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**The Role of Institutional Change
in the Turkish Economic Growth Under
AKP Governance**

Bachelor Thesis

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Abstract

This paper analyses how the institutional change in Turkey during AKP governance impacted the economic development of the country. It will first examine some of the main characteristics and positive impact of Turkey's institutional reforms toward democratization between 2002-2007. In the following section, the AKP's reversal from the implemented reforms and its authoritarian shift will be discussed to evaluate the deterioration of both political and economic institutions in the period between 2007-2017. Building on these discussions and through contrasting the institutional changes in these two periods, it will be examined whether the change in the institutions impacted the economic performance of Turkey between 2002-2017. To analyse the economic performance of Turkey and the quality of its economic growth in these years, the changes in Total Factor Productivity Growth, the export share of technologically advanced products, and FDI inflow to Turkey will be examined.

Keywords:

Turkey, AKP, institutions, democracy, inclusive institution, authoritarianism, high-quality growth

Declaration of Authorship

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Prague, 21 July, 2022

Algushad Gulaliyev

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The Research Question:

The research question of this thesis is whether the change in the political institutions of the Republic of Turkey has had an impact on the economic performance of Turkey during the AKP governance between 2002-2017. Since Turkey has undergone considerable reforms to build democratic institutions between 2002-2007 and later reversed these reforms to become more authoritarian in the years 2007-2017, the effects of democratization and authoritarianism on the Turkish economy will be evaluated. These two periods 2002-2007 and 2007-2017 will be contrasted to analyse whether there are striking differences in the functioning of Turkey's political economy during its democratization and authoritarianism period.

Working Hypothesis:

- 1 The political institutions of Turkey are correlated with the economic development of the country.
- 2 Both of the institutional changes in Turkey during AKP rule between 2002-2017 impacted the political economy of Turkey: the democratization of Turkey between 2002-2007 had a positive impact on the economic performance of Turkey and a larger segment of the Turkish population while authoritarianism did more negative impacts on the functioning of the economy and redistribution of the resources.

Methodology

In this thesis, both qualitative and quantitative methods will be used. In the 1st chapter, based on the existed literature, the main theoretical background on the institutions will be discussed to draw a framework for the analysis of this paper. In the next chapter, both the impact of institutional reforms and the reversal from these reforms will be analysed based on the articles, institutional reports, and data to examine the key institutional divergence of these two periods. Building on this chapter, in the consecutive Section the role of institutions in Turkey's economy will be examined by contrasting Turkey's economic performance in these two periods based on the available data and literatures. Turkey will be also compared to the developing countries in a similar economic category to determine if the economic changes have been caused by the government policies or if it was due to a worldwide trend.

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Acronyms

AKP/JDP:	Adalet ve Kalkınma Partisi / Justice and Development Party
CSOs:	Civil Society Organizations
EU:	European Union
FDI:	Foreign Direct Investment
GDP:	Gross Domestic Product
GVC:	Global Value Chain
IMF:	International Monetary Fund
MUSIAD:	Müstakil Sanayeci ve İşadamlarının Derneği / Independent Industrialists and Businessmen Association
PCFs:	Politically Connected Firms
PPA:	Public Procurement Agency
PPL:	Public Procurement Law
RSF:	Reporters Without Borders
TFP:	Total Factor Productivity
TUSIAD:	Türk Sanayicileri ve İş İnsanları Derneği / Turkish Industry and Business Association
WB:	World Bank

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Introduction

Recovering from the turbulent financial crisis of 2001, Turkey generated high economic growth at the beginning of the 21st Century. Undertaking considerable political and economic reforms, the country was presented as an example of a vibrant democratic and free market economy, while the term “Turkish model” gained popularity with the connotation of a pro-Western Muslim Democracy (Meyersson, 2017). Yet, despite the intensive reform undertaken by the AKP governance on the path towards democratization, the party changed its political course making an authoritarian drift, while its economic success story lost its popularity. While Turkey’s economic growth rate, as well as the quality of the growth has been in a declining trend, that came hand in hand with Turkey’s worsening democratic records, as well as the deteriorating condition of rule of law, judiciary independence and human rights. This raised important questions about how important role the institutions played in the economic development in the case of Turkey?

In this paper, it will be discussed whether the changes in the political and economic institutions in Turkey during the AKP government between 2002-2017 have had an impact in the economic performance and the quality of Turkey’s economic growth. To describe the institutional features of Turkey, the term ‘inclusive institutions’ and ‘extractive institutions’ coined by Acemoglu and Robinson (2012) will be utilized to evaluate the change in the institutional characteristics of Turkey. The aim of the paper is that whether the institutional change in Turkey can explain the ups and downs of the Turkish economy during the governance of the Justice and Development Party.

To discuss the relations between the institutions and economic growth, in the Section 2, the existed literature about the impact of political and economic institutions on the economic development of countries will be evaluated. Building upon these discussions, in the Section 3, the major institutional changes in two periods: 2002-2007 and 2007-2017¹ will be compared. To contrast the changes in the qualities of institutions in these two periods, Section 3.2 and Section 3.3 will evaluate the institutional reforms and turnaround from these reforms, respectively. In Section 3.2, the structural changes towards democratization of Turkey between 2002-2007, as well as the positive signs of these reforms in both political and economic institutions will be evaluated. In Section 3.3, the AKP's turnaround from earlier initiated reforms and its consequences on the institutional quality of Turkey in the aforementioned decade will be discussed. In Section 4, in order to analyse if the institutional quality of Turkey affected the quality of its economic development, the impact of the institutional reforms and the reversal from the reforms in the Turkish economy between 2002-2017 will be examined. To show the impact of institutions, the changes in Total Factor Productivity, the content of Turkey's export, Foreign Direct Investment Inflow, as well as the extent to which the economic growth is shared among the wider segment of the population, will be investigated. Section 5 will draw the conclusion of this thesis based on the findings.

¹ The reason why the institutional changes will be discussed until 2017 is due to Turkey's introduction of presidential system. By the change of political system from parliamentary to presidential regime, the formal political and economic institutions have been considerably changed, which is another breaking point in Turkey's institutional change during AKP governance. See Adar & Seufert for further discussion on the impact of Turkey's presidential system in the country's institutions.

2. Literature Review

2.1 The Impact of Institutions on the Economic Performance

Various authors characterise institutions as one of the main factors why some countries are richer than others (North,1990). According to North (1990), the efficiency of the institutions is one of the main reasons for the prosperity of some states with high economic growth while other states are lagging behind with high poverty rates and poor economic function. Institutions are defined as the rules of the games that determine how individuals interact with one another. It is argued that institutions form the incentives which shape the way societies evolve (North, 1990).

The book “Why Nations Fail” by Acemoglu & Robinson (2012) contribute to the discussion of the institutional differences between democratic and non-democratic countries and the impact of these institutions in the various sphere of political economy. The authors compare mainly two forms of institutions that exist in the states: inclusive and extractive institutions. Inclusive institutions are defined as characteristics of democratic countries while extractive institutions are mainly peculiar to authoritarian states. Along with its various positive economic impact, inclusive institutions are considered crucial elements of sustainable economic growth which generally drag out those in the poverty line, bring more equal opportunities and will generate higher economic growth. On the other hand, extractive institutions are formulated as the main barriers to the whole nation’s sustainable economic growth and prosperity (Acemoglu & Robinson, 2012). Providing empirical examples from the

various part of the world, Acemoglu & Robinson (2012) indicate that in the existence of extractive institutions, the system is prone to benefit mainly the tiny minority who possess economic and political power, while the wider range of society is excluded from the economic benefits and participation which diminish the overall potential of the country (p45-96).

Walby (2018) also discusses the importance of inclusive institutions for economic growth. The paper is concerned with how the inequalities of opportunities and economic benefits threaten the countries' economic growth. It is shown that the disparity of opportunities that excludes a broad section of society is a barrier to sustainable economic growth (Walby 2018). In the paper by Acemoglu & Robinson. (2012), the authors indicate that in the existence of democratic institutions, states offer more equal opportunities and better living conditions than authoritarian states. It is discussed that while in democratic countries the existing institutions are *inclusive* which benefits the wide range of society, in authoritarian countries the institutions are extractive that only tiny ruling elites take advantage of the wealth of the nation. In consequence, the ruling class tend to abuse their duties to further enhance their power Acemoglu & Robinson. (2012). This does not only pave the way for the degradation of state institutions, but also for misallocation of state resources, corruption, poor education, and healthcare system, which consequently negatively impact the economic growth of countries.

