

Davut Han Aslan
Akademia Finansów i Biznesu Vistula – Warszawa

MAIN INDICATORS OF TURKISH ECONOMY UNDER THE RULE OF JUSTICE AND DEVELOPMENT PARTY GOVERNMENTS: AN ASSESSMENT

Summary

Turkey constitutes the world's 18th largest economy that used to be characterised by stable growth and a remarkable example of a quick recovery after the global economic crisis, particularly during the early stages of Justice and Development Party government rule. This growth combined with Turkey's strategic geopolitical location makes the country an important figure in the region and a corridor between East and West. Turkey's neighbours, due to geographical proximity and abundance in energy resources as well as Turkey's reliance on energy imports, constitute important trading partners for Turkey, accounting for a significant share in the country's foreign trade. Yet growing instability in the region threatens intense trade cooperation between Turkey and its border countries, particularly following the Arab Spring. On the other hand, the blooming economy of Turkey, particularly during the 2002-2015 period, had deteriorated dramatically once President Erdogan started to neglect democratic transformation of the country shifting to a one-man rule authoritarian regime, particularly following the failed coup d'état of 2016.

Key words: Turkey, AKP, economy, inflation, GDP, growth.

JEL codes: F5

Introduction

Turkey constitutes world's 18th largest economy that used to characterize by stable growth and a remarkable example of a quick recovery after the global economic crisis particularly during the early stages of Justice and Development Party government rule. This growth combined with Turkey's strategic geopolitical location makes the country an important figure in the region and a corridor between East and West. Turkey's neighbor's, due to geographical proximity and abundance in energy resources as well as Turkey's reliance on energy imports, constitute important trading partners for Turkey, accounting for significant share in the country's foreign trade. Yet growing instability in the region threatens intense trade cooperation between Turkey and its

border countries particularly following the Arab Spring. On the other hand, the blooming economy of Turkey particularly during 2002-2015 period had deteriorated dramatically once President Erdogan started to neglect democratic transformation of the country shifting to a one man rule authoritarian regime.

The current paper is an attempt to study the main determinants of the Turkish economy under the rule of Justice and Development governments during 2002-2015 period. The paper starts with a brief introduction of Justice and Development Party. Afterwards, it provides general features of the Turkish economy with an overview of the most relevant economic indicators – gross domestic product and its growth pace, recent changes in inflation, Turkey's current population and labour market, the inflow of foreign direct investment and the country's foreign trade respectively. As discussed in many scholarly works (Acemoglu et al. 2014; Alesina, Rodrik 1994). *Distributive Politics and Economic Growth*. *Quarterly Journal of Economics*. 109(2), 465-490 studying the relationship between democracy and economic growth, the paper holds the assumption that there is a positive correlation between democracy and economic performance. Therefore the paper is laid on the hypothesis that democracy boosts economic growth likewise in Turkey's case under the rule of Justice and Development Party where it indicated a very positive performance in post – crisis conjecture thanks to its healing democracy (2002-2015). Yet Turkey's favourable economic conditions faced a turbulence and a consequent decline as AK Party's started to show authoritarian tendencies and drifted much further from democratic norms.

Justice and Development Party (AKP) and Political Economy

Justice and Development Party (*Adalet ve Kalkınma Partisi*) entered to Turkey's political life in 2001 founded by *Recep Tayyip Erdogan*. It is a center – right, Populist Party that associates itself with Conservative Democracy. Regardless of the fact that Justice and Development Party was a relatively new party which was 15 month when it entered its first elections in 2002 it swept the landslide and won all local and general elections since then. Since the establishment of AK Party there exists a continuous debate as regard to political ideology and identity of the Party. Due to the fact that majority of charter members of Justice and Development Party consist of former Islamist, the new party always has been accused to be a post – Islamist and carry a secret agenda to change Turkey's regime. In spite of the fact that there is an ongoing discussion regarding the political identity of the Justice and Development Party many believe that till 2012 under the rule of the Party Turkey underwent a stable and fluctuate economic growth. Tough Justice and Development Party

belongs to an Islamist background the Party developed highly positive relations with the West and increased the democratic standards of Turkey thanks to its close relations with European Union where Turkey gained official status for EU membership candidate. Accordingly Turkish economy severely injured due to 2001 crisis experienced its golden age under the rule of Justice and Development Party.

