

# The Limits, Dilemmas and Paradoxes of Turkish Foreign Policy:

A Political Economy Perspective

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# **The Limits, Dilemmas, and Paradoxes of Turkish Foreign Policy: A Political Economy Perspective**

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## 1. Introduction

Today, it is widely agreed that a radical and lasting transformation has taken place in Turkish foreign policy in terms of policy-making, priorities, and discourses with the accession to power of the Justice and Development Party (AKP) in the 3 November 2002 general elections.<sup>1</sup> This transformation triggered heated debates, both in academic circles and among foreign policy practitioners, about whether these stark changes represent a 'shift of axis' in Turkish foreign policy.<sup>2</sup> These debates on Turkey's foreign policy orientation relate directly to its international identity and image, having important implications for the country's EU membership prospects, its relations with the United States and other major actors in world politics.

Turkey seems to be suffering today from an apparent impasse in its foreign policy, particularly in its relations with its neighbouring states. After Egypt's declaration of the Turkish ambassador in Cairo as '*persona non grata*', Turkey no longer has ambassadorial

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<sup>1</sup> Turkish foreign policy witnessed a substantive change over the course of the past decade, however, the extent to which this should be considered as a totally 'new' foreign policy outlook and a structural break in Turkey's foreign policy making is highly controversial. For differing views on continuity and change in Turkish foreign policy, see Altunışık and Martin (2011), Aras (2009a), Criss (2010), Müftüler-Baç (2011), Öniş (2011) and Sözen (2010), among others.

<sup>2</sup> For alternative views on the 'shift of axis' argument, see Çandar (2010), Kardaş (2011), Keyman (2009), and Oğuzlu (2008).

representation today in three Middle Eastern states: Egypt, Syria and Israel. Relations with the al-Assad regime in Syria have consistently worsened after 2011, bringing the two neighbouring countries very close to military confrontation, following Turkey's toughening of its 'rules of engagement' in reaction to the shooting down of a Turkish aircraft by Syrian armed forces in June 2012.<sup>3</sup> Borders with Armenia are still closed, there are no direct flights between the two countries, and the long-awaited opening of bilateral relations which started following the Yerevan visit of the Turkish President in September 2008 has seemed to lead nowhere after more than six years. Bilateral relations with Israel - once, one of Turkey's closest allies in the Middle East - are still far from being fully normalised even though the apology crisis related to the Gaza Flotilla raid has been partly settled down after a phone call by Israeli Prime Minister Netanyahu in March 2013. Turkey's joint mediation initiative with Brazil in May 2010 did not develop into a diplomatic breakthrough to bring an end to the Iranian nuclear programme crisis. Similarly, Turkey did not take part in the Geneva interim agreement signed between Iran and the five permanent members of the UN Security Council and Germany on 24 November 2013. The fact that Turkey, after unsuccessful attempts to seek a peaceful end to the Syrian crisis, failed, once again, to assume a leading role in finding an effective solution to a

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<sup>3</sup> *'Başbakan Erdoğan: Türkiye'nin angajman kuralları değişmiştir'* (Prime Minister Erdoğan: Turkey's rules of engagement have changed), *Zaman*, 26 June 2012.

crisis in its immediate vicinity, has severely undermined its claims of having the capacity to play a more constructive role to provide security, order and stability in the Middle East. Following these developments, 'truth conditions' for Turkey's international identity claims - of representing a (normative) centre of gravity, or a central power capable of order-building in the Middle East - are considerably weakened. It is evident that Turkey's recent active foreign policy engagements proved to have limited influence and in most cases caused friction between Turkey and its traditional Western allies.

With mounting uncertainty in regional and world politics, Turkey is struggling to adapt itself to the changing international and regional political reality. It can be said that the limits, paradoxes and dilemmas of Turkish foreign policy have become even more acute today with the continuing stalemate in its EU accession negotiations, deteriorating relations with Iran, the Iraq's Central Government, Egypt and Israel, and relations with Syria going from bad to worse. Turkish Prime Minister Erdoğan's statement 'Allow us into the Shanghai Cooperation Organisation and save us from this trouble (of trying to join the EU)'<sup>4</sup> on 22 November 2013, in Moscow refuelled debates on Turkey's 'shift of axis'. With the highly critical remarks of AKP's leading figures about the EU and the US, during the Taksim Gezi Park protests of June 2013 and following the political crisis which erupted on the 17<sup>th</sup> of December 2013, Turkey's

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<sup>4</sup> 'Turkish PM Erdoğan to Putin: Take us to Shanghai', *Hürriyet*, 22 November 2013.

foreign policy orientation has become even more difficult to identify or predict.

This study examines the transformation in Turkish foreign policy under AKP rule from a political economy perspective, in an attempt to better understand the limits, dilemmas, and paradoxes of Turkish foreign policy which have become more discernible following the mass protests and swift political transition in the Middle East, referred to as the 'Arab Spring'. For this aim, we conduct a multi-level and multi-dimensional analysis, paying equal attention to global, regional, and domestic dynamics and structures influencing the Turkish economy, and conditioning Turkey's foreign policy decisions. Recently, a series of academic work analysing Turkish foreign policy from a political economy viewpoint has been published.<sup>5</sup> Following Kemal Kirişçi's (2009) pioneering study characterising Turkey as a 'trading state', most of these works explain recent foreign policy transformation by emphasising the growing significance of economic interdependence for Turkey's blossoming economy. While accepting that this conceptualisation of Turkey as a 'trading state' provides a useful analytical framework through which AKP era foreign policy can be examined, the present study tends to place the emphasis more on the deep-seated structural problems of the Turkish economy, the shrinking of the economic and development policy space in Turkey, and the limitations

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<sup>5</sup> See Kirişçi (2009, 2012), Kirişçi and Kaptanoğlu (2011), Kutlay (2011, 2012) and Öniş and Kutlay (2013) among others.



of the AKP's too-narrow neo-liberal, conservative economic policy as additional explanatory variables. Focusing exclusively on the case of Turkey, an emerging economy successfully integrated into global markets and with a relatively strong recent growth performance over the last decade, this study further aims to shed light on the limitations of the growing foreign policy activism of similar semi-peripheral countries.

This study contends that Turkey's active and increasingly self-assertive foreign policy reflects, first and foremost, the rising foreign policy autonomy of developing countries with the emergence of a unipolar (or a non-polar) world order. The limitations and current paradoxes of Turkish foreign policy, however, have also to do with the shrinking of the economic and development space in Turkey; again in line with a global trend witnessed in developing countries as a combined result of the concurrent processes of globalisation and regionalisation. We further argue in this study that the current confusion in Turkey's foreign policy priorities stems from the acute structural problems in the Turkish economy, creating a pressing need for policy-makers to find new ways to maintain Turkey's problematic development model. The recent ascendancy of economic diplomacy in Turkish foreign policy is a reflection of the shrinking of a development space and the consequent loss of conventional economic, trade and industrial policy instruments. Against this global and regional backdrop, we further claim that the strength and continuity of neoliberal policy views in Turkey is one

of the major factors behind the recent transformation in its foreign policy behaviour. The neoliberal policy paradigm, entrenched under successive IMF-led structural adjustment programmes implemented in the past couple of decades and which happened to fit well with the AKP's 'conservative globalism'<sup>6</sup> has locked Turkey in a particular trajectory which constrained its foreign policy alternatives.

## **2. Turkish Foreign Policy Under AKP Rule**

Turkey's foreign policy activism has considerably increased under AKP rule over the course of the last twelve years reflecting the country's new foreign policy vision, which was formulated as the 'strategic depth doctrine' by its originator and architect Ahmet Davutoğlu.<sup>7</sup> This new foreign policy paradigm perceives Turkey as a central, rather than peripheral, player in world politics and a regional power, as it remains at the epicentre of several regions, including the Balkans, the Middle East and the Caucasus. Emphasising the importance of Turkey's geostrategic and geopolitical location, AKP governments have adopted a more active, self-assertive, and 'multi-dimensional foreign policy'

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<sup>6</sup> For an analysis of AKP's 'conservative globalism' see Öniş (2011, 2012).

<sup>7</sup> Before becoming Erdoğan's successor as Prime Minister, and the head of the AKP in August 2014, Ahmet Davutoğlu served as the chief foreign policy advisor to the Prime Minister (between 2003 and 2009), and as Minister of Foreign Affairs (between 2009 and 2014).

(Davutoğlu, 2008), with an unequivocal quest for autonomy, particularly in its own 'milieu'. Besides the rising activism and demand for more autonomous foreign policy, another feature characterising Turkey's 'new' foreign policy outlook was a gradual decline in the national security discourses (Aras and Polat, 2007; Kirişçi, 2009). Within this new foreign policy vision, Turkey has tried to develop a 'zero problems with neighbours' approach aimed at resolving the deep-seated problems with its neighbours, through bilateral negotiations and cooperation. Actually, the 'zero problems with neighbours' policy is part of the broader 'proactive diplomacy' vision within which Turkey has sought an 'order-instituting' and 'peace-keeping' role in its neighbourhood. With this aim, Turkey actively mediated - between Israel and Syria, Arab countries and Palestinian groups, Bosnia and Herzegovina and Serbia, and Iran and the international community - for mitigating differences in viewpoint, and resolving regional conflicts (see Kirişçi and Kaptanoğlu, 2011). These unilateral initiatives considerably differ from the roles Turkey had assumed previously in Kosovo, or Afghanistan, as a member of the North Atlantic Treaty Organization (NATO), as they correspond to a more self-confident, and certainly more autonomous foreign policy-making approach.