While Acemoglu & Robinson (2012) interchangeably use democratic institutions with inclusive ones, Rodrik (2000) defines democracy as a meta-institutions for building good

institutions. He classifies the participatory political system and decentralization of power as one of the essential characteristics of democracy. Through local participation, the society builds better institutions that enable higher quality or sustainable economic growth. Unlike the institutions in the authoritarian system that mainly has a top-down approach, the institutions were built from the bottom to up in the participatory political institutions, which are adapted to the local needs. These qualities of participatory democracy are crucial for building better institutions which lay the foundation for inclusive economic growth (Rodrik, 2000). According to the author, these qualities of the democratic system enable it to promote sustainable economic growth. Rodrik (2020) claims that the economy performs significantly better under democratic regimes than under autocracies in four ways. Firstly, unlike authoritarian regimes, in the democratic system, the growth rate is predictable in the long run. Secondly, in democracies, economic performance is way more stable than in non-democracies. Thirds, democracies manage adverse shocks on economic performance more efficiently. Fourthly, the distribution of income is more equal and fair in democratic countries.

Helliwell (1992) uses several regressions of annual indexes of political and civil liberties in the sample of 125 countries to assess the linkages between democracy and economic growth. The results indicate that there is a strong linkage between the high level of political freedoms and high economic growth. On the other hand, Helliwell's (1992) research does not explicitly reveal if it is democratic governance contributes to the subsequent growth or if it is the way around that economic growth consolidates the democratic system. Furthermore, It should be mentioned that the positive relationship between democracy's favourable effect on growth is not an issue of wide-ranging consensus in academic literature.

Using cross-country regression to analyse a panel of 100 countries, Barro (1996) reveals that the overall impact of democracy on growth is weakly negative. Although more political rights enhance growth in countries with restrictive political climates, more democracy depresses growth when the country has already acquired a moderate level of political freedom (Barro, 1996). On the other hand, the paper underlines that political institutions tend to become democratic when the countries' standards of living have reached a high level. Accordingly, the advanced economic countries choose the path to democracy because it is desirable for its own sake, rather than for economic growth (Barro, 1996). Gerring et al. (2005) also employ the cross-country regression method and their result demonstrates that the countries with authoritarian political systems can grow at a similar or even at a higher pace than the democracies. Based on the literature review of academic articles, they state that "the *net* effect of democracy on growth performance cross-nationally over the last five decades is negative or null" (Gerring et al., 2005) (p49). While Gerring et al. (2005) consider that the majority of rich countries are democratic, it is stated that the direction of causality is uncertain. In the paper written by Acemoglu et al. (2019), the authors challenge the views of Barro (1996) and Gerring et al. (2015) mainly from two aspects. The first argument is that the differences between democracies and non-democracies can not easily be distinguished without considering institutional, cultural and historical differences. For this reason, Acemoglu et al. (2019) state that the cross-country regressions could be biased and are unlikely to reveal the causal effects of democracy on growth" (49). Secondly, GDP growth follows democratisation and positive contributions of democratic reforms to GDP growth do not happen imminently. Therefore, Acemoglu et al. (2019) conclude that the incorrect formulation of the GDP dynamics will lead to biased estimation and is not likely to display the causal effect of democracy on growth.

Yildirim and Gökalp (2015) employ the “Panel Data Analysis” method using different variables to examine the relationship between institutional structure and macro-economic performance. The paper finds that the institutional structure that exists in democratic countries has a generally positive effect on the macro-economic development of developing countries (Yildirim & Gökalp, 2015). The variables of democracy which were used in the analysis are the integrity of the law system, regulations on trade barriers and openness to foreign investment that have a positive effect on the economic growth of the countries. However, the independence of the judiciary, civil freedoms, military tutelage, and government expenditure negatively impact the macroeconomic performance of developing countries, according to the authors’ examination. (Yildirim & Gökalp, 2015). The authors further indicate that the poorly-protected property rights, widespread corruption and manipulation of judiciary systems are the common characteristics of the countries with low rates of economic growth (Yildirim & Gokalp).

2.2 The Formation of Political and Economic Institutions

The institutions comprise various elements in themselves that their interaction impacts the quality of institutional performance. One of the characteristics which distinguish institutions from one another is their quality of being informal or formal institutions. Pejovich et al. (2006) identify the interaction between formal and informal institutions as the essential factor that impacts sustainable economic growth rates. Informal institutions are defined as traditions, religious beliefs, moral values, and norms which evolved and persisted

throughout the history of a society. According to Pejovich et al. (2006), informal institutions carry the “old ethos” - the historical past of the community which is mixed with its current set of values (p166). On the other hand, formal institutions are designed based on the laws, regulations, and constitutions of the country. They are mainly based on written laws which include all the rights and regulations that are enforced by the state authorities (Pejovich et al. 2006).

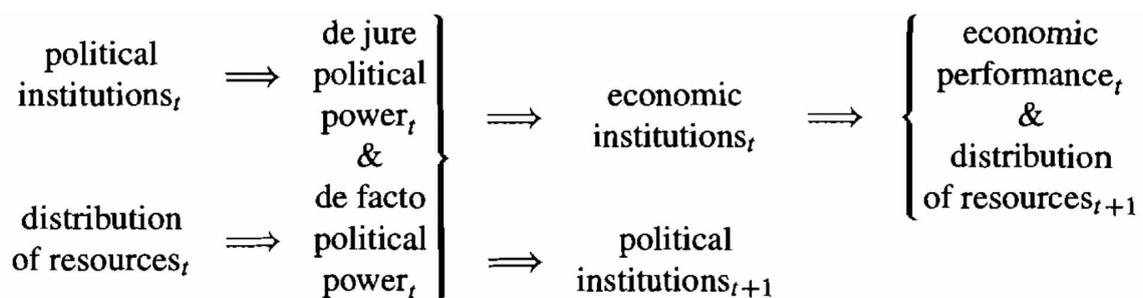
The distinction that was drawn up by Pejovich et al (2006) between the de-jure and de-facto political institutions has similarities to a certain extent to the *de-jure* and de-facto institutions discussed by Foldvari (2017). Foldvari (2017) defines de jure institutions as observable which consists of official and formal rules supervised by the law enforcement agencies. On the other hand, de-facto institutions are mainly set of unwritten or written laws that societies or individuals act in accordance with (Foldvari, 2017). Along with de-jure political institutions, de facto institutions shape the way that political agencies act in practice. Folvari (2017) underlines that de-facto institutions are essential to understand why comparable democratic reforms can lead to better social and economic outcomes in one country, while not in other countries. To evaluate another aspect of the de-facto and de-jure institutions within the context of government and company relations, Atiyas (2012) argues that as the rules of the game, de-facto and de-jure rules can be quite divergent and incompatible. As an example, the state agency is supposed to act in line with the regulatory framework that protects competition in a particular industry. But in reality, the agency may give decisions in favour of certain companies based on their clientelistic relations with state officials (Atiyas, 2012). Similarly, while the agencies’ independence from the ministries is

guaranteed by de-jure laws, in practice the ministries may use certain channels to influence the decisions of agencies (Atiyas, 2012).

According to Prado & Trebilcock (2009), institutions are composed of both formal and informal rules, together with their enforcement characteristics. A mix of these institutional compositions also defines the performances of institutions. Prado & Trebilcock (2009) states that the interplay between formal and informal institutions can shed light on the failure of some of the past reforms. The adopted formal institutions and economic policies can be incompatible with existing informal institutions, as well as with existing social structure and distribution of power. Along with informal institutions, the authors also discuss the role of “path dependency” as one of the main reasons for the hardship to implement and enforce institutional reforms (Prado & Trebilcock, 2009). In the article by Liebowitz & Margolis (1999), past dependence defined as the circumstance that what is the current conditions of the institutions in a country depends on also what were their previous circumstance. It is argued that the countries are dependent on the path it has traced in the past. From this perspective, the institutions of countries to some extent “are locked in by their historical past” (Liebowitz & Margolis, 1999) (p982).

In the paper by Acemoglu et al. (2005) the authors analyse another factor that impacts the formation of different kinds of institutions and their overall quality. It is underlined that the *conflict of interest* between various groups over the choice of institutions is one of the main factors which affects the formation and change of the institutions. Acemoglu et al. (2005) describe both the economic and political institutions as endogenous, which are determined as the collective choice of societies. It is argued that while the economic institutions

determine the distribution of resources, a *conflict of interests* is considered inevitable among the different groups over the choice of economic institutions. In the occurrence of a conflict of interests among the groups over choosing the set of institutions, in the end, the group with more political power is likely to be the “ultimate arbiter” to shape the outcome. This argument supports the notion that in consequence political power will likely determine the economic institutions (Acemoglu et al., 2005). However, while *de-jure* political power of groups originated from political institutions, political power is not solely constrained by *de-jure* political institutions. The various groups with either common political and economic interests, or with possession of economic resources have *de-facto* political power which is not granted by the political institutions. In this regard, it is argued that the distribution of resources, in turn, determines the de-facto political power. Acemoglu et al. (2005) underline that those with de-facto political power influence the formation or maintenance of the political institutions that guarantee their political power.