Nonetheless after 2012 when Justice and Development Party reached the peak of its power eliminating all its opponents there appeared many controversies in Turkey related to secular life style. The ban on alcohol, headscarf discussion eventually the harsh debate around the cohabitation of female and male students refreshed the similar controversies accusing the present government bearing an Islamist agenda and indicating totalitarian tendencies. On the other hand the Justice and Development Party became the target board of harsh critics as the Party decelerated democratic reforms. Following the failed coup d'état of 2016 the Turkish democracy hit the bottom under the rule of emergency law where basic civil rights and liberties suspended along with mass purges. Accordingly, Turkish economy started to experience a recession with the serious signals of an upcoming economic crisis. It is imperative to underscore that governments' intervention on free market and pressure on the central bank at this period nullified the slight hope for healing.

General characteristics of the Turkish economy

Turkey constitutes one of the largest middle-income partners of the World Bank Group and world's 16th largest economy with GDP of 786 billion US dollars with per capita income of over 10,000 USD which is triple the number of the last decade statistics. The country's foreign direct investment (FDI) has considerably grown from just 1 billion USD to around 13 billion USD in the last five years. Turkey's largely free-market economy is increasingly driven by its industry and service sectors, although its traditional agriculture sector still constitutes around 25% of employment. An intensive privatization program has to a great extent reduced state involvement in basic industry, banking, transport and communication. An emerging cadre of middle-class entrepreneurs provides for dynamism in the Turkish economy and contributes to bringing production beyond the traditional sectors of textiles and clothing. The automotive, construction, and electronics industries have gained much significance (Rivlin 2014).

The last decade marked a period of significant economic advances in competitiveness for Turkey. Although the economic growth of Turkey was slowed in 2008 due to the repercussions of the global economic crisis, the market remained resilient making Turkey an example on the international

scale. Fundamental economic reforms conducted in 2001 helped preventing Turkey's financial sector from the impact of this crisis. After a strong post-crisis recovery, Turkish growth slowed sharply to 2.2 per cent in 2012. The below figure illustrates the condition of the Turkish economy throughout the previous decade.

Table 1. The Turkish economy – main indicators 2002-2012

Year	Growth of GDP in constants prices %	Growth of GDP/capita constant prices %	GDP/capita Current \$	Current Account \$ bus	Short term foreign debt \$ bus
2002	6.2	4.8	3 492	-0.6	16.4
2003	5.3	3.9	4 559	-7.6	23.0
2004	9.4	8.0	5 764	-14.2	32.2
2005	8.4	7.1	7 022	-21.4	38.9
2006	6.9	5.6	7 586	-31.8	42.9
2007	4.7	3.4	9 240	-37.8	43.1
2008	0.7	-0.6	10 438	-40.4	52.5
2009	-4.8	-6.1	8 559	-12.2	49.0
2010	9.2	7.7	10 022	-45.4	77.3
2011	8.8	7.4	10 466	-75.1	81.8
2012	2.2	0.9	10 497	-48.5	100.6

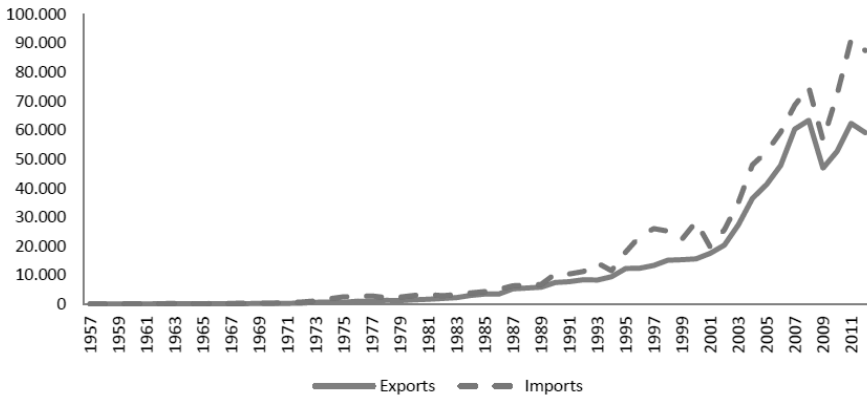
Source: Turkish Statistical Institute; Central Bank of Turkey.

Additionally, the labor market have recovered relatively quickly and employment rates improved as compared to the data of before the crisis. The statistics reveal numbers illustrating Turkey's recent rapid growth. Over the last decade, the world's 16th largest economy grew by 383 USD billion, exports increased from 63 USD billion to 135 USD billion and per capita incomes doubled whereas the central government debt decreased from three-figure levels to 46% of GDP (Hakura 2013).

Turkey has a complex relationship with the European Union which remains the country's largest economic partner accounting for almost half of Turkey's trade as of 2011.¹ The below figure illustrates growth in trade between Turkey and the EU.

