002 and 2007, drawing a significant number of Turks out of poverty and into the ranks of the middle class. The AKP Government also replaced statist structures, transforming the economic basis from a largely rural one to an urban manufacturing and services-based economy. It invested in modern transportation infrastructure and power generation capacity, as well as in educating its people and raising health standards.

#### *Now*

Since 2008, however, per capita GDP growth has stagnated. Over the past five years, the overall GDP growth rate has fallen multiple percentage points, with the IMF predicting a 3% growth rate in 2015 and 2.9% in 2016. On the other hand, it sees a pick-up from 2017, with an expected growth rate above 3.7%. For its part, the Turkish Statistics Institute reported that growth reached 4% in the last quarter of 2015. While, in all cases, Turkey's current and predicted growth rate is higher than the global average, it is below expectations for an emerging economy.

Per Capita and Annual Growth of Turkish GDP 2000-2016

Year	Per Capita GDP	Annual Growth
2000	\$ 4,149.29	6.8%
2001	\$ 3,008.58	-5.7%
2002	\$ 3,521.82	6.2%
2003	\$ 4,538.11	5.3%
2004	\$ 5,802.35	9.4%
2005	\$ 7,053.95	8.4%
2006	\$ 7,638.03	6.9%
2007	\$ 9,213.85	4.7%
2008	\$ 10,283.00	0.7%
2009	\$ 8,528.56	-4.8%
2010	\$ 10,001.63	9.2%
2011	\$ 10,437.72	8.8%
2012	\$ 10,490.12	2.1%
2013	\$ 10,821.44	4.2%
2014	\$ 10,381.03	2.9%
2015	\$ 9,290.43	3.0%
2016	\$ 9,179.95	2.9%

Estimated values shaded
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Source: IMF World Economic Outlook, October 2015

Note: \*Per capita GDP in current prices (U.S. Dollars) \*\*Annual GDP growth in constant prices (percent change)

More worrisome: the current account deficit has reached about 5% of GDP, the largest of the G-20 countries as a proportion of output this year. Turkey will face the challenge of debts coming due, making the country vulnerable to a reversal of capital inflows. There is concern that the country's growth model is unsustainable, based on spending rather than saving, consumer-driven rather than export-oriented. Turkey may also be stuck in the middle-income trap, producing lower-value export goods like furniture, rather than moving upscale into a knowledge economy, based on high-tech production. Consumer confidence fell to a 6-year low towards the close of 2015, and the Turkish lira has been in freefall. Unemployment is at 11%, which would not be too bad by comparison to certain European countries, but is rather high given its emerging economy status, and the rate is higher for Turkish youth.

To be sure, much of the economy's sluggishness does not have to do with Government policy. The middle-income trap is hard to escape for many others, which, in general, have seen a reversal of fortune in the past few years. Gone are the easy capital days of a few years back. There is growing nervousness in various countries about the U.S. Federal Reserve raising interest rates and increasing U.S. borrowing costs. In addition, Turkey suffers from its geographical situation, next to crisis-ridden Syria.

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All this having been said, policy matters too. On the plus side, some members of Erdogan's past economic team have stellar credentials with investors, including former Prime Minister Ali Babacan and former Finance Minister Mehmet Simsek. On November 25th, Prime Minister Davutoglu announced the new Cabinet, which did not include Babacan, but did name Simsek as the new Deputy Prime Minister. Simsek pledged to implement the reform measures initiated by Babacan. Davutoglu also announced that the Government would favor a market-friendly approach to woo back investors. Already, Turkey recorded zero deficits in the past few months. Its solid public finances are pushing back up investor confidence.

However, many of Erdogan's advisors are [seen](#) as more troublesome for Turkey's economic stability. For example, a question looms over the role of such figures as presidential advisor and former TV presenter Yigit Bulut. Bulut said that Turkey needs to free itself from the "tutelage" of foreign investors and accused an "interest rate lobby" of promoting interest rate hikes. In addition, close allies of Erdogan have been appointed to ministries. The President's son-in-law, Berat Albayrak has been named the Minister of Energy and Natural Resources, just as Turkey is planning for large-scale investment in the energy sector. Other allies can be found heading the Transportation, Maritime, and Communications, as well as Economy (Trade) Ministries.

Another key concern of investors is Erdogan's position on the independence of the Turkish Central Bank. Already last year, investor confidence in Turkey waned as the President vehemently criticized the Central Bank for not lowering interest rates. This is raising questions about the future direction of the Bank as the succession of its Governor Erdem Başçı looms in April. If the Bank cannot raise interest rates, it may not be able to stem inflation (which rose above 8% at the end of 2015).