Source: Acemoglu et al. (2005)

2.3 The Importance of institutions in Turkey's Case

Turkey's case is an interesting study to evaluate the impact of institutions on the performance of Turkey's political economy. In his book *Uneven Centuries* which analyses the institutional change in Turkey and its economic impact from a historical perspective, Pamuk (2018) underlines that institutions are essential to evaluate Turkey's economic and human development performance in the last two centuries. It is claimed that the while Turkish economic and human development growth pattern has been close to other developing countries, institutions have been a crucial factor affecting the performance of the Turkish economy. According to Pamuk (2018), proximate causes such as the low level of investment in human and physical capital, and the productivity growth do not sufficiently depict the main reasons for the growth pattern of the Turkish economy. For understanding the deeper cause behind this record, it is important to evaluate the features and evolution of Turkey's institutions, including formal and informal institutions (Pamuk, 2018) (p11). It is argued that the interplay between formal and informal institutions imposed pressure on the institutional configuration of the country which either contributed positively or prevented Turkish economic development. In addition, Pamuk's (2018) historical evaluation demonstrates that likely to its Ottoman past, the institutional changes in Turkey have been mostly top-down, rather than embraced by the public at large. He provides examples which support the notion that in many cases the powerful domestic groups and elites prevented the institutional reforms in Turkey due to the fear of losing their power (Pamuk, 2018).

Acemoglu & Üçer (2020) discuss the institutional changes in Turkey during AKP (Justice and Development Party) governance and the effects of institutional reforms on the macro-economic performance of Turkey between 2002-2019. The paper shows that despite

the high economic growth rate and modernization of Turkey, the quality of growth has been low, especially since 2007. By the low-quality growth, it is referred to the economic growth which is not driven by productivity increase or technological upgrading, increasing human capital, and does not benefit a broad cross-section of society. The decline of the quality of economic growth has been discussed in the context of deteriorating economic and political institutions under AKP governance. Acemoglu & Üçer (2020) discuss the economic performance of Turkey to show that the current deep cause of low-quality growth in Turkey is mainly rooted in the evolution and nature of economic institutions, which is associated with worsening political institutions (Acemoglu & Üçer, 2020). In addition to showing the linkages between political institutions and economic performance in Turkey, the authors discuss the institutional reforms between 2002-2007 and the reversal of the reforms from 2007 onwards. The paper indicates that during its first 5 years between 2002 - 2007, facing domestic and external pressures, AKP governance has undergone considerable institutional reforms and later took a more authoritarian stance which caused the degradation of both economic and political institutions.

3. The Institutional Reforms and Reverses

3.1 Overview of Political and Economic Condition before AKP governance

In this section of the paper, some of the main features of the institutional path of Turkey since the foundation of the Republic will be briefly discussed. The political and economic institutional past of the country shed a light not only on the quality of existing formal and informal institutions but also to understand the difficulties or disincentives to reform the institutions during the AKP governance. The dependence on the institutional path of Turkey could also explain the limitation of AKP reforms which will be evaluated in the following sections.

From the institutional perspective, Turkey suffered from quality of institutions, including weakness in the distribution of power, the institutional checks and balances, and participation of the broad range of the society in the political life of the state, since the foundation of the Republic in 1923 (Karaveli, 2016). Despite its republican features, it was a one-party system led by Mustafa Kamal Atatürk (Başkan, 2010). Atatürk's policies were intended to create a western-style modern republic as "the essence of Atatürkism was to orient Turkey firmly towards the West, to transform it the advanced and Westernised state" (p59) (Fuller, 2004). Under his leadership, the reforms aimed to divert the country from its Muslim path to becoming a secular developed nation-state, which was one of the main components of the new republic, and the principle of Kemalism ideology. However, the reform taken by Ataturk and his predecessors was a top-down modernization approach

which relied on more authoritarian political and institutional mechanisms (Kösebalaban, 2009)). Even though Kemalism values, which persisted until modern Turkey, uphold the republican principles to promote Western values, education, and social and gender equalities, the statist approach did not lead to the intended outcome much of the time of the republic's history (Kösebalaban, 2009).

Throughout the republic's history, the military has been an important factor meddling in politics, which acted as the role of guardian of the republican and secular values of Turkey. Crowned by Kemalism, the Turkish Armed Forces (TAF) was "proclaimed as the impersonal, supra-political embodiment of the state" (Söyler, 2013). Furthermore, the country broadly lacked functional democratic institutions, informal institutions overshadowed the formal rules and regulations of the country (Söyler, 2013). While Turkey turned into a multi-party system in the 1950s with the governance of the Democratic Party, the military made a *coup d'état* and the leader of the party, then prime minister Adnan Menderes was tried and hanged. The military orchestrated three other successful *coup d'état* in the coming decades, the last one in 1997 bringing down the Islamist-conservative coalition government on "the premise of fighting against reactionism" (Söyler, 2013).

The direct interference of the military in the country's politics, improper functioning of the formal institutions, lacking necessary democratic institutions characterized Turkey's institutional weaknesses which affected its economy negatively (Pamuk, 2018). Despite the intention of the governments' to forge closer political, economic and social ties with the European Union, Turkey mostly failed to transplant Western democratic institutions into the country. While the West part of the country developed to some extent, the eastern part

greatly missed the development opportunities, quality education, health care and employment opportunities, as well as participation in the economic and political life of the country (Pamuk, 2018).

The 1990s in Turkey were characterised by a political crisis and an economically “lost decade” (Önder, 1998). The institutional weakness reflected itself in the unstable and short-lived coalition governments, the committing of insurgencies by the PKK militia², the group assassination of Kurds and Leftists by the Turkish secret groups³, and a decade-long financial crisis, which cast a shadow on the credibility of Turkish political and economic institutions (Kayhan Pusane, 2015). Entering the 21st century with political turmoil, a long-lasting financial crisis and a huge inequality gap within and between regions could be considered a turning point that necessitated institutional reforms (Görmez & Yiğit, 2009). The 2001 financial crisis was considered a pinnacle which was one of the biggest economic crises in the republic’s history (Görmez & Yiğit, 2009).

² PKK is abbreviation form of the Kurdistan Worker’s Party. Throughout the 1990s, PKK is accused of launching terrorist attacks which worsened economic progress in major cities, undermined Turkey’s stability and security. See Yavuz & Özcan (2015) discussion on the impact of the PKK in Turkish democracy.

³ It is also known as “Turkish deep state” or “State within state”. These secret groups are alleged network of intelligent services and military officers who act behind the scene. See Söyler (2013) on the discussion of the Turkish deep state as a strong informal institutions.

3.2 The Reforms of the Institutions

Justice and Development Party (AKP), despite its Islamic conservative characteristics, was perceived as a more liberal, party of new faces with a progressive vision that emerged as a hope to cope with the financial and political crisis of Turkey. AKP came out with a set of promises that “would respect everyone’s rights, democracy and human rights; to end oppression, inequality and wasting of public resources” (p176) (Aktas, 2017). Furthermore, AKP appeared with a more reformist stance with more committing than its predecessors to initiate EU-required domestic reforms. To discuss the institutional reforms between 2002-2007 in Turkey, this section will shortly evaluate some of the major political and economic institutional changes on the path toward Turkey’s democratization. Keeping in mind the interconnection and interaction between political and economic institutions, this section will be divided into subsections which will briefly outline the major changes in economic institutions, political institutions, and the distribution of resources.

3.2.1 Reforms of the Economic Institutions

Coming to power in 2002, the AKP governance undertook considerable structural reforms which were necessitated by internal and external pressures. Although the reform packets initiated by the International Monetary Fund (IMF) and World Bank started to be implemented in 1999, AKP continued these reforms and was praised for successfully completing them until 2004. The government efficiently used the opportunity of the financial aid and advisory sources offered by the IMF and the World Bank (Arpac & Bird, 2009).

The IMF oversaw reforms which played a pivotal role in the decentralisation of the government and the redelegation of decision-making power to the autonomous bodies. State interference in the affairs of the bureaucracies was significantly restricted which ensured accountability, transparency and rule-based governance. The policies significantly constrained corruption, rent-seeking and clientelism practices, especially in the bureaucratic bodies of the state (Atiyas, 2012).

Furthermore, the IMF reforms also positively impacted the public procurement law, an area which has been a subject of lack of transparency and notoriously corrupt procedures by the government. The amendments have been made to the highly politicized State Procurement Law, the new laws adapted to increase transparency and accountability, to guarantee competition in the tender process. Turkish Public Procurement Agency, which has been compatible with EU procurement standards, was established in 2002. It has become an independent technocratic organisation to ensure fair competition, which acted independently from the government. These amendments to the laws have been a part of the reform policies on the way of shifting decision-making and regulatory authority towards the autonomous bodies and “establishment of rules that constrain the discretion of the executive” (Atiyas, 2012)

Apart from the IMF and World Bank, Turkey - EU relations on the path of Turkey's endeavour to become an EU member state played a breakthrough political and economic institutional changes considerable role in the country's democratisation process (Öniş & Bakir, 2007). Although the scale of EU membership as a pushing factor behind Turkey's reforms is a

matter of debate, the requirement of meeting the EU *acquis* to become part of the European Union has significantly encouraged the Turkish side on its path towards further democratisation.