¹ <http://www.worldbank.org> [access: 15.07.2018].

Figure 1. Turkey’s nominal trade with EU in USD millions



Source: Evaluation of the EU-Turkey Customs Union, World Bank Report No. 85830-TR (2014).

This extensive economic cooperation became possible owing to the Customs Union of Turkey and the European Union as the Turkish full membership in the EU still remains an open issue. The accession negotiations process was opened in 2005 and, despite initial deadlock, continues to progress, however stumbling over a number of political issues, including visa obligations and the unresolved question of Cyprus. The above shown chart reflects the periods of stalled relations between Turkey and the EU and their impact on the trade relationship. Following the 2011 election in Turkey, the candidate state’s mechanisms and administration have been adjusted to the EU requirements for the most part, the institution overseeing the accession process in Turkey has been upgraded to the Ministry of the EU Affairs and negotiation of 13 chapters of the EU’s *acquis communautaire* are currently in progress.

Real GDP growth and GDP per capita

The gross domestic product (GDP) measures of national income and output for a given country’s economy. The gross domestic product (GDP) is equal to the total expenditures for all final goods and services produced within the country in a stipulated period of time.

The GDP in Turkey was worth 820.21 billion US dollars in 2013. The GDP value of Turkey represents 1.32% of the world economy. Average GDP of Turkey 197.27 USD billion from 1960 until 2013, reaching the all-time highest volume of 820.21 USD billion in 2013 and a record low of 8 USD billion in 1961. The below figure illustrates the GDP of Turkey over the last decade.

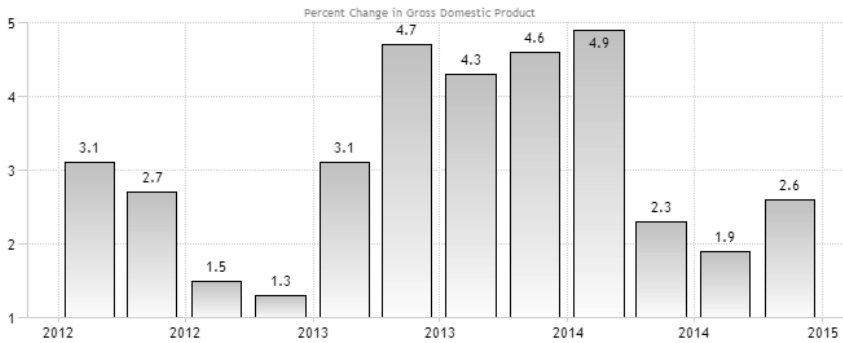
Figure 3. Turkey's GDP 2006-2014 in USD billions



Source: <http://www.tradingeconomics.com> [access: 15.07.2018].

GDP in Turkey expanded 2.60% in the fourth quarter of 2014 over the same quarter of the previous year. GDP annual growth rate in Turkey averaged 3.90% from 1999 until 2014, reaching the highest level of 12.60% in the first quarter of 2010 and a record low of -14.70% in the first quarter of 2009. The below figure illustrates Turkey's GDP annual growth rate.

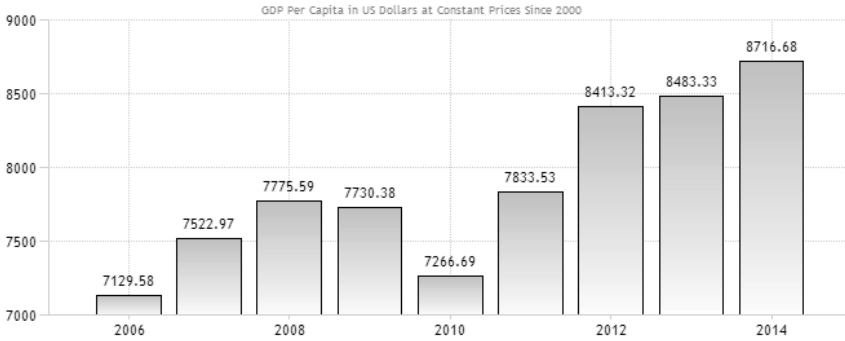
Figure 3. Turkey's GDP Annual Growth Rate 2012-2015



Source: as in Figure 2.

The GDP per capita is obtained by dividing the country's gross domestic product, adjusted by inflation, by the total population. The GDP per capita in Turkey was last recorded at 8716.68 US dollars in 2014. The GDP per capita in Turkey is equivalent to 69% of the world's average. GDP per capita in Turkey averaged 4841.08 USD from 1960 until 2013, reaching the highest level of 8716.68 USD in 2013 and a record low of 2315.94 USD in 1961. The below figure illustrates Turkish GDP per capita over the last decade.