In connection with its rising activism and enthusiasm for assuming an order-building role in its own geopolitical and geocultural environment, Turkey increased its efforts to build closer relations with the

Middle East and the Islamic world, particularly during the AKP's second term in office after the 2007 general elections. Turkey's improving relations with Iran and the Arab Middle East, and the new Turkish foreign policy discourse emphasising the common historical, cultural and civilisational bonds, are perceived by many scholars of Turkish foreign policy to represent the emergence of 'Neo-Ottomanism' (see Murinson, 2006, 2012; Oğuzlu, 2008; Sözen, 2010). The Ministry of Foreign Affairs of Turkey fervently denies these allegations, and argues that what is being witnessed represents more of a diversification than an alteration, of the country's external relations, underlining similar initiatives adopted for Africa, East Asia, or South America.<sup>8</sup> However, it can be said that the Arab Middle East and the Islamic world in general have recently moved to the centre of Turkey's quest for influence and regional leadership by all accounts.

The major avenue through which Turkey has sought influence in the Middle East and in the global political arena is commercial and economic relations. Turkey saw external economic relations as the most important means of deepening its relations with neighbouring countries and its immediate periphery (Davutoğlu, 2008), and implemented 'an aggressive policy' to increase its economic engagement with the Middle East over the course of the last decade (Kirişçi, 2012: 321). With the aim of strengthening economic

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<sup>8</sup> See, among others, <http://www.mfa.gov.tr/data/BAKANLIK/tdp-haziran2013.pdf>

relations with its neighbours, Turkey resorted to a wide array of policy initiatives, ranging from the visa liberalisation, to free-trade agreements and encouraging bilateral investment.<sup>9</sup> As a result of these policy measures, Turkey's total trade with the Middle East has increased about 10 times over the last decade under the AKP rule, from 5.7 billion dollars in 2002, to 57.7 billion dollars in 2013. The share of the Middle East in Turkey's total trade in this period increased from about 6.5% in 2002, to 14.3% in 2013. Consequently, the EU's share in Turkey's total foreign trade declined from 52.6% in 2002 to 38.5% in 2013, even though in absolute terms total trade volume with the EU increased from 46.1 billion dollars in 2002, to 155.4 billion dollars in 2013.<sup>10</sup>

Seeing economy as the 'practical hand' of its new foreign policy (Kutlay, 2011) Turkey initiated novel institutional structures, while strengthening the existing ones, with the aim of enhancing commercial and economic relations. Turkey's policy of prioritising economic and trade relations over military and political coercion is perceived as reflecting the country's willingness to establish itself as a benign regional power, operating only through the use of soft power

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<sup>9</sup> Turkey abolished visa requirements with Syria, Jordan and Libya in 2009, and with Lebanon in 2010, foreseeing common visa regulations with Iran, Iraq and Syria. A Free Trade Area between Turkey and Syria was initiated in 2006, which was suspended later on, in December 2011, following the eruption of the civil war in Syria.

<sup>10</sup> Data is compiled from the TurkStat Foreign Trade Statistics Database.

instruments (Altunışık, 2008; Oğuzlu, 2007). In connection with Turkey's growing interest in the use of soft power instruments, a series of institutions, such as the Turkish Cooperation and Coordination Agency (TİKA) established themselves as the new actors in Turkish foreign policy, in addition to the Ministry of Foreign Affairs.<sup>11</sup> As part of its desire to establish itself as a regional soft power, Turkey considerably increased its humanitarian aid and development assistance, making it an emerging donor in the international development assistance regime. Turkey's Official Development Assistance increased from 85 million dollars in 2002 to over 2 billion dollars in 2012, while total development assistance increased almost to 3.5 billion dollars in 2012 (TİKA, 2012).

Paralleling the ascendancy of economic instruments, objectives, and agenda in Turkish foreign policy, the involvement of various non-governmental organisations in foreign policy implementation has also significantly increased. The most influential non-governmental foreign policy actors, however, have been business circles, which have become, in the words of Minister of Foreign Affairs Davutoğlu 'the pioneers of our foreign policy and strategic vision' (Davutoğlu, 2004). The involvement of conservative, highly export-oriented Anatolian business groups, such as the

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<sup>11</sup> TİKA widened its sphere of influence under the AKP rule considerably, increasing its number of programme coordination offices around the world from 12 in 2002, to 25 in 2011 and 35 in 2012, (<http://www.tika.gov.tr/en/about-us/1>)

Confederation of Businessmen and Industrialists of Türkiye (TUSKON) and the Independent Industrialists' and Businessmen's Association (MÜSİAD) is evaluated as evidencing the birth of a new, non-institutionalised form of business-government cooperation in Turkey's foreign policy-making (Kutlay, 2011: 84; also see Atlı, 2011; Kirişçi, 2009, 2011, and Ünay, 2010).

**Table 1. Main features of the AKP era Turkish Foreign Policy**

- 
- *Increasing foreign policy activism and quest for greater autonomy*
  - *'Zero problems with neighbours' approach and a proactive regional policy*
  - *The emergence of the Middle East as the main target sphere of influence, and fading EU membership prospects*
  - *Ascendancy of economic diplomacy and the growing role of economic and commercial relations in foreign policy-making*
  - *Growing involvement of business groups in foreign policy implementation*
-

- 
- *A declining use of the traditional national security discourse and a growing use of soft power instruments*
- 

The unexpected and rapid change in Turkey's immediate vicinity following the Arab uprisings, and particularly after the civil war in Syria, provided a major challenge to Turkish Foreign Policy, severely undermining its main policy visions, while rendering many of its basic tenets (see Table 1) simply obsolete.

### **3. Globalisation, Regionalisation and the Policy Autonomy of 'Middle Powers'**

*The international political system and the foreign policy autonomy of semi-peripheral countries*

Turkey's pursuit of a more active and autonomous foreign policy is, first and foremost, a reflection of a more general global trend that is observed in the foreign policy behaviour of similar semi-peripheral countries. With the emergence of a unipolar international system after the collapse of the Berlin Wall and the eventual dissolution of the Soviet Union, foreign policy and security priorities of the Cold War have simply become obsolete. In this new global political order, polarities have significantly disappeared and the significance of transnational actors and policies has increased with the concurrent processes of globalisation and regionalisation. In this period, the formerly socialist



Central and Eastern European countries acceded to the EU, NATO had to redefine its role, and the hegemonic power of the United States of America has shown a relative decline, all giving way, by the turn of the 21<sup>st</sup> century, to what Richard Haass (2008) refers to as the 'Age of Nonpolarity'. In this new international context, a bunch of emerging economies seen as 'middle powers' in world affairs, such as Brazil, China, India, or South Africa has found an opportunity to adopt more autonomous, and highly assertive foreign policies, seeking influence, both globally, within the G20 and other global forums such as the G77, and in their own regional neighbourhoods (see Cooper and Flemes, 2013: 957; Öniş and Kutlay, 2013: 1412; Uzel, 2011).

Actually, transformation in Turkey's foreign policy posture can be dated back to the early 1990s. A considerable change had been witnessed in Turkey's foreign policy-making just after the collapse of the Iron Curtain, first under the Presidency of Turgut Özal (1989-1993), and then during İsmail Cem's tenure in office as Turkish Foreign Minister (1997- 2002) (see Bilgin and Bilgiç, 2011; Kirişçi, 2009: 43-46). Throughout the 1990s, while seeking more influence in Central Asia, in the Caucasus and the Balkans - and to some extent the Middle East - Turkey perceived commercial and economic relations as a means to achieve diplomatic ends, and adopted a new foreign policy discourse emphasising shared cultural heritage and historical relations in a more explicit way. The most significant of Turkey's initiatives in this period was the Organization of

the Black Sea Economic Cooperation (BSEC), initiated by Turkish President Turgut Özal in 1992. However, the BSEC, as a regional economic integration initiative, did not meet Turkey's expectations, mostly as a result of the understandable decision of the Balkan countries to prioritise their accession to the EU. Partly as a result of this, and partly due to the fact that Turkey realised how difficult it would be to gain an upper hand over Russia in the competition for influence in the Caucasus and Central Asia, at the epicentre of Turkey's bid for regional influence and leadership during the 2000s remained the Middle East, and the 'Islamic world'<sup>12</sup>.

### *Globalisation and Policy Space*

While Turkey's recent foreign policy activism was made possible, in the first instance, by the rising foreign policy autonomy of developing countries in the international political system, it was the constriction of economic and development policy space that has ultimately shaped Turkish foreign policy priorities and choices.