While Turkey's integration into the European Union has gained popular public support, AKP has had its own rationale for a closer relationship with Europe (Patton, 2007). Being a part of Europe is perceived as a great opportunity for the economic development of Turkey which would greatly benefit the country, and contribute to the living standards of Turkish society. Achieving a significant economic advantage would boost the AKP's public support, strengthening its position in the long run. Furthermore, Turkey's accession process to the EU was a strong bulwark against the Turkish military which is perceived as the biggest threat by the Islamist AK party to their government (Patton, 2007). For example, when AKP nominated Abdullah Gül for the presidential election, the military was alerted that President Gül's wife who dresses *hijab* will reside in the presidential palace of Ataturk and will represent the country (Reuters, 2007).

Regarding the EU's influence on the institutional change of Turkey and the integration of the country into the European Union, the Customs Union (CU) agreement between Turkey and the EU concluded in 1995 had a considerable impact in this respect. While Turkey became the first non-member country to become a part of the single market, much of the economic benefit of the CU agreement was recorded during AKP governance, following the crisis years in 2000- 2001 (Yalcin et al., 2016). The reforms in Turkey's legislation and market sphere to adopt the standards of the EU were successfully carried on during the first term (2002-2007) of AKP rulership. Since the CU is not solely the waiver of the conventional borders but it also

requires the alignment with the Institutions of the EU, it created strong incentives for Turkey's institutional reforms to meet certain EU *acquis* and fully integrate into the EU system to become a member state (Nas, 2018). The reform agenda included the harmonization of the legislation, rules of law, economic infrastructure and production norms which would ensure that Turkey can be a part of the single market (Antonucci & Manzocchi, 2006). According to Yilmaz (2020), the set-out reform policies brought Turkey's regulatory and institutional framework to European standards. Thus, it positively changed the structure of Turkish foreign trade, transformed Turkish industries to meet international standards and upgrade their productions to compete with the rival emerging market economies (Yalcin & Felbermayr, 2021). Furthermore, the amendments to the customs legislation and improvement of customs administration harmonized Turkish customs with the international agreements and conventions which opened the Turkish economy to international competition (Yalcin et al., 2016).

3.2.2. The Reform of Political Institutions

AK party initiated political reforms, including in the area of human rights, freedoms, the judiciary and legislative system, and the strengthening of civil rights (Düzgit & Çarkoğlu, 2008). Although it has been a matter of debate whether domestic reforms were driven by the AKP's own will or if it was the EU factor that pushed Turkey for democratisation, Turkey's attempt to fulfil the Copenhagen criteria could indicate some of the structural changes in political institutions. Fulfilling the Copenhagen political criteria was required from Turkey in 2002 in order to start the EU accession negotiations. Commenting on the Copenhagen requirement, then prime minister Erdogan stated that "Turkey should be accepted into the

European Union. If not, we'll rename the Copenhagen criteria to the Ankara criteria and continue with the reforms. There's no point back on the road that Turkey has been taking to integrate with Europe, and there are no other alternatives⁴" (Börzel and Soyaltin) (p12).

In line with the Copenhagen criteria, Turkey pursued a number of programs that would strengthen the institutional capacity to improve in the areas of curbing torture, improving freedom of expression, freedom of association and protecting minority rights, and gender equality (Düzgit & Çarkoğlu, 2008). The improvement has been possible mainly due to the structural changes and amendments in the legislation, judiciary and bureaucratic procedures. Judicial independence was granted which ensured that the executive body's intervention in the decision of the judiciary has been constrained and the relations are depoliticized between the government and court. (Müftuler-Bac, 2019). Moreover, the policies were undertaken to combat corruption and increase state accountability, and strengthen the position of the civil society organizations that would help achieve these policies. In the report by the European Commission, the continued progress made in the independence of the judiciary, the positive consequence of the reforms in the human rights issues, the adoption of positive legal reforms, addressing corruption, development of an environment for the operation of civil societies, have been remarked by the Commission (*EU Commission Staff, 2006*).

Moreover, the AKP government revoked notorious Article 8 of the Anti-terror Law, which was previously practised to imprison dozens of journalists and publishers based on the charges of committing crimes against the unity of the Turkish Republic. Until 2004, the AKP

⁴ P.M. Recep Tayyip Erdogan during his speech in Azerbaijani Parliament in 2005.

government adopted 9 constitutional reform packages to fulfil Copenhagen criteria, which also included providing constitutional protection to the freedom of the press (Müftüler Baç, 2005). Then-president of the EU Commission Romano Prodi in his visit to Turkey in 2004 stated that “Turkey is now closer to the European Union in terms of its democratic credentials” (*Hürriyet*, 2004). However, although some progress has been made in the area of the independence of media and press freedom, Turkey’s level of alignment with the European standards was very limited and significantly lagging behind, according to the report by *Committee to Protect Journalists* (2006).

In line with Copenhagen criteria, Furthermore, Turkey-EU relations played a constructive role to increase the effective functioning of the Civil Society Organizations (CSOs), which has had a strong impact on the strengthening of the democratisation process in Turkey (Toros, 2007). In the paper by Arabaci (2008), he argues that the EU accession process “paved the way for the profound transformation of Turkish civil society” (p82). The democratisation of Turkey with the EU candidacy improved the overall condition in two dimensions: the qualitative and quantitative developments of the Civil Society Organisations. As a result of the Helsinki decision in 1999, the roadmap for the implementation to improve the institutions was provided which was aimed to create a condition for the effective functionality of the CSOs in Turkey. While the number of CSOs was 1,800 in 1996, it raised to 3,200 in 2004 (Arabaci, 2008).

AKP rulership made also substantial structural changes to ease the climate for the effective operation of civil societies. The reform included the democratisation of the political and legal systems, elimination of restrictive laws and practices, as well as permitting the CSOs to

receive funds from foreign donors that will allow improving the condition for the operation of CSOs (Toros, 2007). Considering in Turkey's political culture that the state was considered as an all-powerful organisation and sole power to solve the problems, and was sceptical about civil society, the AKP government's breakthrough political changes were important turning points from "path-dependent development of Turkish civil society" (p83) (Arabaci, 2008).

3.2.3. Redistribution of Resources and Change in Political and Economic Participation

Taking the control of Turkey in 2002, the AK party vowed to represent the wide segment of the Turkish population who were mostly forgotten or peripheralised by the political elites for much of the republic's history. The government primarily spoke for the conservative Muslim segment of the population who are mainly from low-income segment of the population, and from underdeveloped parts of Turkey that were mainly populated in the eastern part of the country (Yavuz, 2019). Allegedly this social group for the most part were marginalized by Kemalist elites who uphold the secularism and modernism principles of Kemalism (Göle, 1997). Under R.T. Erdogan's leadership, the party distinguished itself from its predecessors as a greater representative voice of the country's poor and population who are mostly excluded from public participation by highly secularised state institutions (Tepe, 2005).

Considering the polarization between Secular progressives and Islamic conservatives, the clash was regarded as the "conflict between two Turkeys" (Yavuz, 2019) (p55). The

polarisation between the two was also viewed in the context of dividing the nation into White Turks and Black Turks. While white Turks referred to the high-income, secular population from western industrialised cities, black Turks were the poor segment of the population from provincial Anatolia and other under-developed eastern provinces (Demiralp, 2012). However, the antagonism between white and black Turks was not merely due to the Islamism-Secularism conflict, but also rooted in their group status. Demiralp (2012) argues that the “conflict reflects a deeper scar resulting from political-economic domination of the urban elites over Anatolia, the ‘rural hinterlands’”. In this cultural clash, AKP leader Erdogan made his and his party’s position clear by stating that “in this country, there is a segregation of Black Turks and White Turks. Your brother Tayyip belongs to the Black Turks” (*The New York Times*, 2003).

The AKP rulership paid special attention to the development of Anatolia and expanding the importance of the region in Turkey’s economic and political sphere. The government allocated more state resources to the social and physical infrastructure, which positively contributed to the newly-emerging industrial centres, such as Konya, Kayseri, and Gaziantep (Pamuk, 2008). As the result, the contribution of these regions to the Turkish GDP growth has significantly increased. Karaalp-Orhan shows that economic growth during the AK party differs from much of the republic’s history, in which the earlier economic growth was primarily due to the developments in the major industrial cities in the Western part of Turkey (Karaalp-Orhan, 2020).