Figure 4. Turkey's GDP Per Capita 2006-2014 in USD

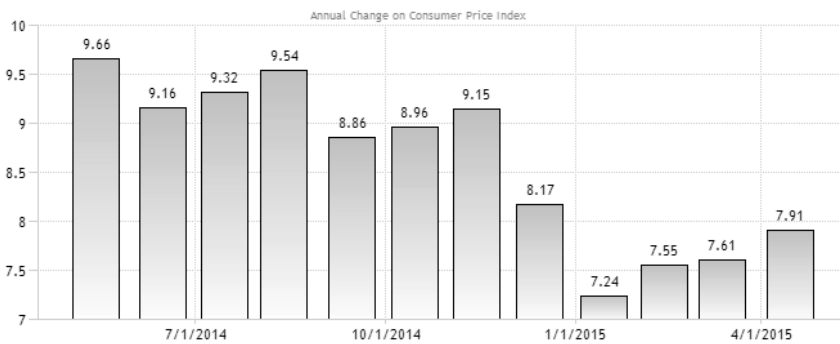


Source: as in Figure 2.

Inflation

The inflation rate in Turkey was recorded at 7.91% in April of 2015. Inflation rate in Turkey averaged 36.77% from 1965 until 2015, reaching the all-time highest of 138.71% in May of 1980 and a record low of -4.01% in June of 1968. Turkey annual inflation accelerated to 7.55% in February of 2015 from a 7.24% increase in the previous month due to higher food prices. In February of last year, inflation was 7.4%. Turkish consumer prices increased 7.91% year-on-year in April of 2015, following a 7.61% rise in the previous month. It is the highest inflation rate in four months due to rising food prices. The below figure illustrates changes in the Turkish inflation rate over the past year.

Figure 5. Turkey's Inflation Rate 2014-2015

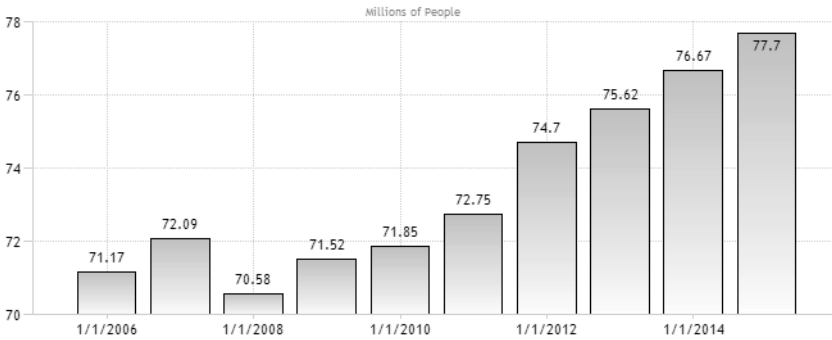


Source: as in Figure 2.

Population and employment

The total population in Turkey was last recorded at 77.7 million people in 2014 from 28.2 million in 1960, changing 175% during the last 50 years. Population in Turkey averaged 52.99 million from 1960 until 2014, reaching the highest level of 77.70 million in 2014 and a record low of 28.23 million in 1960. The population of Turkey represents 1.07% of the world's total population which arguably means that one person in every 95 people on the planet is a resident of Turkey. The below figure illustrates changes in Turkey's population over the last decade.

Figure 6. Turkey's Population 2006-2014



Source: as in Figure 2.

The current population of Turkey is around 78 million, which is an increase from the estimate of 75.6 million in 2013, of which the male population is approximately 49.9% of the total population and the female population constitutes approximately 50.1% of the population. The population continues to increase at a steady rate with almost 3600 births every day, while the death rate compared to this is significantly low at 1224 deaths per day. This implies a steady increase in Turkey's population which has altogether increased by more than 150 percent over the years. The growth rate remains at the level of around 1.29% per year. Life expectancy in Turkey has also grown from an average of 48.27 years in 1960 to 73.94 years in 2011.