Foreign policy preferences of semi-peripheral countries cannot be evaluated unless the implications of globalisation -for the effectiveness of national policy instruments in achieving specific macroeconomic and development policy objectives- are properly taken into account. The 'new global economic order', which has

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<sup>12</sup> Another highly plausible reason for why the Middle East acquired a higher priority in Turkey's recent foreign policy posture was the power vacuum emerged following the invasion of Iraq in 2003. See Oğuzlu (2008).

been emerging with the advent of globalisation and the development of the WTO regime, narrows the policy space of states to develop autonomous strategies and economic policies that best suit their own needs and national priorities (Akyüz, 2008; Wade, 2003).<sup>13</sup> This is because multilateral trade and investment rules such as the General Agreement on Trade in Services (GATS), the Trade Related Aspects of Intellectual Property Rights (TRIPS), and the Trade-Related Investment Measures (TRIMS) agreements, as well as the new, more effective sanctioning mechanisms, stemming from the Uruguay Round of GATT negotiations (1986-94), have significantly constrained the manoeuvring space that governments had previously enjoyed in their economic policy-making (DiCaprio and Gallagher, 2006). Extending the WTO regime from trade in products to trade in services, GATS has led to a global market-opening in service industries, 'including everything from banking, to education, to rubbish collection, tourism, health delivery, water supply and sanitation' (Wade, 2003: 628). As a multilateral framework on foreign investment in services, GATS affected developing state's ability to manage a proactive development strategy, making it 'next to impossible for developing country governments to protect their own service industries from competition from well-

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<sup>13</sup> Akyüz (2008: i) defines 'policy space' or 'policy autonomy' of developing countries as 'their ability to calibrate national policies to local conditions and needs (especially with respect to their development objectives and capacity to foster conditions for steady quality employment growth) in relation to global economic rules and practices'.

established foreign firms' (Wade, 2003: 629). In the same vein, TRIMS greatly reduced the capacity of developing country governments to impose requirements on incoming foreign direct investment, such as local content and ownership, technology transfer, re-investment, or trade-related performance requirements (Keet, 2000: 17). Similarly, the stronger intellectual property rights regime under TRIPS limited the policy space for developing countries to adopt their own strategies (Bello, 2000: 7), by specifying minimum standards on copyrights, trademarks, geographical indications, patents, industrial designs, and other forms of sui-generic protection.<sup>14</sup> The WTO Agreement on Subsidies and Countervailing Measures (SCM), another major outcome of the Uruguay Round, has further constricted the policy space of developing countries, by forbidding the use of export subsidies for supporting the international competitiveness of domestic manufacturers.

As Gill (1998) correctly notes, these global rules and effective sanctioning mechanisms have constrained the autonomy of developing states in matters concerning the adoption of specific macroeconomic and development policy measures, more than they limited the rich, developed countries' national policy spheres. The new multilateral trade regulations precluded the

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<sup>14</sup> TRIPS has also significantly impaired international technology diffusion, offsetting growth-enhancing effects of imitation, and making it even more difficult for developing countries to generate innovation at the local level.

use of many specific industrial and trade policy instruments which were the main factors behind the 'East Asian miracle', making this particular development model a non-reproducible strategy for other less developed countries (see Akyüz, Chang and Kozul-Wright, 1998: 30- 32; Chang, 2003; Wade, 2003). The WTO regime has also limited developing countries' likelihood of establishing themselves as important actors in the production of high-technology and high-value-added products, meaning there is a danger for these countries to get trapped in the given international division of labour (Akyüz, 2008: 7). The dominance of transnational corporations (TNCs) in global production, trade and investment flows has led developing countries to compete with one another and to undertake negotiations with TNCs in order to attract much needed green-field investments (Chang, 2003: 267-268). It can be said that all of these developments compel highly-open, export-oriented developing countries to abandon some of their developmental policy priorities, to relax their labour and capital market regulations, and compromise in the field of social policies.

WTO Subsidies and Countervailing Measures Agreement is another major source of concern for developing countries, with far-reaching implications for their policy space. SCM not only brought about new obligations, but also opened the door for the abuse of anti-dumping and countervailing procedures, due to the ambiguities in the definition of the prohibited, actionable and non-actionable types of subsidies

(Neufeld, 2001). Prohibiting 'exactly the type of subsidies primarily used by developing countries' (Neufeld, 2001: 19) SCM made export-oriented developing countries unable to use subsidies based on export performance for supporting their burgeoning manufacturing export industries. The ascendancy of economic and commercial diplomacy and rising share of economic objectives in the foreign policy agendas of developing countries can thus be seen as reflecting the loss of subsidies, and a wide array of traditional trade and industrial policy instruments in the past two decades.

#### **4. The Resilience and Continuity of Neo-liberalism in Turkey**

The remarkable growth performance of certain emerging economies such as Brazil, Russia, India and China (commonly referred to as BRIC countries) over the course of the last decade has generated comments that the impact of globalisation on the policy autonomy of developing countries is somewhat exaggerated. These critical accounts are supported by the fact that the state in BRICs, and in several Southeast Asian countries such as Malaysia, Indonesia and Vietnam, continues to play a leading role in the economy through an extensive range of macroeconomic, trade and industrial policy measures to promote economic development (see Weiss, 1998; 2004). However, although those states are widely recognised as champions of the neoliberal development

model, they all succeeded in somehow ‘editing’ neoliberal economic policy prescriptions emanating from Washington-based international financial institutions in the light of their own heterodox economic policy traditions, and restoring the role of the state in economic development (Ban and Blyth, 2013: 242).

Here it should be noted that BRICs enjoy ‘a greater degree of policy autonomy from the Washington Consensus core institutions’ as compared to many other developing countries (Ban and Blyth, 2013:242), including Turkey.<sup>15</sup> In the case of Turkey, the IMF and World Bank-led neoliberal reform and structural adjustment programmes continued almost incessantly from the 1980s to the end of the 19<sup>th</sup> (and last) IMF stand-by agreement on the 10<sup>th</sup> of May 2008 (see Table 2). In this respect, Turkey is one of the few developing countries which has remained almost continuously under the influence of neoliberal policy prescriptions of the international financial institutions.<sup>16</sup> In our view, this

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<sup>15</sup> Here, it should be remembered that the neoliberal reforms in BRICs have been subject to strong domestic check-and-balance mechanisms as a result of which some of the deregulatory features of the Washington Consensus could have been filtered out (Ban and Blyth, 2013: 247). In the case of Turkey, particularly following the 2000-2001 twin crises, it is not possible to claim the existence of such a powerful domestic mechanism to counterbalance neoliberal policies.

<sup>16</sup> Pro-active policies aimed specifically at strengthening the state’s capacity to lead industrial transformation remained very limited in Turkey until the eruption of the global financial crisis in 2008. Furthermore, the limited steps put forward in the spheres of industrial and technological innovation policies following the global

continuity and the resilience of neoliberal economic policies are among the primary factors which limited not only the economic and development policy space in Turkey, but also, and equally importantly, the conduct of Turkish foreign policy.

**Table 2. IMF Lending Arrangements with Turkey**

Facility	Date of Arrangement	Date of Expiration or Cancellation	Amount Agreed*	Amount Drawn*
Standby Arrangement	May 11, 2005	May 10, 2008	6,662,040	4,413,602
Standby Arrangement	Feb 04, 2002	Feb 03, 2005	12,821,200	11,914,000
Standby Arrangement ...of which Supplemental Reserve Facility	Dec 22, 1999	Feb 04, 2002	15,038,400	11,738,960
Standby Arrangement	Dec 21, 2000	Dec 20, 2001	5,784,000	5,784,000
Standby Arrangement	Jul 08, 1994	Mar 07, 1996	610,500	460,500
Standby Arrangement	Apr 04, 1984	Apr 03, 1985	225,000	168,750
Total			35,357,140	28,695,812

Note: \* In thousands of SDRs

Source: International Monetary Fund

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crisis can certainly not be compared with the hybrid development model adopted by Russia, China or India, or Brazil's 'liberal neo-developmentalism'.



The highly narrow economic and development policy space of the state in Turkey is a major factor shaping Turkish foreign policy-making and implementation. The growing need to find alternative means to improve international competitiveness of domestic manufacturing industries and help exporters in finding new export destinations in the low and medium-technology and value-added traditional commodity groups they are specialised in is one of the main drivers behind the recent transformation in Turkish foreign policy. Unable to pursue proactive trade and industrial policy measures for encouraging international competitiveness of domestic manufacturing industry, but still highly dependent on export revenues under its neoliberal, export-oriented growth strategy, Turkey had to give more room to the pursuit of strategic economic diplomacy in its foreign policy over the course of the last two decades.

Unlike BRICs which managed to adopt a proactive development policy stance for guiding industrial transformation and reclaiming the role of the state in development policy to counteract the negative effects of the global trade order; Turkey, under the AKP rule, was unable (or uninterested) in reinstituting such a proactive role. This is not only a reason behind the ascendancy of economic rationality and instruments in Turkish foreign policy-making, but also one possible factor for the limitations of Turkey's foreign policy activism.