According to Pamuk’s (2008) analysis, the AKP during its first term between 2002-2007 pursued a more liberal and pro-European integration policy than any other previous Turkish

government. His argument is based on the comparison of AKP's policy of economic openness with its predecessor's policies. For instance, it is evaluated that the major economic development that took place in the 1960s and 1970s was *inward-oriented* and directly depended on government support. On the other hand, the AKP initiated more liberal *export* and *outward-oriented* industrialization policies (Pamuk, 2008). Furthermore, the industrial progress made in the 1970s was primarily concentrated in the western part of Turkey and Istanbul. Unlike the growing Anatolian industrialists and businessmen, the industrial elites in the Western region were highly reliant on government subsidies and protection, and were opposed to the economic liberalisation of the country fearing their inability to compete with foreign industries. For these reasons, they opposed the opening up of the Turkish economy to the foreign market and the integration of the country into the European Union (Pamuk, 2008). Conversely, the Anatolian emerging industries were more inclined to Turkey's opening to the international market, as well as Turkey's integration into the European Union (Pamuk, 2008).

Moreover, AKP significantly contributed to the rise of the newly-emerging religiously conservative business elites in the Anatolian part, known as the Anatolian tigers (Hosgör, 2011). The association of businessmen found by the new generation of industrialists mainly based on Anatolia -MÜSIAD⁵ significantly benefited from AKP's liberal policies and allocation of state resources to the region (Başkan, 2010). Furthermore, unlike the association of established businesses -TÜSIAD⁶, which were concentrated in the Western part and were a rather group of small number business elites, MUSIAD represented a larger part of the country (small and medium-sized enterprises) in the less developed region of the country

⁵ MÜSIAD is the abbreviated form of the Independent Industrialists and Businessmen's Association

⁶ TÜSIAD stands for Turkish Industry and Business Association

(Başkan, 2010). AKP governance's contribution to the development of these business enterprises positively impacted the active participation of the Anatolian people in the social and economic life of Turkey (Pamuk, 2008). It also substantially reduced the high gap between the Eastern and Western parts of the country, and living standards moderately converged with Western regions. Pamuk (2008) argues that the growth of the Anatolian industrial centres has also led to the emergence of the new middle-income and high-income classes in the urban provinces of Turkey, who in turn became strong supporters of the AK Party.

3.3 Institutional Reversal between 2007-2017

In 2007, the Justice and Development Party won a landslide victory by receiving 47% of the vote in the Turkish Parliamentary election, and the party's leader Erdogan has consequently re-elected the Prime Minister of Turkey. It is argued by some scholars that the year 2007 is the turnaround point in AKP's policies to make an authoritarian drift, re-centralising the government which was followed by the deterioration of rule of law, violation of human rights and freedoms, and illiberal economic policies in Turkey (Esen & Gumuscu, 2020). The EU-Turkey negotiations on Turkey's membership also come to standstill, which has been playing a strong anchor role in the institutional reforms and democratisation of Turkey (Patton, 2007). To discuss the change in the policies of the government following the 2007

parliamentary election, in this section, the AKP's reversal from its initial institutional reform process and its negative implications on the quality of political and economic institutions will be evaluated.

3.3.1 Authoritarian Shift and Deterioration of Political Institutions

Receiving strong credits due to the considerable reforms and significant economic annual growth rate of 6.9% between 2002-2007, the country's democratisation reforms and the political rhetoric have significantly changed in the coming years (Taskin, 2014). The AKP and its leader Erdogan appeared to favour the polarization of social groups, making 'religious-secular' and 'centre-periphery' division in Turkish society through the rhetoric 'us and them', 'friends and enemies' (Somer, 2019; Yilmaz & Bashirov, 2018). While Turkey became one of the most polarised countries in the world, the government fueled the polarisation to mobilise its electorate and transform the existing institutions into its preferred framework (Erdogan & Semerci, 2018).

The restriction of the media outlets and government interference in the operation of news agencies and television channels are among the initial signs of the post-2007 democratic backsliding in Turkey. Since the independence of the media outlet has a pivotal role in the functioning of the democratic institutions to constrain the action of the government and play a watchdog role to protect the public's interests, the deterioration of media freedom is an example of the worsening of the democratic institutions in Turkey (Tunç, 2018). However, according to Murat (2018), the AKP's interference in the 'fourth estate' was not only due to

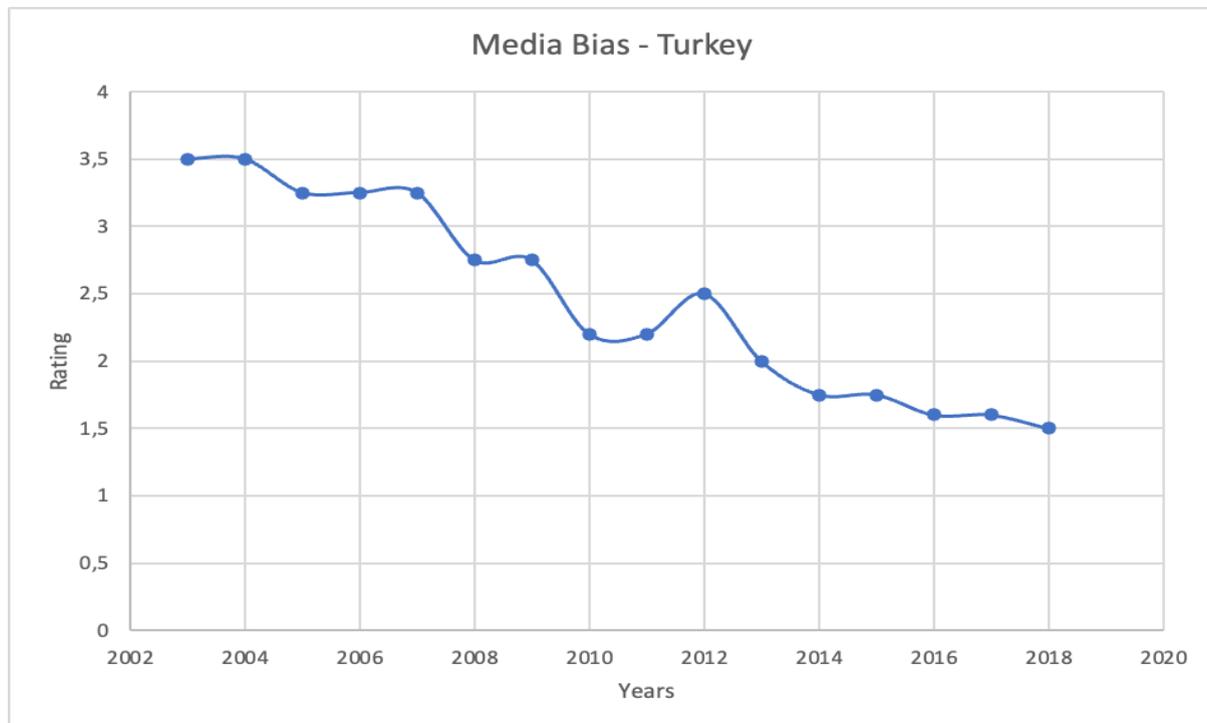
its uneasiness with the media supervision, but it is also motivated by creating “a government-friendly pool media, with government-friendly journalists” that will support its political discourse (p.87). One of these examples is the confiscation of the media outlets by the government starting in 2007 and their purchase by the AKP-friendly business cronies, known as the “pro-government circle” (Yılmaz, 2016). Another approach adopted by the government was to fine independent media, mainly on the basis of their “tax irregularities”⁷ (Corke et al., 2014). Apart from that, bringing criminal cases against journalists and writers based on charges of violating the ‘principle of state confidentiality’ or ‘Anti-terror Law’ became common practice (Yılmaz, 2016). As a result of pressures, some independent media groups either chose to sell their agencies or adopted a more pro-government orientation (Sözeri, 2015). These policies have intended consequences on the vocalisation of pro-government media throughout the time. The research of Reporters Without Borders (2018) based on the ‘Media Ownership Monitor’ reveals that 80% of the Turkish media landscape was controlled by businessmen with close ties to the AKP government, including nine of ten most-watched TV channels and nine of ten post-read daily newspapers.

As an example of media ownership by pro-government business conglomerates and their bias, Figure 1 reveals the gradual decline of impartiality and growing bias in Turkish media between 2003 and 2018. While 0 indicates no political coverage of opposition, 4 indicates the impartial coverage of all parties. In Turkey’s case, Figure 1 shows the trends of overall

⁷ Doğan Media, a major media conglomerate in Turkey faced a criminal charges based on tax evasion following its reporting of AKP’s involvement in corruption scandal. Doğan media faced a total of \$3 billion tax fine which later deduced to \$1 billion. Consequently, the company was forced to sell *Vatan* and *Milliyet*, the two leading newspapers in Turkey, to Demiroren Holding which owns pro-government dailies and TVs. See Esen & Gumuscu, 2018; *Reuters*, 2018 50150

Turkish media coverage which significantly became partial in the last 14 years, especially starting from 2007 onwards.