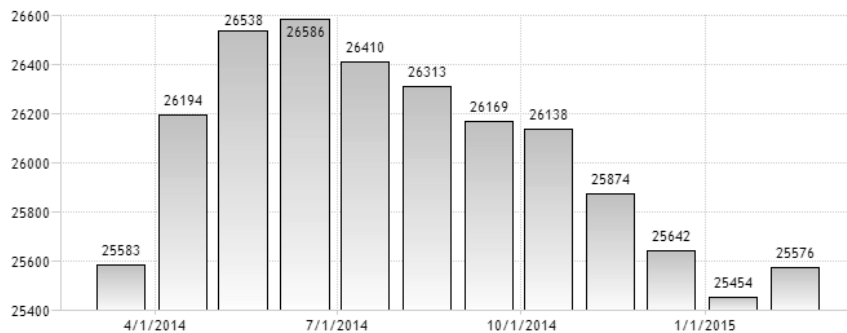
The population density of Turkey is 98 people per kilometer square. The population is mainly comprised of the Turkish people, who constitute 75% of the total population, while the Kurdish constitute 18%. Other ethnic groups make up the remaining 17% of the total population. The languages spoken by the majority are Turkish and Kurdish, while minority groups speak other languages. The main religion, followed by 99.8% of the population, is Islam, while other religions are followed 0.02% of the population.

The literacy rate of the population is relatively high – about 87%. The male literacy rate is almost 95%, while the female literacy rate is almost 79%. Almost 70% of the total population live in urban areas. The rate of urbanization is 1.7% per year. The total fertility rate amounts to around 2.13 children born per woman.

The population is fairly young with almost 27% ranging from 0 to 14 years of age, while 67% are 15 to 64 years old. Only around 6% are above 64 years of age. The largest city in Turkey is Istanbul, inhabited by a total of 10.38 million people. The second largest city is Ankara, which is also the capital and has almost 3.86 million in population. Other major cities in Turkey include Izmir with 2.67 million people, Bursa with 1.559 million people and Adana with 1.339 million people.

The future population of Turkey is most likely to increase considering the longer life expectancy and the low death rate. The fertility rate is relatively good as well. Migration plays rather insignificant role in the decrease of the Turkish population. The population growth rate is neither too high nor too low. With the growth rate of almost 1.2%, Turkey’s population will undoubtedly increase to a much larger number in the coming years².

Figure 7. Number of Employed Persons in Turkey (in thousands)



Source: as in Figure 2.

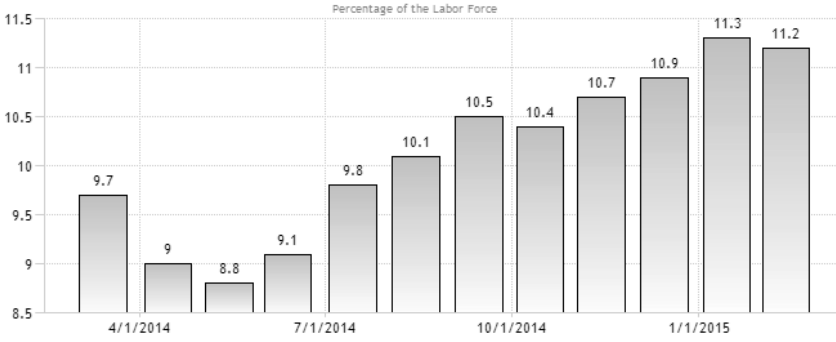
The above figure illustrates the number of employed persons in Turkey. The number of employed persons in Turkey increased to 25576 thousand in February of 2015 from 25454 thousand in January of 2015. Employed persons in Turkey averaged 22121.58 thousand from 2005 until 2015, reaching the highest level of 26586 thousand in June of 2014 and a record low of 18493 thousand in February of 2006.

Unemployment rate in Turkey decreased to 11.2% in February 2015 from 11.3% in January 2015. The average unemployment rate in Turkey from 2005

² <http://worldpopulationreview.com> [access: 15.07.2018].

until 2015 was 9.88%, reaching the highest level of 14.8% in February of 2009 and a record low of 7.3% in June of 2012. The below figure illustrates the unemployment rate in Turkey in the last year.

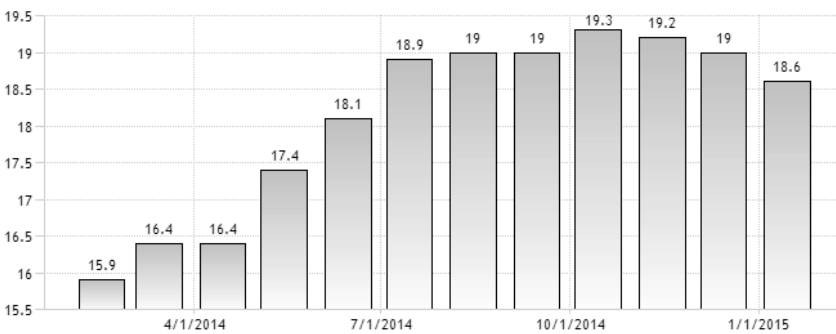
Figure 8. Turkey – Unemployment Rate



Source: as in Figure 2.

