

What Is Next for Turkish Economy after the Referendum?

NURULLAH GÜR

- **What are the weaknesses of the current system of governance in terms of the economy?**
- **What will the presidential system bring to the Turkish Economy?**

INTRODUCTION

Turkey left behind a critical juncture on Sunday, April 16th. The “Yes” vote has paved the way for eliminating institutional tutelage mechanisms and founding a stronger democratic system in Turkey. The new system of governance, which will be fully phased in by November 2019, promises significant improvements not only in the political arena, but also in the economic environment. If Turkey can design the next two-year transition period in a constructive and inclusive manner, the future of the Turkish economy will be brighter.

The Turkish economy has been performing below its potential since 2012 mostly due to uncertainties caused by fabricated political instabilities, such as the Gezi Park protests, and the December 17-25 judicial coup, terrorist attacks, and the July 15 failed coup attempt. However, despite these events, the Turkish economy has been growing relatively well, compared to most of the G20 countries. When we take a look at the composition of this growth, it is clear that consumption and government expenditure have been the main drivers of economic growth. Although Turkey’s growth

performance is valuable, especially when the global economy hits choppy water, it is not sufficient for the country to achieve its big targets such as Vision 2023.

Turkey needs to grow at least 5 percent per year on average in order to achieve its medium and long-term economic targets. The presidential system, which was approved by a winning margin of about 1.3 million votes in the referendum, offers important opportunities to galvanize economic growth and development. This piece aims to analyse the importance of the new system for the future of the Turkish economy.

THE WEAKNESSES OF THE CURRENT SYSTEM AND THE PROMISES OF THE NEW SYSTEM

A system of governance, which the social and cultural codes of a country make successful in terms of providing political stability, serving predictable and inclusive policies, and activating a well-functioning bureaucracy, is certainly of benefit for the economic development of this country. When we look at the history of the Republic of Turkey, it can be easily seen that stability was not achieved during the various coalition governments, pol-

Nurullah GÜR

Nurullah Gür received his BA and MA in Economics from Marmara University, in 2006 and 2008, respectively. Mr. Gür earned his PhD at the University of Essex in 2012, and worked as an RA between 2009 and 2012. Gür is currently an associate professor of economics at Istanbul Medipol University while conducting research in the Department of Economics at SETA-Istanbul. He has numerous articles published in international journals with a focus on economic development and finance-real sector relations. Interested in interdisciplinary studies, Gür works on books in the areas of international political economy and economic development.

itics were far from being predictable or even inclusive, and the cumbersome bureaucratic structure deadlocked the political system. The bottlenecks of the 1970s, the 1994 crisis and the 2000-2001 crises all took place during the periods when coalition governments were in place. In the single-party government periods however, the Turkish economy has made significant gains.

It would be unrealistic to expect any level of success from coalition governments in a socio-cultural environment where, due to conflicts and disagreements, even siblings have played havoc with family businesses and sustainable partnerships are rare. In Scandinavian countries where coalition governments are relatively successful in economic terms, success points at factors such as a small and homogeneous population, high social trust and their geographical position. Nevertheless, the countries where coalition governments successfully worked have had a solid and successful economic infrastructure built over the last fifty years and consequently quick decision making has become a secondary priority. An economy like Turkey, which has lagged behind in the race of economic development, does not have the luxury to move at such a slow pace.

Despite the fact that Turkey has been governed by one-party governments for the last 15 years, the current system does not guarantee this indefinitely. The closest example of this was in the June 7, 2015 elections. The AK Party –which received 41 percent of the vote, 15 percentage points ahead of its closest rival– failed to form a single-party government. Thus, the presidential system offers an important opportunity for the Turkish economy to avoid the friction that comes with coalition governments.

In terms of the economy, another weakness of the current system is that both the president and the prime minister go through an election process, which means that both these positions of authority also come with the potential that may arise from holding important forces in their hand. The respectable relationship between the presidents and the prime ministers for the last decade has been based on strong human relations. It is not realistic to expect that the relationship between

the two forces will have the same consistency and amiability in every period. If these authorities equipped with high power implement contradictory populist economic policies based on their electoral agenda, these contradictory policies will increase uncertainty. Needless to say, an increase in this kind of uncertainty will cause serious damage to the economy. However, as is the case with the incident in 2001, where a president threw a constitution booklet at the prime minister, nonsensical agitation between the president and the prime minister will also spark an economic crisis.

The current system also makes it difficult for decisions to be made quickly and for the bureaucracy to function properly. Turkey had experienced periods whereby the head of the execution, the prime minister, could not even choose his own bureaucrats. In 2006, despite the fact that important candidates such as the late Adnan Büyükdeniz and Deputy Prime Minister Mehmet Şimsek were available to be appointed to the central bank, they were not appointed due to the ideological intervention of the president of the time, Ahmet Necdet Sezer. Likewise, many projects put forward for the development of the country were deliberately postponed for unacceptably long periods of time due to the cumbersome bureaucracy, taking advantage of the poor president-prime ministerial relations as well as duality of administration as an opportunity to delay these major projects. In a governance system in which bureaucrats cannot reach the speed of the politicians, it is impossible to spur economic growth and development.