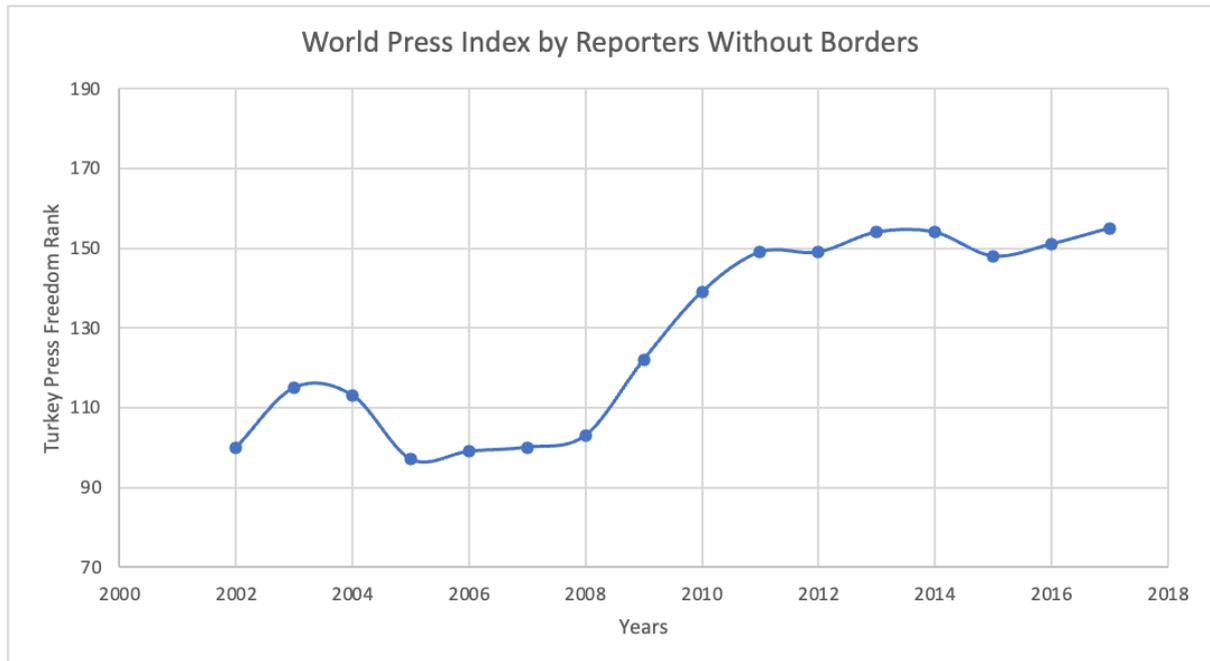
Figure 1



Source: Own elaboration on data from the V-dem Dataset.

Furthermore, the report prepared by Reporters Without Borders points out that Turkey's media freedom is one of the alarming cases as it is among the countries that "sank into the darkest depths of the 2017 Index" (*Reporters Without Borders, 2017*). It shows that Turkey ranking 155th out of 180 countries in 2017, the country dropped down 55 places in the last 10 years between 2007 - 2017, which is indicated in *Figure 2*. Considering the journalists who were left behind bars, the situation is even worsened as Turkey became the 2nd country for the number of imprisoned journalists, following China in 2018 (*Forbes, 2019*).

Figure 2



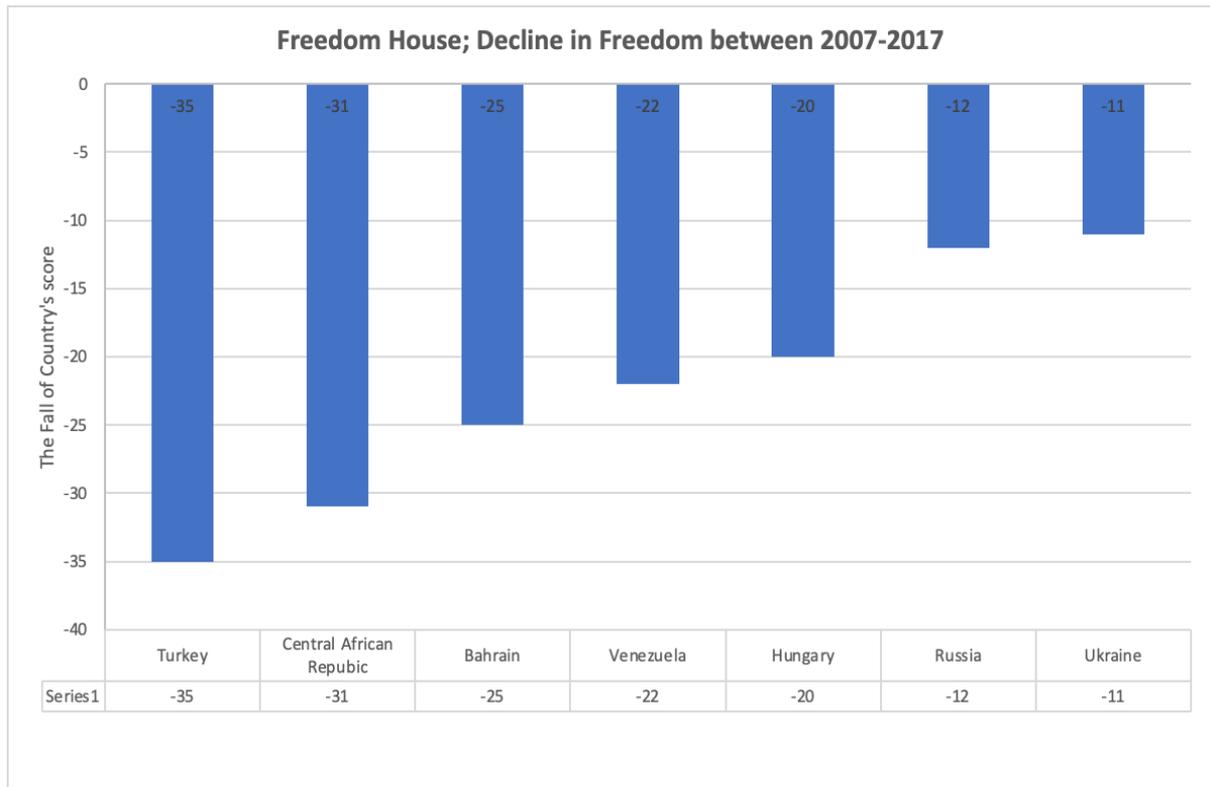
Source: own elaboration on data from Reporters Without Borders.

Along with media and journalists, the civil society organisations (CSOs) who played a watchdog role in the activities of the government experienced restrictions on their operation. Istanbul Policy Center (2017) in its report shows that the political context which is characterised as the abuse and interference of government in legal provisions and judicial procedures has gradually shrunk the civic space for the activity of the CSOs (*Istanbul Policy Center, 2017*). The report considers the circumstance in the existed political climate for civil society as continuous “uncertainty and fear” (p.15). According to a report by Amnesty International (2018), the CSO members, especially the ones defending human rights, freedom and rule of law were the main subjects of government harassment, imprisonment and unfair trials. Describing the outcome of AKP’s restrictive policies, Yabancı (2019) states

that “the repression pushed critical civil society toward atomization by enforcing self-censorship and invisibility, while still risk closure and persecution. (..) The risk for civil society actors is getting stuck in their echo chambers” (p.301). Esen & Gumuscu (2016) argues that these policies were taken in parallel with the AKP’s centralisation of the power on the single hand, which was processed with the elimination of the opponents who were overseeing the rule-based functioning of the government. The overall deterioration of conditions for the functionality of CSOs is considered a sign of a widening democratic deficit in Turkey since “the civil society functions as a bulwark against the excesses of the state and as the means to enable individuals to exercise their democratic voice outside election” (Ketola, 2011, p.9).

The restriction of freedom and human rights during AKP governance was not limited to media and civil society but also extended to various areas such as freedom of speech, freedom of association, freedom from arbitrary detention, and democratic rights, which are discussed in the report by Freedom House (2017). It is highlighted that the freedom for political participation of various groups was gradually diminished, and secular Turkish citizens and ethnic and religious minorities faced systemic discrimination by the government (House, 2018). With regard to the “freedom” index of Turkey, the country lost 35 scores in the last decade until 2017, which is among the countries that had the sharpest decline in the freedom score, which is indicated in Figure 3 (Freedom house, 2018).