High unemployment among young people appears to be a recent challenge for the Turkish economy. With the growing number of young professionals, the recent statistics are not optimistic. Youth unemployment rate in Turkey averaged 18.01% from 2005 until 2015, reaching the highest level of 24.90% in April of 2009 and a record low of 14.9% in November of 2011. Youth unemployment rate in Turkey decreased to 18.60% in January of 2015 from 19% in December of 2014. The figure below illustrates Turkey's youth unemployment rate in the last year.

Figure 10. Turkey – Youth Unemployment Rate

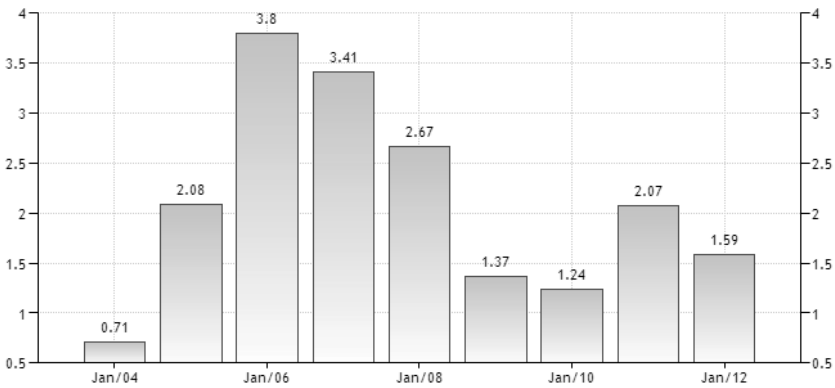


Source: as in Figure 2.

FDI inflow

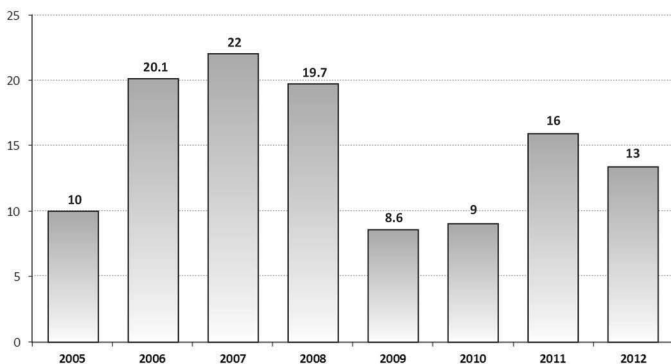
Foreign direct investment, net inflows as a percentage of GDP in Turkey was last measured at 2.05% in 2011. Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. Figure 13. shows net inflows (new investment inflows less disinvestment) in the Turkish economy from foreign investors divided by GDP in the last 10 years. Figures below illustrate Turkey’s FDI inflow as a percentage of GDP and in US dollars.

Figure 10. Turkey’s FDI inflow (% of GDP)



Source: World Bank.

Figure 11. Turkey’s FDI inflow (USD billion)



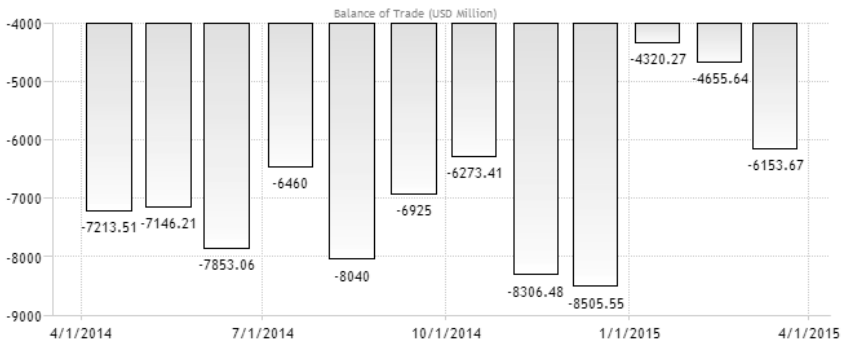
Source: Investment Support and Promotion Agency of Turkey: <http://www.invest.gov.tr> [access: 15.07.2018].