The current limitations and dilemmas of Turkish foreign policy result from the many structural problems

of the Turkish economy which are deeply rooted in the policies implemented under successive IMF/World Bank-led structural adjustment programmes. The continuing impact of the IMF-led reforms on the conduct of economic policy in Turkey can be best observed in the last phase of neoliberal restructuring accomplished under the 'Transition to the Strong Economy' programme (TSEP), announced on the 14<sup>th</sup> of May 2001 for coping with the 2000-2001 twin (currency and banking) crises. The main features of the TSEP include: (i) fiscal discipline and reduction of public expenditures (ii) adoption of an inflation targeting and floating exchange rate regime, implemented by an independent central bank, having price stability as the primary aim of monetary policy (iii) comprehensive regulatory reforms in the finance and banking industry (iv) mass privatisation, and fire-sale of public assets, with the aim of limiting public ownership and generating additional resources for the public budget (v) deregulation in the labour market leading to the erosion of the vested interests of the working classes. This last wave of IMF-led neoliberal reforms had a lasting impact on the Turkish economy, and over the conduct of economic policy in Turkey in the last decade.

One dimension of the TSEP, particularly important regarding the development policy toolbox in Turkey was the comprehensive regulatory reform in the banking and finance industry, and the reorientation of monetary policy. On 25 April 2001, an amendment to the Law on the Central Bank of the Republic of Turkey

instigated the Monetary Policy Board to enhance the independence of the Central Bank of the Republic of Turkey (CBRT), and openly stated ‘price stability’ as the single objective of monetary policy in Turkey. Starting from 2001, the CBRT adopted a (covered) inflation-targeting regime, as a result of which the value of the Turkish Lira has risen steadily since 2002. The adoption of the inflation-targeting regime marks the end of an era in terms of development policy in Turkey, as it brought an ultimate end to the (implicit) strategy of providing support to the international competitiveness of Turkish manufacturing exports through an undervalued domestic currency; a policy which has been employed all throughout the 1980s, and, to some extent, during the 1990s.<sup>17</sup> The institution of price stability as the primary objective of monetary policy along the lines of Washington Consensus further shrank the set of policy instruments available for supporting the country’s export-oriented development strategy, which was already highly-restricted under the global multilateral

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<sup>17</sup> The importance of an undervalued domestic currency for Turkish manufacturing exporters can be best observed in the heated debates over the value of the exchange rate which were, perhaps, the only serious controversy between business circles, and economic bureaucracy, during AKP’s reign. Exporters’ organisations led by the Turkish Exporters’ Assembly (TİM) directed intensive criticism toward Central Bank Governors, throughout most of the 2000s, calling for the government to intervene; claiming that the conduct of monetary policy was seriously harming manufacturing exporters’ competitive power, leading to market losses.

rules and Turkey's Customs Union agreement with the EU of the 1<sup>st</sup> of January 1996.

It can be argued that, following the Customs Union with the EU, the 'trade policy' sphere in Turkey has almost completely disappeared. In the post-Customs Union period Turkey's trade policy was reduced to the enactment of the Free Trade Agreements (FTAs) which had been put in place by the EU with third parties, and a series of highly limited 'trade strategies' which depend on very simplistic new trade policy instruments, and an active commercial diplomacy. One particular flaw in the Customs Union agreement, placing Turkey at a seriously disadvantaged position, has also accelerated the need for a more active commercial diplomacy throughout the 2000s. Despite being a part of the EU's common external tariff policy Turkey is not automatically a part of the EU's FTAs with third parties, nor can it undertake FTA negotiations on its own initiative (Akman, 2010; Kirişçi, 2013: 13). As a country suffering from a serious trade and current account deficit, Turkey accelerated efforts to find a solution to this very real problem in the last decade, correctly identifying the burden that being left out of the EU's FTAs might place on the manufacturing industry, and the Turkish economy in general.<sup>18</sup> The EU's decision to negotiate for a comprehensive FTA with the

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<sup>18</sup> Turkey is left out of the EU's FTA negotiations with a series of important commercial actors such as Algeria, Mexico, or South Africa. This not only leads to the erosion of Turkish manufacturing exporters' advantages stemming from the Customs Union, but also opens the domestic market to competition from these countries.

US has brought this issue to the top of Turkey's foreign policy agenda once again in 2012 (see Akman, 2013).<sup>19</sup> The rising concerns with the erosion of the advantages brought about by the Customs Union, coupled with Turkey's growing disenchantment with the pace of EU membership negotiations have led Turkey to reduce export dependence on EU markets, through enhancing trade and economic relations with other regions such as Middle East.

## **5. Rethinking Turkish Foreign Policy in the Light of Structural Problems of the Economy**

Turkey enjoyed a relatively steady growth during the AKP's rule, with a 5.2% average annual real GDP growth rate for the period between 2002 and 2012. During the recovery from the 2008-2009 global economic crisis, Turkey sustained high growth performance, the rate of GDP growth reaching 8.8% percent in 2011, second only to China. The rate of unemployment stabilised at about 10% after reaching its peak of 16% in February 2009 during the global crisis. For most of the period after 2002, the rate of consumer price inflation has remained below 10%, at historically low rates (see Table 3).

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<sup>19</sup> Although this issue was brought to the fore during Prime Minister Erdoğan's May 2013 visit to Washington, no progress could have been reached and as of now, Turkey remains out of the negotiation process.

**Table 3. Main Economic Indicators of Turkey and some emerging economies, 2002-2013**

GDP Growth Rate (%)*	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Brazil	2.7	1.1	5.7	3.2	4	6.1	5.2	-0.3	7.5	2.7	1	2.3
China	9.1	10	10.1	11.3	12.7	14.2	9.6	9.2	10.4	9.3	7.7	7.7
India	3.8	7.9	7.9	9.3	9.3	9.8	3.9	8.5	10.3	6.6	4.7	4.4
Indonesia	4.5	4.8	5	5.7	5.5	6.3	6	4.6	6.2	6.5	6.3	5.8
Mexico	0.1	1.4	4.3	3	5	3.1	1.4	-4.7	5.1	4	3.9	1.1
Russia	4.7	7.3	7.2	6.4	8.2	8.5	5.2	-7.8	4.5	4.3	3.4	1.3
Turkey	6.2	5.3	9.4	8.4	6.9	4.7	0.7	-4.8	9.2	8.8	2.2	4.3
Inflation (%)**												
Brazil	12.5	9.3	7.6	5.7	3.1	4.5	5.9	4.3	5.9	6.5	5.8	5.9
China	-0.4	3.2	2.4	1.6	2.8	6.5	1.2	1.9	4.6	4.1	2.5	2.5
India	4.1	3.5	4.2	5	7.5	6.9	9.1	14.3	10	9.4	10.4	8.1
Indonesia	9.9	5.2	6.4	17.1	6.6	6	11.1	3	7	3.8	3.7	8.1
Mexico	5.7	4	5.2	3.3	4.1	3.8	6.5	3.6	4.4	3.8	3.6	4
Russia	15.1	12	11.7	10.9	9	11.9	13.3	8.8	8.8	6.1	6.6	6.5
Turkey	29.7	18.4	9.4	7.7	9.7	8.4	10.1	6.5	6.4	10.4	6.2	7.4
Un-employment rate (%)												
Brazil	11.7	12.3	11.5	9.8	10	9.3	7.9	8.1	6.7	6	5.5	5.4
China	4	4.3	4.2	4.2	4.1	4	4.2	4.3	4.1	4.1	4.1	4.1
Indonesia	9.1	9.5	9.9	11.2	10.3	9.1	8.4	7.9	7.1	6.6	6.1	6.3
Mexico	3	3.4	3.9	3.6	3.6	3.7	4	5.5	5.4	5.2	5	4.9
Russia	8	8.6	8.2	7.6	7.2	6.1	6.3	8.4	7.3	6.5	5.5	5.5
Turkey	10.3	10.5	10.3	10.6	10.2	10.2	10.9	14	11.9	9.8	9.2	9.7
Current account (% of GDP)												
Brazil	-1.5	0.8	1.8	1.6	1.3	0.1	-1.7	-1.5	-2.2	-2.1	-2.4	-3.6
China	2.4	2.6	3.6	5.9	8.5	10.1	9.3	4.9	4	1.9	2.3	2.1
India	1.2	2.3	-0.3	-1.2	-1	-1.3	-2.3	-2.8	-2.7	-4.2	-4.7	-2