Figure 3



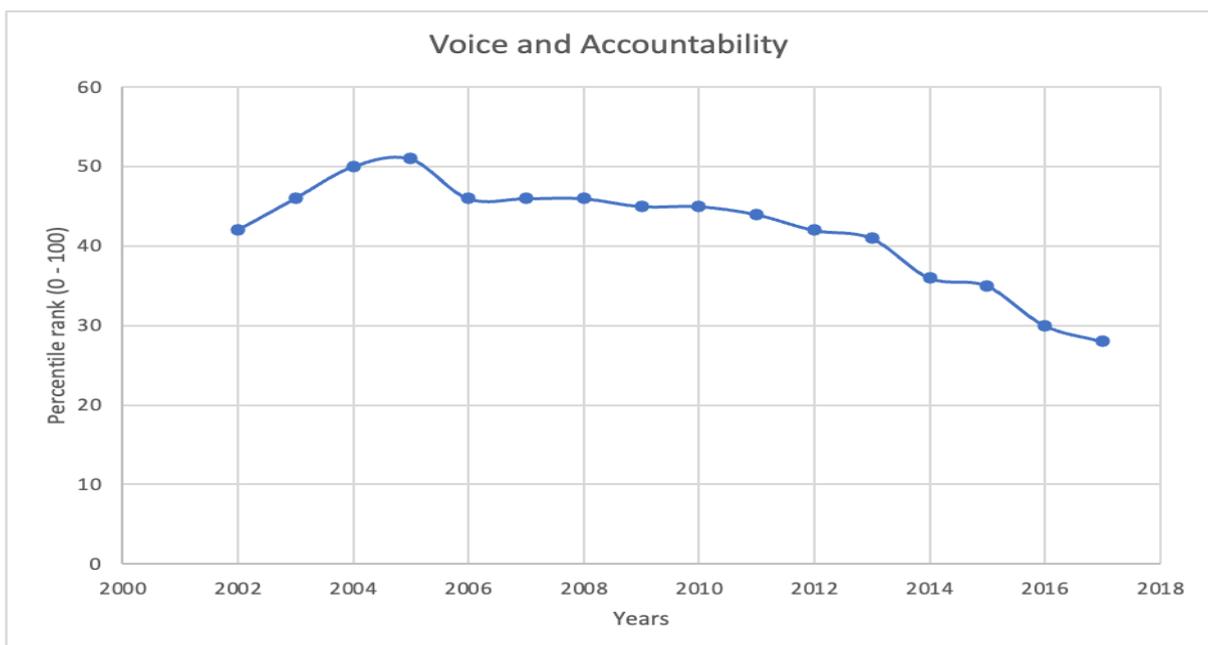
Own calculation based on Freedom House's annual country index

The restriction of freedoms and violation of constitutional rights were broadly recorded during the AKP government's harsh suppression of the peaceful Gezi movement in 2013. The Gezi events which later developed the widest protest since 2002 were one of the main movements against Turkey's authoritarian drift under AKP governance. Initially started by young environmentalists to resist the demolition of Gezi Park and the building of a shopping mall in the park, the government deployed a disproportional police force, which attempted brutally suppress the protestors, including burning the tents of protestors and using tear gas against them (Gürcan & Peker, 2014). The police violence lead to wider protests while millions of people from various segments of society joined the demonstration to state their concern over the growing authoritarianism in the country. However, the government further

accused the protesters, then Prime Minister Erdogan described the protesters as “looters” or “marauders” who were under the influence of domestic and foreign forces which are intended to overthrow his legitimate government through non-democratic means (Mert, 2019; Nefes, 2017). PM Erdogan made a conspirational framing of the Gezi protest, claiming the foreign powers try “to cut short his achievements and therefore Turkey’s development in its democracy and economy” (*Al-Monitor*, 2013). The Gezi Park protests were brutally suppressed, leaving five people dead and more than a hundred people with severe injuries (Amnesty International, 2022).

To indicate the restrictions of freedom in Turkey, such as freedom of speech, freedom of assembly and free media, the “Voice and Accountability” is among the indicators showing the development of these particular freedoms in a country. Figure 4 indicates the gradual deterioration of Voice and Accountability in Turkey since 2005, although it has made visible progress between the years 2002-2005.

Figure 4



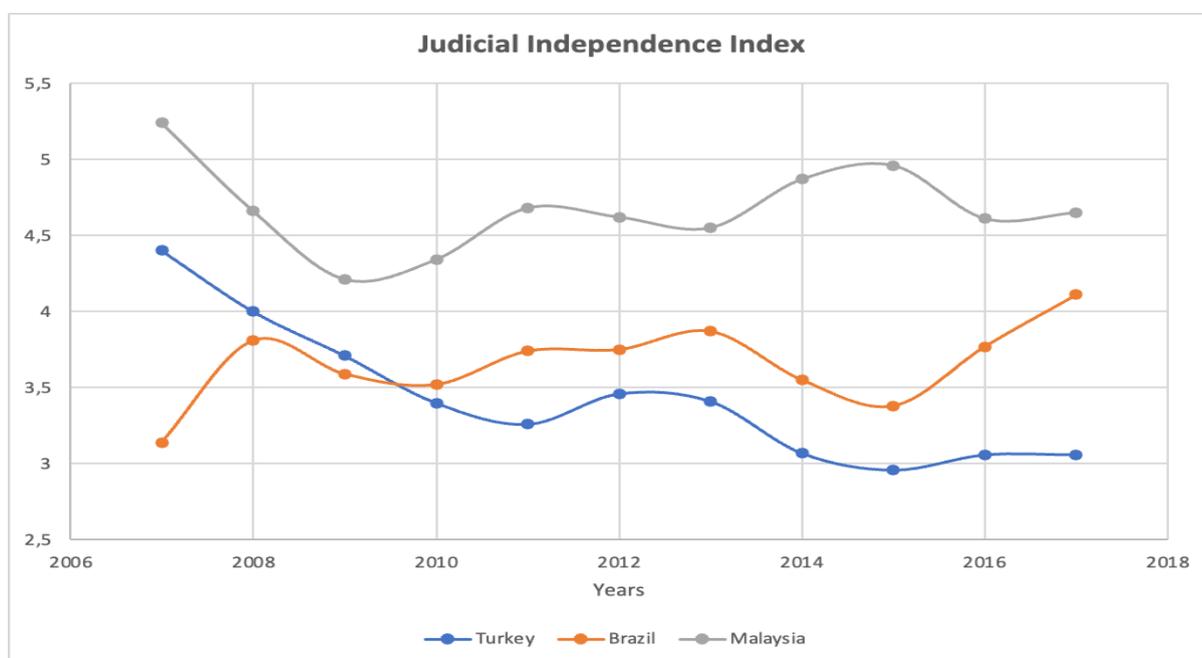
Source: own elaboration from data on Worldwide Governance Indicators.

The worsening of Voice and Accountability, and Rule of Law was also experienced in the judicial system of Turkey. The judiciary has been highly politicised and judicial decisions were the subject to government meddling. The arbitrary imprisonment of journalists, activists and high-ranking officials mostly based on politically-motivated charges characterises the AKP's interference in the operation and decision-making of the judiciary system (report). In the words of Tahiroglu (2020), the judicial system not only lost its impartiality and independence but "the highly politicized judiciary functioned as a primary weapon against government critics and opponents - particularly in the media, parliaments, and civil society "(p. 68). The Ergenekon trials started in 2008 and the Sledgehammer trials in 2010 are examples of the erosion of judicial independence, where together more than 600 hundred people, among them high-ranking military generals, police officers, lawyers, and journalists were detained based on allegedly fabricated charges of plotting a coup d'état (Rodrik, 2011; Aydın-Düzgit, 2015). Considering the trials, Rodrik argues that although during these years the *de-jure* legal system of Turkey was aligned with the EU norms "in terms of the procedural safeguards and the rights of defendants, (...) but the reality on the ground could not be more different" (p.109). The Ergenekon case indicates that the trials were observed with a severe violation of the legal procedures and due process by AKP-affiliated prosecutors and judges, carried out in parallel with the manipulations of evidence by pro-government media outlets (Rodrik, 2011).

Furthermore, along AK party's informal influences in the judiciary system, because of forming a majority in the parliament, the party possess significant influence in the

composition the Court of Appeals and Council of State, as well as choosing the fifteen members of the Constitutional Court (Constitution of the Republic of Turkey, *Article 146*). Thus, the government's grip on the different instances of judiciary courts (first instance, appeal, supreme court) and interference in the decision-making process for its political ends lead to the erosion of judiciary independence over the course of the decade since 2007. Figure 5 indicates this decline in judiciary independence between the years 2007 and 2017⁸.

Figure 5



Source: own calculation based on data from the World Bank.

⁸ Data in World Bank in regard to the Judicial Independence Index is only available for the years from 2007 to 2017.

3.3.2 Consolidation of Power through Redistribution of Resources

One can observe that the AK party gradually skewed from its earlier policies to promote the welfare state that will be impartial towards enhancing the wellbeing of all its citizens based on “rights-based relations”. On the contrary, AKP fall into trap of building network-based clientelistic relations through the distribution of rents, public tenders and jobs. Although this form of patrimonial relations has long been an important characteristic of Turkey’s mass politics, the “AKP government broadened its range and scope during its tenure in power” (Yilmaz & Bashirov, 2018, p1819). Not only did the ruling party build a clientelist politics, “government jobs, contacts, or public services and access to welfare programs are exchanged for votes”, but also it build a ‘crony capitalism’ under which “the rents generated by the government favouring certain businesses are shared between both parties.” (Kalayci, 2021, p.5).