THE OPPORTUNITY OF RETHINKING LONG-TERM POLICIES

Turkey did a tremendous job in implementing first generation economic reforms after the 2000/2001 crisis. GDP per capita increased from 3.000 USD to 10.000 USD in a short time period. Turkey achieved this mostly by ensuring financial and macroeconomic stability. To move this success to the next level and to rise to the status of developed country, Turkey should have implemented a second generation of reforms and a smart industrial policy after 2008. But, unfortunate-

ly, the global financial crisis, geopolitical risks, and domestic political tensions have delayed the writing of a new economic success story.

Turkey has no time to lose to design and implement long-term economic policies. Long-term policies are crucial to boost economic growth and put Turkey back on a prosperous path. In the long run, Turkey needs to further increase its technology and productivity level. It should also reduce the high dependency of its manufacturing industries on foreign inputs, in order to increase value-added growth and to reduce the current account deficit. To make this happen, Turkey should encourage more R&D and innovation activities by strengthening the link between universities and the business world, improving the business climate, diversifying financial instruments and boosting the quality of its education system. Turkey also needs to attract high-tech foreign direct investments to close its technology gap.

Turkey should carry out these structural reforms as soon as possible in order to reach its goals quickly. To do this Turkey needs political stability, strong executive, fast and effective policymaking process, and better coordination among state institutions. The new system offers a promising opportunity to provide such an environment.

TURKEY'S ROLE IN THE GLOBAL ECONOMY

The presidential system is also critical in terms of Turkey's role in the global economy. At the beginning of the 2000s Turkey was in a position of clinging onto the IMF. Thanks to the political stability and a decisively implemented economic policy, Turkey paid off all debts to the IMF. In addition to that, recent reforms in the IMF, along with Turkey and some other important emerging economies, has successfully seen them having a more important say, to a certain extent, in the governance of the IMF. As the share of developing countries in the global economy increases, this will also come with a power shift in the governance of international institutions such as the IMF and the World Bank. Nevertheless, the inadequacy

and inefficiency of the Bretton Woods' institutions, to fully address the problems of the ever-changing global economic structure also pushes developing countries to find different alternatives. The Asian Infrastructure Investment Bank, which was founded under the leadership of China, and of which Turkey is a founding partner, is a good example of this situation. Consequently, it is no surprise that the foreseeable future will see a substantial increase in the number of institutions that are all encompassing and focused on solutions in the international arena.

It is also very likely that there will be major changes in the international trade system in the coming years. The Brexit, the election of Donald Trump as President of the United States and the growing anti-liberal discourse in the EU will significantly alter the current international trade agreements as well as the future of the World Trade Organization. In addition, after such a long period of time, negotiations on the future of the international trade system will most certainly stiffen. In order for Turkey to gain a better position in international economic institutions and to be in a better position within the global trade system, Turkey must not be burdened with the struggle of political instability and must shake off any weak political will.

Energy is another area where Turkey has achieved an important position within the global economy in recent years. At a time when global economic growth is weak and concerns for the future of traditional energy sources are rising, the transfer of energy resources from the East to the West is crucial. Turkey is an important actor playing a critical role in securing and supplying energy because of its geographical position and has the advantage of being a rare country that can sit on the bargaining table with almost all the big energy producing countries such as Russia, Iran, Azerbaijan and Qatar. The fact that such energy projects are very long-term projects necessitates a political will that will follow through these projects outside of the daily political banter. This follow-up will be very difficult to take place within a coalition government or in a setting where this contention between the president and the prime minister.

Another important aspect of securing political stability, predictable policies and strong political will, from a global economic perspective, is that it will contribute to the creation of an environment in which Turkey can extend its assistance and support to a wider geographical area. Turkish Cooperation and Coordination Agency (TIKA), has been one of the world's foremost important foreign aid donors for the past ten years, even though until ten years ago no one had even heard of its name. Turkey is one of the few countries making an effort to offer a "humanitarian" solution without prioritizing their own national interests against human tragedies. The fact that Turkey will continue to expand this work corresponds with its strong system of governance.

CONCLUSION

To climb up the ladder of economic development faster Turkey should implement reforms and policies in a systematic, predictable, coordinated and decisive way. The current system of governance, which is going to be a thing of the past in November 2019, could not provide these. Turkey is a country that aims not only to increase its own economic power by accelerating its economic development process, but also to make it more inclusive for the underdeveloped and developing countries in order for them to have more say in the global economic arena. For these reasons, Turkey needed a new system of governance to achieve its goals. The presidential system offers an important opportunity to realize them.



SIYASET, EKONOMI VE TOPLUM ARAŞTIRMALARI VAKFI
FOUNDATION FOR POLITICAL, ECONOMIC AND SOCIAL RESEARCH
مركز الدراسات السياسية والاقتصادية والاجتماعية

www.setav.org | info@setav.org | [@setavakfi](https://twitter.com/setavakfi)

SETA | Ankara

Nenehatun Caddesi No: 66 GOP Çankaya
06700 Ankara TÜRKİYE
Tel: +90 312.551 21 00 | Faks: +90 312.551 21 90

SETA | İstanbul

Defterdar Mh. Savaklar Cd. Ayvansaray Kavşağı
No: 41-43 Eyüp İstanbul TÜRKİYE
Tel: +90 212 315 11 00 | Faks: +90 212 315 11 11

SETA | Washington D.C.

1025 Connecticut Avenue, N.W., Suite
1106 Washington, D.C., 20036 USA
Tel: 202-223-9885 | Faks: 202-223-6099

SETA | Kahire

21 Fahmi Street Bab al Luq Abdeen
Flat No 19 Kahire MISIR
Tel: 00202 279 56866 | 00202 279 56985