The flow of foreign direct investment (FDI) into Turkey increased in the second half of 2013 while the full-year figures were showing decrease. Data from the Central Bank of Turkey (Türkiye Cumhuriyet Merkezi Bankası, TCMB) show that FDI inflows fell 5.3% last year. Although the full-year results decreased as compared to the performance in 2012, they still show a change of tendencies from the first five months of 2013, when FDI declined more than 35% as compared to the prior year. This fall was to a large extent attributed to weak economic performance in the USA and Europe, the latter of which accounted for 63% of FDI in 2013 and 74% in 2012³.

Foreign trade

Turkey recorded a trade deficit of 6153.67 million USD in March of 2015. Balance of trade in Turkey averaged -1476.42 million USD from 1957 until 2015, reaching the highest level of 24.51 million USD in December of 1971 and a record low of -10453.06 USD million in September of 2011. The below figure illustrates Turkey’s balance of trade throughout the last year.

Figure 12. Turkey’s Balance of Trade 2014-2015



Source: as in Figure 2.

Turkey’s major exports are textiles and clothing, automotive, iron and steel, white goods and chemicals, pharmaceuticals and ships. Turkey imports mainly machinery, chemicals, semi-finished goods, fuels and transport equipment. Its main trading partners are European Union (57% exports, 40% imports), Russia and the United States. Exports in Turkey increased to 12579 million USD in March of 2015 from 12271.54 million USD in February of 2015. Exports in Turkey averaged 2502.03 million USD from 1957 until 2015, reaching the highest level of 14747.50 million USD in March of 2014 and a record low of

³ Turkey’s FDI improves in second half of 2013 (2014), Oxford Business Group, 28 March.

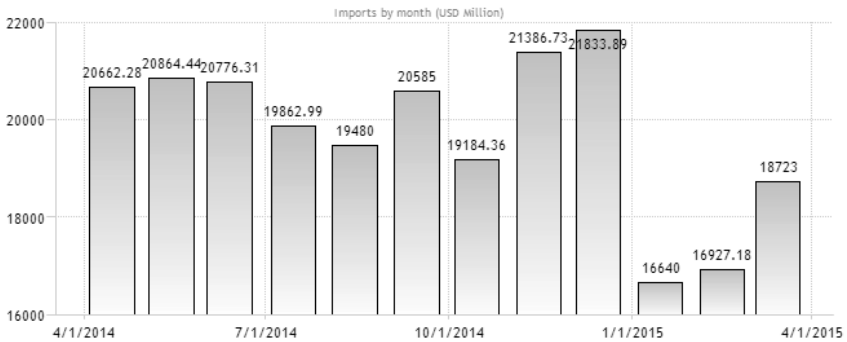
7.10 million USD in August of 1958. Imports in Turkey increased to 18723 USD Million in March of 2015 from 16927.18 USD Million in February of 2015. Imports in Turkey averaged 3978.39 USD million from 1957 until 2015, reaching the highest level of 23245.30 million USD in May of 2013 and a record low of 15 million USD in August of 1958. The below figures illustrate Turkey’s recent export and import trends.

Figure 13. Turkey’s Exports 2014-2015



Source: as in Figure 2.

Figure 14. Turkey’s Imports 2014-2015



Source: as in Figure 2.

Conclusions

The Republic of Turkey currently ranks 18th in the World Bank’s assessment of world’s largest economies with the current gross domestic product volume of 786 billion USD. Turkish economy could also boast about tripling its per capita income throughout the last decade, the current volume of which amounts to

over ten thousand US dollars⁴. Turkey used to be often quoted to exemplify an economic development success story. The foundations for this recent remarkable economic advances can be traced back to the comprehensive series of reforms the country carried out on the onset of the new millennium under the rule of Justice and Development Party. The 2001 reforms are believed to account for the Turkey's current economic competitiveness, relative stability of the financial sector and hence the ability to sustain growth despite the last global economic crisis which might have slowed the rapidly increasing indicators but has undoubtedly taken a relatively small toll on the Turkish economy in the overall assessment as compared to its repercussions felt globally.

Turkey's relative stability can be also linked to the state's efforts to diversify partnerships and expand relations both west- and eastwards. The strong though complex relationship of Turkey with the European Union which the country has been striving to access for well over half a century now as contrasted with the country's consistent implementation of the policy of "zero problems with neighbors" and developing relations with the Middle East all account for further growth fuelling and allow for the relative isolation of Turkey from the political turmoil in the region.