Indonesia	4	3.5	2	0.6	2.6	1.6	0	2	0.7	0.2	-2.8	-3.3
Mexico	-1.9	-1.2	-0.9	-1	-0.8	-1.4	-1.8	-0.9	-0.3	-1.1	-1.2	-1.8
Russia	8.4	8.2	10.1	11.1	9.3	5.5	6.3	4.1	4.4	5.1	3.6	1.6
Turkey	-0.3	-2.5	-3.6	-4.4	-6	-5.8	-5.5	-2	-6.2	-9.7	-6.2	-7.9
Savings (% of GDP)												
Brazil	14.7	16.5	18.9	17.8	18	18.4	19	16.3	18	17.6	15.1	14.7
China	40.3	43.8	46.8	48	51.5	51.8	53.4	53.1	52.2	50.1	51	50
India	26	29.1	32.5	33.5	34.7	36.8	32	33.7	33.8	31.4	30	32.7
Indonesia	25.4	29.1	26.1	25.6	28	26.5	27.8	33	33	33.1	32	30.4
Mexico	20.5	20.7	21.8	21.3	22.7	22	22.6	22	21.7	21.2	22	20.4
Russia	28.5	28.3	30.4	30.5	30.4	30.9	30.3	21.3	26.1	29.1	26.6	25.3
Turkey	17.3	15.1	15.8	15.5	16	15.2	16.3	13	13.3	13.9	13.9	13.7

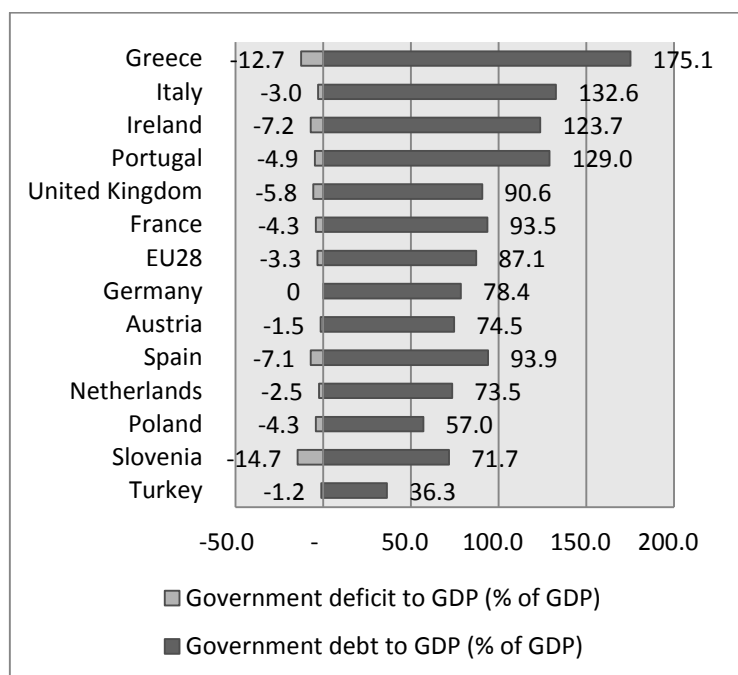
Note: \* Constant prices, \*\* End of period, consumer prices

Source: IMF, World Economic Outlook Database, April 2014

Despite the fact that public spending has been constantly increasing since 2009, the fiscal discipline achieved with high social and economic costs under the IMF conditionality regime still continues today, as reflected in both the government's budget and the public debt statistics (see Table 4). The central government's budget continues to post a primary surplus since 2000; while the budget deficit and public debt ratios to GDP remain considerably lower than most EU countries. Mostly as a result of the regulatory reforms in finance and banking undertaken following the 2000-2001 crisis, no financial institution in Turkey went bankrupt during the global crisis and the economic turmoil in the Euro zone. Over the course of the last

decade, Turkey has attracted a large volume of foreign capital, with foreign direct investment inflows amounting to 123 billion US Dollars in total for the period between 2002-2013 thanks to favourable global liquidity conditions.

**Table 4. Government deficit and debt figures as a percentage of GDP (2013)**



Source: Eurostat 2014 and TurkStat.



This relatively positive macroeconomic outlook, echoed in both the domestic and foreign policy discourses of the AKP elites, is frequently evaluated as the most important source of Turkey's growing self-confidence, and assertive foreign policy. For many students of Turkish foreign policy, Turkey has reached the economic capacity necessary for assuming a more prominent regional role (see Aras, 2009b; Ünay, 2010: 27)<sup>20</sup>. These assessments attributing recent transformation in Turkish foreign policy to economic buoyancy, however, conceal the mounting structural problems of the Turkish economy, as well as the dilemmas of the country's FDI-led, export-oriented growth strategy. These interpretations are often supported by the claim that GDP has more than tripled under AKP rule, making Turkey the world's 17<sup>th</sup> largest economy in 2012, 7 places above its position in 2002. However, these evaluations based on GDP at current prices (US dollar) are misleading and do not fully reflect the performance of the Turkish economy. As Rodrik (2013) correctly notes, Turkish GDP has grown by only 64% in real terms from 2002 to 2012. This growth performance equals that of the previous high-growth episode of the country between 1960-1978 under the import substituting

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<sup>20</sup> Kutlay and Öniş (2013: 1414) claim that the economic success which followed the 2000-2001 crises 'clearly laid the foundations for a more assertive foreign policy and Ankara's rise as an increasingly influential regional power.' The authors, however, note that some deep-seated structural problems of the Turkish economy may impede the sustainability of the country's regional power credentials.

industrialisation strategy, and is significantly lower than the 95% real GDP growth in developing countries between 2002 and 2012. Turkey's place on the world's largest economies list has not shown significant change in the past decade either; in terms of purchasing-power adjusted GDP, Turkey only went up from 17<sup>th</sup> in 2002 to 16<sup>th</sup> in 2012 on the list (Rodrik, 2013).

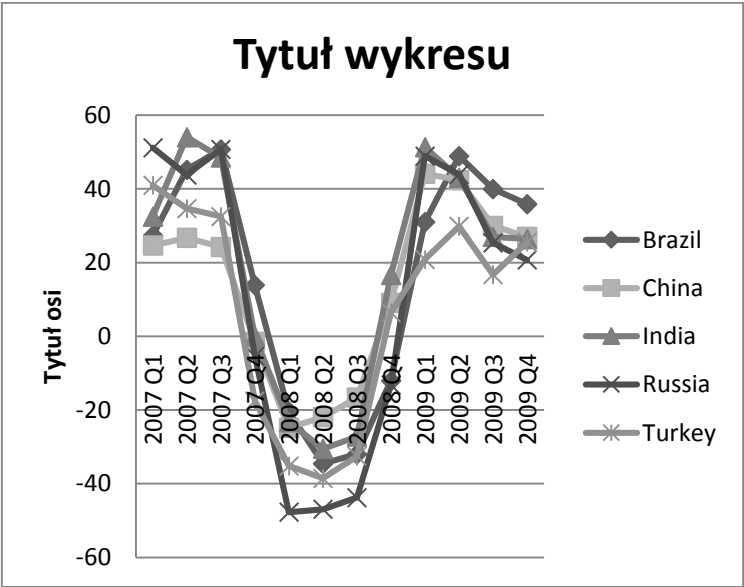
Structural weaknesses of the Turkish economy became more visible during the 2008-2009 global financial crisis. In many ways, Turkey was affected more deeply by the global crisis than other comparable emerging markets. Turkey was also among the countries which suffered most from the 'Great Trade Collapse' of 2009. Turkey's total trade (and total exports) not only experienced a sharp decline after the onset of the crisis, but were also among the latest to recover (see Table 5). The sudden contraction in Turkey's industrial production, total trade and export revenues show us how vulnerable the Turkish economy still remains to global downturns in trade. The trade collapse of 2009 has also shown the limits of the various trade strategies implemented throughout the 2000s for diversifying Turkey's export markets, with the ultimate aim of reducing dependence on EU markets.<sup>21</sup> Although these

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<sup>21</sup> These include the 'Strategy for Enhancing Trade with Neighboring and Peripheral Countries' (2000), the 'Strategy for Enhancing Trade and Economic Relations with African Countries' (2003), the 'Strategy for Enhancing Trade and Economic Relations with Asia Pacific Countries' (2005) and the 'Strategy for Enhancing Trade and Economic Relations with Latin America Countries' (2006). See Ministry of Economy (2012).

strategies have been relatively successful in increasing Turkey’s bilateral trade relations with a number of neighbouring and peripheral countries, they fell short of supporting Turkey’s export-oriented growth model. This is primarily because the rise of export volumes and the diversification in export destinations were not accompanied by a similar diversification of export commodities.

**Table 5. Total trade, percentage change relative to the same month of the previous year**



Source: IMF, World Economic Outlook Database, April 2014.

The share of high-value added and high-technology products in Turkey’s total exports remained below 2% over the course of the past decade. In 2012, the most

recent year for which data is available, the share of high-technology goods in Turkey's total exports was 1.8%, while the OECD average was 16.4% and the same ratio was 10.5% in Brazil, 8.4% in Russia, 26.3% in China, and 6.6% in India.<sup>22</sup> Similarly, Turkey still lags far behind its competitors such as Mexico, China or Romania, in terms of the complexity of its export structure (Atiyas and Bakış, 2011: 57). In terms of sophistication of export products, Turkey even lags behind countries with a significantly lower GDP per capita, such as India, Indonesia and Thailand (Atiyas and Bakış, 2011: 58).<sup>23</sup> Although Turkish exports have more than quadrupled in the period between 2002 and 2012, rising from 36 billion USD in 2002 to 152 billion USD in 2012, Turkish manufacturing exports still remain highly concentrated in traditional commodity groups, characterised by a standardised technology, falling, or stagnating global demand, lower prices, and fierce price competition (Taymaz, Voyvoda and Yılmaz, 2011). This tells us that Turkey is somewhat stuck in the current global division of labour, unable to complete the industrial transformation necessary for sustainable growth and development, failing to upgrade its manufacturing sector to specialise in high-technology and knowledge-based industries. The relatively high growth rates of the 2000s did not result in a structural transformation in

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<sup>22</sup> <http://wdi.worldbank.org/table/5.13>

<sup>23</sup> Atiyas and Bakış (2013: 11) also find that Turkey remains behind several developing countries such as China, Thailand, Brazil, Mexico and India in terms of sophistication of the manufacturing industry.