In addition, economic concerns are raised by Erdogan's penchant for mega projects mentioned earlier. Aside from the aforementioned palace, these include the construction of a new bridge over the Bosphorus, a third airport in Istanbul, a giant Canal of Istanbul connecting the Black and Marmara Seas, the Izmit Bay Bridge, and the three-level Eurasia maritime tunnel connecting the Asian and European sides of Istanbul. These projects are a boon to the construction sector, which is anyways in good shape due to the demand for new housing projects by those seeking in Turkey a relatively quieter refuge from the chaos elsewhere in the Middle East. But this might not be a sustainable growth model and could presage a construction bust, especially as the credit borrowed to buy and build homes dries up and the housing market collapses, leaving behind it a trail of debt.

Moreover, these projects may be [linked](#) to issues of cronyism, because AKP allies are likely to be the ones who benefit from the large-scale infrastructure contracts. They could thus serve to redistribute wealth to Erdogan's political base of religious conservatives, at the expense of secular business elites. This, combined with selective tax inspections targeting political opponents, could further strengthen AKP power and create perverse incentives to continue such projects, not linked to overall economic expediency.

In addition, a [paper](#) by Daron Acemogly of MIT and Murat Ucer of Global Source Partners Inc. demonstrated that the downturn in business and investor confidence in the country is related to the AKP's bid for political dominance, which damages civic institutions and the judiciary. This includes, for example, Erdogan-initiated selective tax probes and takeovers of companies seen as unfavorable to him.

As for the security situation's impact on the economy, additional terrorist attacks or a further escalation of the conflict between the Government and PKK would of course be bad for business. In the Southeast, the tourism sector has long been drying up, and the curfews and fears of attack have led many to stay at home

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and not go to the shops. Outside of the Southeast, IS attacks could further spur tourists and businesses to flee. Since July, various Western Governments have issued heightened travel security warnings for Turkey, due to the risk of terrorism and conflict. This trend which will surely increase due to the January 11th IS attack, which killed primarily German tourists.

The sanctions that Russia is now inflicting on Turkey in retaliation for its downing of a Russian fighter jet will have a further negative effect on Turkey's economy, given that Russia is one of Turkey's largest export markets. Tourism will be further hit as Russians stay away, and the agriculture sector could be impacted by a Russian ban on Turkish imports of food products. At the same time, the impact of the sanctions is likely to be limited. Unless there are further escalations of conflict between the two countries, the sanctions are not expected to hit the core of their economic partnership: energy. It would simply be too costly for Russia's State-run Gazprom to let go of its Turkish deals. Thus, [according](#) to Deputy Prime Minister Sismek, the sanctions are expected to cost Turkey below half of one percent of the GDP.

Perhaps to counter-balance the Russian sanctions, Turkey is reportedly close to a deal with Israel to re-open diplomatic relations cut off three years ago. This is expected to be an economic win-win, as it could lay the groundwork for a natural gas pipeline between the two countries. It also suggests that Erdogan has maintained a degree of pragmatism, considering that normalization with Israel is not a very populist move (though, its level of popularity will depend on the concessions by Israel to reach this deal).

## **Conclusion: Prospects for Turkey**

The question now: what is the outlook for Turkey going forward with these political, security, and economic challenges, in the face of a renewed AKP mandate? Times have changed. The party is no longer known as the one that lifted the masses out of poverty, made peace with the PKK, and demonstrated triumphantly that Islam and democracy can coexist.

On the political front, the authoritarian slide of Erdogan seems to be taking shape, even as he may not achieve his wish of an executive presidency. Still to be seen is how internal critics within the AKP and other opposition figures could contest this reality.

On the security front, the situation of urban warfare in the Southeast remains troubling and threatens to escalate further westward. At the same time, the Islamic State is continuing to demonstrate its menace to the country, which is unlikely to abate absent a sustained focus by the security forces on tackling its networks.

The economic situation of the country seems to be on a more sound footing than it was in the inter-election period. However, its direction is not without serious questions and will depend in large part on the Government's policy measures to come, as well as the security situation.

Now that the AKP does not have to face elections until 2019, it is hoped that it will use its political capital to move in a progressive direction, making peace with the Kurds and improving the economic structure rather than opting for populist or crony capitalist measures. On other hand, President Erdogan could go in the other direction by pandering to the nationalists that helped him win the latest elections and cracking down harder on the PKK. On the economic front, he could include in policy-making advisors with less orthodox economic views, putting prudent reforms on the backburner. Turkey is thus surely a country to watch.

# MENA ANALYSIS

محللين في شؤون الشرق الاوسط