However optimistic outlook all these factors might create, the very recent economic data, Turkey's internal political stability challenges and deteriorating conditions on the political scene in this part of the world indicate the increasingly shaky economic prospects for Turkey and point out to emerging challenges the country needs to face to sustain growth. Following the regional instability, many significant trade routes have been cut off which resulted in reduction of Turkey's exports. It is, however, the risk connected to the internal political situation that poses the central threat for Turkey's economy. The ruling AK Party, once reassured their position, has been reluctant towards any structural reform and is observed to incline towards questionable measures to keep the country's economy afloat. These include pressuring Turkey's central bank to obtain lowest interest rates possible and while it appears to be a quick remedy for current problems, it is expected to have negative impact on the economic condition of the country in the long run⁵.

Following the Gezi protests of mid-2013 and attempts to expose corruption in the state structures, the authorities have been seeking to strengthen their position at the cost of democratic progress made by the country. The interdependence of AKP's rule in Turkey and economic condition of the country with concentration of political power posing a danger to economy growth and democracy development and, at the same time, the worsening economic condition determining the future success or failure of AKP on the political scene, remains a central challenge to be overcome (Kutlay 2015).

⁴ <http://www.worldbank.org> [access: 15.07.2018].

⁵ *Turkey: Economic Outlook* (2015), European Parliament, June.

While the political factor undoubtedly poses a threat for economic progress of Turkey, the risks can still be mitigated before the repercussions become palpable. This would involve implementing a comprehensive reform which would encompass assuring greater degree of autonomy of the Turkish central bank in order to ensure its objectivity and political independence in the decision-making process directly influencing the country's economy, increasing the degree of legal protection for enterprises in order to minimize the effects of the growing tendency for the state's rule of law to fail in, among other things, protecting property rights as well as undertaking actions to reduce deepening disparities in the educational system.

Besides, following the failed coup d'état of 2016 the Turkish democracy hit the bottom under the rule of emergency law where basic civil rights and liberties suspended along with mass purges. Accordingly, Turkish economy started to experience a recession with the serious signals of an upcoming economic crisis.

Bibliography

- Acemoglu D., Naidu S., Restrepo P., Robinson J.A. (2014), *Democracy Does Cause Growth*, "NBER Working Paper Series", No. 204.
- Alesina A., Rodrik D. (1994), *Distributive Politics and Economic Growth*, "Quarterly Journal of Economics", No. 109(2).
- Kutlay M. (2015), *The Turkish Economy at a Crossroads: Unpacking Turkey's Current Account Challenge*, TOBB University of Economics and Technology, Ankara.
- Rivlin P. (2014), *Why is Turkey's Economy Sliding Again?*, "Middle East Economy", Vol. 4, No. 2.

Główne wskaźniki gospodarki tureckiej pod rządami Partii Sprawiedliwości i Rozwoju – ocena

Streszczenie

Turcja stanowi XVIII na świecie pod względem wielkości gospodarkę, którą zwykło się charakteryzować poprzez stabilny wzrost i godny uwagi przykład szybkiej poprawy po globalnym kryzysie ekonomicznym, zwłaszcza we wczesnych stadiach rządów Partii Sprawiedliwości i Rozwoju. Ów wzrost, w połączeniu ze strategicznym geopolitycznym położeniem Turcji, czyni z tego kraju znaczącego gracza w regionie oraz ważny korytarz między Wschodem a Zachodem. Sąsiedzi Turcji, ze względu na bliskość geograficzną i bogactwo zasobów energetycznych, jak również zależność Turcji na imporcie energii, są ważnymi partnerami handlowymi dla Turcji, stanowiąc znaczący udział

w handlu zagranicznym kraju. Ale rosnąca niestabilność w regionie zagraża intensywnej współpracy handlowej Turcji z jej krajami ościennymi, szczególnie w okresie po Arabskiej Wiośnie. Z drugiej strony, kwitnąca gospodarka Turcji, zwłaszcza w latach 2002-2015, uległa drastycznemu pogorszeniu po tym jak prezydent Erdogan zaczął lekceważyć przemiany demokratyczne kraju, przechodząc do jednoosobowych rządów autorytarnych, szczególnie po udaremnionym zamachu stanu z roku 2016.

Słowa kluczowe: Turcja, Partia Sprawiedliwości i Rozwoju, gospodarka, inflacja, PKB, wzrost.

Kody JEL: F5

Afiliacja:

dr Davut Han Aslan

Akademia Finansów i Biznesu Vistula

Wydział Biznesu i Stosunków Międzynarodowych

ul. Stokłosa 3

02-787 Warszawa

e-mail: d.aslan@vistula.edu.pl

Artykuł zaakceptowany do druku w marcu 2019 roku.