Turkey's growth regime, and the way the country is integrated in the global economy (Taymaz, Voyvoda and Yılmaz, 2011: 90). The low number of triadic patent families representing the most significant innovations also demonstrates that Turkey has made only limited progress in terms of technological development, which is insufficient to improve the technological level of its products and its place in the international division of labour (see Table 6).

**Table 6. Number of Triadic Patent Families**

<b>Country</b>	<b>2000</b>	<b>2002</b>	<b>2004</b>	<b>2006</b>	<b>2008</b>	<b>2010</b>
France	2 140	2 217	2 412	2 431	2 476	2 447
Germany	5 804	5 502	5 635	5 960	5 741	5 685
Italy	638	712	756	756	732	707
Japan	14 749	14 294	15 155	15 048	13 106	15 067
Korea	732	1 213	2 000	2 134	1 780	2 182
Netherlands	1 022	967	945	1 010	939	828
Sweden	618	693	696	899	901	882
Switzerland	811	806	879	906	850	847
United Kingdom	1 622	1 651	1 656	1 705	1 632	1 598
United States	13 794	14 471	15 185	15 857	14 096	13 837
Brazil	29	42	49	49	67	60
China	71	155	228	365	507	875
India	54	126	115	147	162	201
Indonesia	4	3	0	4	2	3
Mexico	9	10	15	19	16	12

Russian Federation	73	51	50	70	64	73
South Africa	36	27	30	39	31	26
Turkey	4	8	13	14	21	35

Source: OECD Factbook 2013

Instead of providing incentives for improving industrial specialisation and transformation by sidestepping global restrictions on policy space and the neoliberal policy straightjacket of the IMF-led reforms, AKP governments have preferred to increasingly rely on commercial diplomacy. Rather than completing the necessary transformation in economic structure for sustainable development, through appropriate macroeconomic, industrial, and trade policies, AKP governments have favoured temporary, transitional solutions to the well-entrenched problems of the Turkish economy. In this sense, the last ten years of AKP rule are a lost decade, a period of missed opportunity for fundamental restructuring in the economy, not an era of economic miracle.

*On Turkey's unending spectre of a 'sudden stop'*

The enduring and ever growing deficit in Turkey's current account is by far the most important indicator of the country's flawed economic development model. It also indicates the extent to which the present neoliberal policy framework falls short of leading Turkey to a sustainable growth and development path. Actually, Turkey has always run a current account deficit, due to the high dependence of the manufacturing industry on

imported capital goods and energy. However, Turkey's current account deficit has significantly expanded since 2002, reaching a new level after the global crisis, when it hit a record-high at almost 10% of GDP in 2011. Due to the unprecedented deterioration in Turkey's external balance, the non-energy current account - which is normally a surplus - had a deficit of 3.6% of GDP in 2011. Despite contracting domestic demand and the introduction of new (unorthodox) tight monetary policy measures by the Central Bank, Turkey continued to have a large current account deficit, which was the highest deficit as a share of GDP among members of the OECD in 2012. The fact that Turkey had a huge current account deficit of 48.4 billion USD, with a relatively low economic growth rate of 2.2% in 2012, demonstrates that the association between high economic growth and the current account deficit came to an end in 2012.

Turkey's persistent and worsening current account deficit shows us that the country's prevailing neoliberal growth strategy is flawed and potentially unsustainable. Among the comparable emerging economies with similar export-oriented development strategies, Turkey is the only country with such a large current account deficit (see Table 3). The fact that Turkey also has one of the world's lowest savings to GDP ratio is another factor casting doubt on the sustainability of the Turkish economy. The large and sustained trade deficit makes the Turkish economy highly dependent on inflows of foreign capital. Over the course of the last few years Turkey has been financing its current account deficit

increasingly through short-term foreign capital inflows, mostly in the form of portfolio investments, rather than long-term foreign direct investment inflows. This trend has heightened concerns over the implications of a potential downturn in the global availability of capital for the Turkish economy. Domestic investments which are already low due to the very low domestic savings rate have been increasingly concentrated in non-productive sectors, particularly housing and real estate. This is widely regarded as another factor aggravating the existing imbalances and fragility of the Turkish economy (see Gürkaynak and Sayek-Böke, 2012; Hakura, 2013). As another risk factor, the household debt to disposable income ratio in Turkey for the first time reached above 50% in 2013 (50.2% in June). This is mainly due to the continuation of an expansionary fiscal policy that was started in 2009 as a temporary measure for offsetting the impact of the global crisis, but continuing since then despite recovery in global demand (Gürkaynak and Sayek-Böke, 2012).

Due to the high and persistent current account deficit, low saving rates, and rising private foreign debt, Turkey has recently come to be regarded as a highly fragile economy.<sup>24</sup> The significant depreciation in the

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<sup>24</sup> A report published by Morgan Stanley in August 2013 has shown Turkey to be among the most fragile emerging economies, along with Brazil, India, South Africa and Indonesia, which have all become increasingly dependent on foreign capital inflows. Following this report, Turkey is considered as 'the most fragile of the Fragile Five'. A recent report by the Federal Reserve Bank on February 2014 also described Turkey as the most fragile economy in



Turkish lira, and the difficulty the Central Bank had in controlling depreciation and exchange rate volatility between December 2013 and January 2014 have shown us that the danger of a sudden stop has not been eliminated completely. Turkey still remains vulnerable to the risk of a sudden end to foreign capital inflows, triggering a new economic crisis, as happened several times after every high-growth period in recent decades (see Rodrik, 2012). The risk of a sudden stop still haunts Turkey as a result of the failure of the neoliberal reforms of the past decade in resolving the structural problems of the economy. The success of the most recent phase of neoliberal restructuring in Turkey in ensuring price stability has made it highly costly and undesirable to change the neoliberal program adopted following the 2000-2001 twin crises and challenge the neoliberal policy consensus. Partly as a result of this, and partly as a result of the AKP's highly conservative economic and social views, the initiation of new policies which go slightly beyond neoliberal recipes was delayed, and was realised only after the global financial crisis. The weaknesses of the Turkish economy crystallised with the global crisis and forced the AKP government to undertake certain steps to bring a solution to these long-standing problems. One of these new steps was the 'Input Supply Strategy (GiTES) and Action Plans' initiated by the Ministry of Economy on May 2010 with the aim of reducing the dependency of the Turkish manufacturing

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a group of 15 emerging economies, based on the economic fragility index (FED, 2014: 29).

industry on imported intermediate products. The 'Turkish Industrial Strategy Document 2011-2014 (Towards EU Membership)', outlining the general framework of industrial policy in Turkey, was another measure introduced in December 2010 with similar aims. The government also announced a new investment incentives program on April 2012, to provide additional incentives to investors. However, these initiatives, perceived as steps towards a 'new developmentalism' in Turkey (see Öniş and Kutlay, 2013: 1421) are actually rather late attempts at reclaiming the state's role in guiding industrial transformation. Furthermore, to what extent these new initiatives differ (qualitatively and substantially) from the previous similar initiatives of the 1980s and the 1990s, and can boost the state's developmental and transformative capacity in Turkey is highly controversial and questionable.

## **6. Explaining the limits, dilemmas and paradoxes of Turkish foreign policy**

This study asserts that Turkey tried to adopt a new foreign policy 'grand strategy' including the 'zero problems with the neighbours' approach in an attempt to gain more influence in its own neighbourhood, and for finding temporary solutions to its deep-seated economic problems. Excessive dependence on Iranian, Azerbaijani, Russian and Iraqi natural resources, and an acute trade deficit, were among the prime determinants

of Turkey's recent foreign policy reorientation. The desire to reduce the very high dependence of Turkish exports on EU markets by increasing exports to neighbouring countries and the periphery is also behind this recent surge of non-EU countries in Turkey's foreign policy agenda. The stalemate of EU accession negotiations, as well as the lack of a genuine dialogue between the parties and the pronounced hostility in EU political discourse against Turkey's adhesion, widely publicised in Turkish media, have all helped AKP governments in gathering public support for their non-traditional foreign policy moves. Similarly, problems emerging out of the Customs Union agreement with the EU have heightened concerns of Turkey's export-oriented small and medium-sized enterprises, mobilising them to concentrate their efforts on obtaining the government's active support in reaching for non-EU export destinations such as Middle East, the Caucasus, and Africa. The decline of the EU's attractiveness, in turn, had important foreign policy implications, such as the cooling on the Cyprus problem, and Turkey's search for a more independent role from the EU in the Balkans, the Caucasus, and particularly with regards to relations with Iran and Russia.

Recent developments have made it clear the incapacity of AKP's soft-power based foreign policy to establish Turkey as an order-instituting power in its own neighbourhood. This is mainly because this approach, in the very first instance, was based on a too simplistic, too optimistic reading of the country's deep-seated

problems with its neighbours, as well as an 'overstretching' of Turkish foreign policy. For many observers of Turkish foreign policy, this was basically due to the failure of Turkey to complement its soft-power with the necessary economic, military and organisational capacity. This study asserts that Turkey's economic needs, priorities, and weaknesses have drawn the contours of the recent transformation in Turkish foreign policy. This is not only because these priorities and weaknesses have delivered the initial momentum for transformation, but also because they constituted prime reasons underlying the failure of Turkish foreign policy to meet its basic precepts.

One can observe this in many aspects of Turkey's relations with its periphery during the past years. A good case, perhaps the best, is the failed initiative to normalise Turkey's relations with Armenia. This initiative, often referred to as the 'Armenian opening' in AKP's political discourse, gave way to the first-ever visit by a Turkish President to Armenia. Turkish President Gül's Yerevan visit in September 2008, and the return visit of his Armenian counterpart President Serzh Sargsyan in October 2009, were both seen as a stark change in Turkey-Armenia bilateral relations and the birth of an unprecedented opportunity to instigate neighbourly relations between the two countries. Following these two visits, on 22 April 2009, the foreign ministries of Turkey, Armenia and Switzerland declared to the international community that a 'tangible progress and mutual understanding' on a 'comprehensive

framework' have been achieved for the normalisation of Turkish-Armenian relations. This rapprochement process gave way to the Zurich Protocols on 10 October 2009 -- composed of the 'Protocol on the Establishment of Diplomatic Relations' and the 'Protocol on the Development of Bilateral Relations' -- which mentioned no precondition for normalisation of relations, but required ratification from the national parliaments of the two countries. In his visit to Ankara, US President Barack Obama greeted the initiative, and declared his firm support. As a result, the 'Armenian opening', was quickly seen as the symbol of the AKP's 'zero problems' approach, and of the new mindset in Turkish foreign policy.

However, the rapprochement between Turkey and Armenia raised concerns in Azerbaijan, which reacted quite strongly, particularly after President Obama's statements supporting the initiative (see Shiryev and Davies, 2013). Azerbaijani media started an eager campaign against the protocols, while Azerbaijani authorities, from the early stages of the initiative, hinted that such a rapprochement will have serious consequences, particularly in the form of sanctions in energy provision, and a possible reorientation of their country's energy cooperation strategy, in a way to favour Russia over Turkey. As a reaction to the initiative, Azerbaijani President Ilham Aliyev boycotted the Alliance of Civilisations Forum organised in Istanbul on 6 April 2009. In an effort to mend bilateral relations, Prime Minister Erdoğan and the ministers of foreign affairs,

energy, transportation, foreign trade, and culture and tourism of Turkey visited Baku in May 2009 (Shiriyev and Davies, 2013: 191). During this visit, Prime Minister Erdoğan openly stated the end of the Nagorno-Karabakh occupation as a precondition of Turkey's opening of its Armenian borders. However, despite serious efforts from Turkish authorities to reassure Azerbaijan that there will be no opening of the borders without a solution to the Nagorno-Karabakh issue, the Armenia initiative continued to cloud Turkey's relations with Azerbaijan. On 14 October 2009, just a few days after the Zurich protocols, the State Oil Company of Azerbaijan agreed to sell 500 million cubic meters of gas per year to Gazprom-Neft of Russia. Azerbaijan also retaliated by increasing the cubic meter price of natural gas delivered to Turkey, and postponing the development of the Shah-Deniz gas field until 2017 (Phillips, 2012: 62). This latter decision constituted an important blow to Turkey's medium term strategy of establishing itself as a major energy transit corridor to Europe.

Turkey's remarks that Armenia needs to settle its dispute with Azerbaijan before opening of the borders, however, caused serious concern in Yerevan. Furthermore, Armenia decided to take the protocols to the Constitutional Court before ratification in the Parliament. In January 2010, the Court ruled against the Protocols' conformity with the provisions of the preamble to the Constitution of the Republic of Armenia. The Armenian Constitutional Court also

decided that the Protocols brought no obligation to Armenia regarding the Nagorno-Karabakh issue (see Phillips, 2012: 67). Following these decisions, Armenian President Sargsyan suspended the process of parliamentary ratification of the protocols in April 2010, citing Ankara's insistence on the Nagorno-Karabakh connection as a prime reason (among others) for the suspension. Turkey's strategic economic and political relations with Azerbaijan, and heavy dependence on this country's energy resources, thus, was among the reasons that brought a swift end to the Armenia initiative, emblematic of the 'zero problems with neighbours' policy.<sup>25</sup>

It is equally possible to see the pervasiveness of political economy concerns within Turkey's foreign policy moves in bilateral relations with Iran, another neighbouring country upon whose energy resources the Turkish economy remains heavily dependent. Iran is not only Turkey's largest source of oil, and second-largest source of natural gas after Russia, but also an important destination for Turkish exports.<sup>26</sup> Turkey's economic and energy relations with Iran enable us to rethink the many perplexities in bilateral relations with this country.

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<sup>25</sup> With the failure of the initiative, Turkey and Azerbaijan signed a bilateral Agreement on Strategic Partnership and Mutual Support in September 2010, which gave way to the signing of the Trans Anatolian gas pipeline (TANAP) agreement on 26 June 2012.

<sup>26</sup> Iran has become the second source of Turkey's oil imports in 2013, after Iraq. Information on Turkey's energy imports are taken from the US Energy Information Administration website, available on <http://www.eia.gov/countries/cab.cfm?fips=tu>

Following the rising Shia influence in Iraq after the invasion of this country by US and Western forces, Iran has gained an upper hand over Turkey in the competition for regional power. Turkey had to keep an eye on the rising Iranian influence on Iraqi central government, on the one hand, while, on the other, it continued to be heavily dependent on the Iranian energy supply to keep its large manufacturing industry working. This created an extremely delicate equilibrium, which necessitated frequent visits of Turkish authorities, including the Prime Minister himself, to Teheran in the past decade. Throughout the AKP era, the two countries enjoyed relatively smooth bilateral relations, which is often cited as a strategic partnership between the two historic rivals for power and leadership in their shared neighbourhood. In this period, Turkey strived to instrumentalise political and diplomatic channels to boost economic and trade relations with Iran. However, although the trade volume between the two countries has increased tremendously during the past decade, marking an eleven-fold rise in between 2002 and 2013, Iran still remains among the countries with which Turkey has the highest trade deficit, and the lowest exports/imports coverage ratio.<sup>27</sup> Turkey's efforts to boost exports to the large Iranian market yielded only limited results, due to the very high customs tariffs on Turkish exports, and Iran's policy of imposing prohibitive

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<sup>27</sup> In 2013, Turkey's trade deficit with Iran was more than 6 billion US Dollars, while the deficit with Russia reached over 18 billion Dollars.



fuel levies on transportation by Turkish trucks (see Jenkins, 2012). Besides, none of the 'grandiose' projects of Turkish-Iranian economic collaboration has come true during the AKP era (Jenkins, 2012: 50); despite enthusiastic declarations, attempts to translate rhetoric into action have consistently failed. Economic diplomacy has plainly fallen short of reducing Turkey's massive trade deficit with Iran, and surmounting the problem of high dependence on energy imports from this neighbouring country.

Turkey's heavy dependence on Iranian natural resources, and an inability to use the economy as a leverage in bilateral relations during the past decade have shaped Turkish foreign policy towards this country. However, Turkey's rapprochement with its resource-rich eastern neighbour, generated serious concern in the US and the EU, which increased pressure on Turkey to confirm its alliance with the West. Growing disenchantment of the US and the Western block (and also of Saudi Arabia) with Turkey's stance has accelerated following Turkey's no vote on UN's Iran sanctions in June 2010. Turkey also felt increasingly stressed under the UN sanctions regime against Iran, although it was allowed to enjoy significant exemptions. Continuing pressures from its Western allies led Turkey to reconsider the broad contours of its foreign policy towards Iran, and compromise by accepting to install a NATO radar base in Malatya Kürecik in September 2011, despite Iran's (and Russia's) strong reaction. Turkey's decision to allow the radar base which is part of the

NATO's missile defense shield, has shown to the world that Turkey's 'new' foreign policy style had its limits. This decision also represents a definite shift backwards in Turkish foreign policy, which is reminiscent of the traditional security-based policy approach of 1990s.

A similar case, which is also clearly revelatory of the political economy determinants of Turkish foreign policy in the past decade can be found in the recent course of Turkey-Russia bilateral relations. Just like Azerbaijan and Iran, Russia has long been an important destination for Prime Minister Erdoğan's official visits, and bilateral relations between the two countries have reached at the level of strategic partnership during AKP governments. In this period, economic relations and bilateral trade boomed, just as did tourism and foreign direct investments. Turkey has also searched for an active cooperation with Russia on strategic investments, which has given way to the decision of awarding the contract for construction of Turkey's first nuclear power plant in Akkuyu to a Russian firm (see Kasapoğlu and Ergun, 2014). However, although bilateral economic and trade relations have flourished during the past decade, Turkey remained the more dependent side, as it currently depends on Russia for more than half of its natural gas imports, and for about one tenth of its oil imports (Demiryol, 2013). Furthermore, despite the high and growing exports to Russia, Turkey continues to suffer from a large and growing deficit in its trade with this country. These features of Turkey-Russia relations have led Turkey to adopt a moderate position in all of the

contentious issues during the past decade. During the 2008 Russo-Georgian war, for example, Turkey adopted a cautious stance, while searching for an active role in negotiations for a cease-fire, it carefully avoided any step that could risk direct confrontation of Moscow's interests (Winrow, 2009). The Ukraine crisis, however, has ultimately shown how Turkey's energy needs impede its diplomatic moves, providing a litmus test for its capacity to exert regional influence in the Black Sea. Turkish reaction to the annexation of Crimea remained remarkably feeble and ambiguous, despite the very high public concern about Crimean Turks, and Turkish interests in Crimea (see Çağaptay and Jeffrey, 2014; Kasapoğlu and Ergun, 2014).

The above cases exemplify how Turkey's economic priorities and weaknesses have lit the spark of AKP-era foreign policy initiatives, which, in turn, yielded no, or only limited, results, or triggered new, additional controversies.<sup>28</sup> The watermark of the Turkish economy's prevailing weaknesses, such as the low degree of export sophistication, preponderance of low value-added products, the need for sustaining foreign capital inflows, and high dependence on imported energy and intermediate products, is visible in the country's recent foreign policy decisions. Turkey's trade strategies, and active economic diplomacy, have remained ineffective so far as to solve the country's

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<sup>28</sup> The recent rapprochement with the Regional Government of Iraqi Kurdistan, which came at the cost of deteriorating relations with the Iraqi central government is another good example.

economic dependence and weaknesses, which continue to impede its foreign policy alternatives. What is equally remarkable is the resurgence of the security-based, traditional line of foreign policy-making. What is being widely referred to in the past few months as the 'reset' in Turkish foreign policy is nothing but the return of the traditional foreign policy-making style and discourses, particularly after the Turkish parliament's approval of a one-year mandate allowing military action against the Islamic State of Iraq and Syria (ISIS) in Iraqi and Syrian territory.

## **7. Conclusion**

This study examines the recent transformation and paradoxes in Turkish foreign policy from a political economy perspective. For this aim, we accentuate the global, regional, and domestic economic structures, and trends shaping Turkey's foreign policy choices. We relate the ascendance of economic issues, means and ends in Turkey's foreign policy agenda, and adoption of an active trade diplomacy, to the constriction of the economic policy space. We stress that unlike the BRICs which, in one way or another, managed to reclaim the state's role in encouraging industrial transformation and technological change, Turkey could not adopt a proactive development policy. The enduring neoliberal reforms and structural adjustment programmes implemented under strict loan conditionality, led to the dominance of neoliberal ideology and economic policies

in Turkey. This, we believe, has played a major role in Turkey's incapacity to design and implement specific policies to promote growth and development. AKP-style conservative globalism has also contributed significantly to locking in neoliberal policy choices in Turkey, and locking out other political economy alternatives. As a result of this neoliberal path-dependence, Turkey, under AKP governments, deployed its diplomatic machinery to enhance the international competitiveness of the manufacturing industry, and to support its export-oriented growth regime. Turkey's commercial diplomacy, however, did not evolve into something akin to the 'resource diplomacy' implemented by major commercial nations such as China, Japan or South Korea. Furthermore, in the absence of any proactive development policy, commercial diplomacy has not succeeded in bringing in lasting solutions to Turkey's economic problems, to start with the large trade deficit with neighbouring countries and the mediocre level of sophistication of the manufacturing industry.

In our view, the recent transformation in Turkish foreign policy has more to do with the fragility and weaknesses, than with the unprecedented success, of the Turkish economy. The highly-limited policy framework fell short of bringing about the necessary change for sustainable growth and development. The many structural problems of the Turkish economy, such as the dependence on intermediate products and energy imports, or the low degree of export sophistication continued despite the relatively strong growth rates. The

fact that Turkish exports remained highly concentrated in the range of traditional product groups, with low-to medium technology, has limited Turkish exporters' success in developed country markets, leading them to target the more easily accessible neighbouring markets. Due to the failure to take a proactive policy stance in administering industrial transformation, Turkey ended up with a large and persistent current account deficit. As a result, Ankara has become increasingly dependent on its main energy suppliers, such as Iran and Russia, due to its growing and persistent energy deficit. Turkey's large and growing current account deficit and low saving rates turned the threat of a sudden stop of foreign capital inflows into a 'sword of Damocles' hung over the Turkish economy. In the face of this threat, the government vacillated between limiting the independence of the autonomous regulatory agencies by embedding them in the state structure, and initiating proactive industrial policy measures. The re-emergence of an imminent risk of a sudden stop following the global crisis has also led to an even more paradoxical foreign policy. The increasing and urgent need to sustain foreign capital inflows has also brought Turkey closer to the capital-rich countries of the Gulf.

In this period in which the EU has accelerated exclusionary discourses and practices, and become excessively self-focused with the crisis in the Euro area, Turkey has accepted playing a regional model role in the Middle East. Turkey's acceptance of this 'model country' role despite its lack of the necessary material (economic

and military) and ideational capacity is one of the sources of the many dilemmas and paradoxes visible today in Turkish foreign policy. In this sense, Turkey's recent foreign policy can be considered as a constrained optimisation strategy for ensuring the continuity of a fragile equilibrium. This strategy, however, is concealed behind a highly rhetorical discourse of shared cultural roots, Ottoman heritage and Turkey's historical responsibilities. The constraints over economic policy, and the structural problems of the economy have translated into foreign policy dilemmas. This, we believe, explains, to some extent, the paradoxes and dilemmas in Turkish foreign policy. The rise of an economic rationality and (non-institutionalised) forms of business-state cooperation in Turkey's foreign policy-making also reflect these efforts of optimisation under global, regional, and domestic constraints. The AKP governments' preferences to prioritise simplistic, temporary solutions to the economy's structural problems, in addition to the mismatch of means and ends, however, is a major reason for why these new policy visions utterly failed in meeting the initial targets.

What is remarkable in the case of Turkish experience is that a decade of neoliberal reforms, and EU-oriented democratic reforms, ended in what can be termed as a growing tendency towards authoritarianism. With the erosion and gradual disappearance of EU membership prospects, the half-completed reform process, and the rising fragility of the Turkish economy, the AKP government tended to develop a more

authoritarian stance. Ironically, this has also become to be more and more visible in the sphere of economic policy-making; in the past few years, the ruling political elites have sought to gain more control over monetary policy-making, and the banking and finance industry, by trying to find ways of exerting more direct control over 'independent' bodies such as the Central Bank, or the Banking Regulation and Supervision Agency (BDDK). What once was praised as business-state cooperation in foreign policy-making, on the other hand, is now dissolving, and giving way to a growing tension between the government and some business circles, particularly, the very same conservative circles which have previously been highly active in AKP era foreign policy making.

AKP's powerful discourse of an unprecedented Turkish economic miracle during the past decade, reproduced throughout the media with the aim of domestic political consolidation, has effectively concealed the fact that economic fragility and weaknesses were major factors determining Turkey's foreign policy choices. The hegemony of neoliberal policy discourses and practices, and the AKP's right-wing ideology have substantially limited critical debates on the mismatch between Turkey's material capabilities and foreign policy ambitions.



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## **The Limits, Dilemmas, and Paradoxes of Turkish Foreign Policy: A Political Economy Perspective**

This study examines the transformation in Turkish foreign policy under the Justice and Development Party (Adalet ve Kalkınma Partisi, AKP) rule from a political economy perspective, in an attempt to better understand the limits, dilemmas and paradoxes of Turkish foreign policy which have become more discernible following the swift political transition in the Middle East.

The authors argue that there is currently a confusion in foreign policy priorities, which stems from the structural problems in the Turkish economy, creating a pressing need for policy-makers to find new ways to maintain Turkey's problematic development model. The recent ascendancy of economic diplomacy in Turkish foreign policy is a reflection of the shrinking of development space and the consequent loss of conventional economic, trade and industrial policy instruments.

Against the current global and regional backdrop, the authors claim that the strength and continuity of neoliberal policy views in Turkey is one of the major factors behind the recent transformation in its foreign policy behaviour. The neoliberal policy paradigm, which happened to fit well with the AKP's 'conservative globalism' have locked Turkey in a particular trajectory which constrained its foreign policy alternatives. The constraints on economic policy, and the AKP government's preference to prioritise simplistic, temporary solutions to the economy's structural problems have translated into foreign policy dilemmas.

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