While the AKP’s policy framework was to act in business-friendly relations and not alienate historically powerful capital groups, the party pursued the agenda of boosting its own capitalist class since taking control of the country (Yeşilbağ, 2021). The AK party supported the business groups from ‘peripheries’, who are mainly conservative, religious, non-affluent supporters of the party, bringing them to the ‘centre’ to uplift its own new bourgeoisie class (Yildirim, 2016). The ruling party used the mechanism of generating rents by interfering in the affairs of autonomous bodies and redistributing it to certain capital groups that it has in crony relationships with (Demiralp, 2018).

During AKP's tenure in power, thanks to its redistributive policies the number of Anatolian entrepreneurs with primarily conservative political preferences emerged as the new business groups. Although it was not indicated if all these entrepreneurs benefited from AKP's policies of favouritism, the research by Buğra & Savaşkan (2014) indicates that, considering the social background of the new entrepreneurs "we see that they all come from provincial towns, including many in the industrially underdeveloped Eastern regions" (p89). The article by Esen & Gumuscu (2020) underlines that among the business groups from Anatolian provinces, so-called Anatolian business 'tigers' with political connection to the party are greatly benefited from AKP's redistributive politics, including from its new procurement practices and urban development plans. These firms with political affiliation "had an abnormal performance on average over non-connected firms in an increase in sales, value-added and profit rate under AKP rule", while these favours "came at the expense of the established Istanbul-based bourgeoisie with more secular-liberal tendencies and with stronger ties to the Kemalist era" (Esen & Gumuscu, 2020, p.1083). These tendencies under the AKP government also reveal that while in the pre-AKP-period the economic and political participation of Anatolian society was undermined, during AKP rulership the participation in the eastern provinces increased through compensation from the western side of the country (Rabasa & Larrabee, 2008).

The AK party used certain business sectors through a wide array of policies to support a leap of his own capitalists. Yeşilbağ (2021) argues that "the leap of these groups is nowhere more visible than in the construction sector, (...) since construction emerges as the optimum sector for such politically driven selective boost strategy" (p.8). For this purpose,

commoditization of public lands and their distribution as land rents, and provision of tenders to favoured companies were commonly used by the authorities⁹. To that effect, in 11 years period since 2003, “the AKP government redesigned the procurement system through more than 150 amendments to the Public Procurement Law (PPL)” (Esen & Gumuscu, 2021, p. 1083). The amendments also significantly weakened Public Procurement Agency (PPA) which was an independent technocratic organisation to ensure transparency and competition in the public procurement system (Emek & Acar, 2015). According to Arat & Pamuk (2019), these changes provided the “government more flexibility regarding how public tenders were managed and how the winners were decided. (...) As a result, business groups close to the AKP were increasing favoured in tenders launched by the central government as well as the local governments, in large scale-energy, infrastructure, and housing projects, in the allocation of credit by public and private banks and other areas (p.156). These policies illustrate drifting apart from the earlier implemented reforms in public procurement laws, as well as the weakening of autonomous agencies’ independence (Emek & Acar, 2015).

Along with changes in *de-jure* institutions, the AKP authorities also *de-facto* meddled and allegedly violated the public procurement laws. While in the majority of the cases the public contracts should be awarded to the companies based on the tenders which were processed with fair competition and transparency, the government used rather discretionary mechanisms to provide contracts to its loyal business groups. For example, “the Kalyon group¹⁰, whose growth was based on the public tenders, obtained many of these tenders by

⁹ In some cases government distributed lands/territories that were previous not commoditized because of these territories environmental, historical and cultural importance. See Demiralp (2018)

¹⁰ Kalyon Group's owns four dailies (Sabah; Takvim, Yeni Asır, Daily Sabah) and two leading TV channels (ATV, A Haber) which are pro-government media outlets. See Yeşil (2018) for the further information on the ownership of dailies and TVs by the government's business circles.

invitation, a method that, in principle, was reserved for exceptional cases such as natural disasters or epidemics” (Buğra & Savaşkan, 2014, p.94).

Yeşilbağ’s (2021) analysis of the top 300 contracts awarded until 2019 in the construction sector by the state institutions, research indicate that 8 out of the 10 companies that received the highest total tenders are ‘politically connected firms (PCFs)’¹¹, while the remaining two are foreign companies. Among these companies, the aforementioned Kalyon group received the highest amount from the contracts which have a total value of 23.5 billion TL¹². Yeşilbağ’s (2021) research shows that while these companies either did not receive or obtained only a limited number of state contracts before 2004, between 2004 and 2019 they raised to the top segment of the Construction Sector. Hence, “the overall trend is one through which previous top players have lost their share within the domestic market and been replaced by a new generation of firms with links to the party” (Yeşilbağ, 2021, p9).

Nevertheless, along with the negative consequences of the allocation of public properties to private use and distribution of tenders to politically affiliated companies, AKP’s policies are arguably not sustainable beyond the immediate future. While the party’s political economy became dependent on the redistribution of public resources and rents, its privatisation scheme, and mining concessions, the non-renewable character of these resources undermines Turkey’s sustainable economic growth under AKP’s economic strategy, which will be further discussed in the next chapter (Esen & Gumuscu, 2018).

¹¹ The author use the methodology suggested by Özcan & Gündüz (2015) to define the ‘politically connected firms (PCF)’ if (a) an owner or a board member of the company has a political ties to the party through the leading party cadres or (b) has indirect link to the party involvement in institutional networks around the party

¹² Kalyon Group’s name is also occurred in the construction of the project in Gezi park as a project’s main contractor, prior to ‘Gezi Protests’ (*BBC News*, 2013)

In this section, it is evaluated how the quality of Turkey's political and economic institutions has deteriorated, especially starting from 2007 as a break-point. From the discussed literature, it is pointed out that the AKP government's reversal or drifting apart from initially implemented reform programmes has had negative consequences on the institutions, such as checks and balances, rule of law, voice and accountability, judicial system, as well as in the business environment of the country. While the authoritarian practices dominated the political climate, the media outlets, civil society organizations, and regulatory and autonomous bodies which were overseeing the functionality of the institutions were lost their independence and highly politicized. The previously established institutions which benefited the broader segment of society and granted more autonomy, were replaced with more 'extractive' institutions that the established system tends to benefit the AK party and its crony businesses elites, along with redelegation of the authorities to the central government. As was briefly indicated in discussed literature, the institutions which were ensured checks and balances and separation of power were gradually weakened. Consequently, the AKP government not only centralised the control of political institutions but also greatly influenced the formation of economic institutions, as well as intervened in the functioning of certain business sectors (Özel, 2015)

4. Economic Performance in two Periods: 2002-2007 and 2007-2017

4.1 Conceptual Background: Inclusive Economic Growth or High-quality

Growth

As we discussed in the previous section, Turkey between 2002-2007 made considerable institutional reforms which improved the democratic records of the country, such as in the functioning of the media, civil society, freedoms, human rights, as well as in regulatory bodies. Furthermore, during the first 5-6 years in governance since 2002, the AKP's economic policies were more liberal, intended to protect human rights, delegate the decision-making to the autonomous bodies, uphold rule based-governance, as well as redistribution of resources to the wider range of the country which benefited a broader segment of the society (Atiyas, 2012). These changes in the institutions characterise building the "inclusive institutions" in Turkey between 2002-2007, the term which coined by Acemoglu & Robinson (2012). On the other hand, as was discussed, starting from 2007 the AKP reversed its earlier initiated structural reforms, while the previously autonomous agencies and regulatory bodies lost their independence, the impartial institutions became highly politized, and rule of law, freedoms and fundamental rights were either restricted or deteriorated (Emek & Acar, 2015). In this regard, the backward changes in the institutions characterize the transformation from 'inclusive institutions' to 'extractive institutions'.

One of the core premises of this paper is that the political institutions impact the formation of economic institutions, which subsequently affects the performance of the country's

economy. This follows the argument that the group with *de-facto* and *de-jure* political and economic power ultimately shape the economic institutions into their preferred framework (Acemoglu et al., 2005). While the extent of economic institutional change depends on various other factors, such as resistance of the opposite party with political and economic power, the change made by the politically powerful party in the economic institutions consequently impacts the economic performance of the country, which is the primary focus in this section.

In the case of Turkey during AKP governance between the period of 2002-2007, the country experienced a number of major structural reforms to build inclusive political, as well as economic institutions, which subsequently paved the way for Turkey's 'inclusive economic growth'. By 'inclusive economic growth', it is referred to the growth which was followed by an increase in productivity and innovations, technological upgrading, domestic and foreign investments, as well as distribution of resources and opportunities to the greater segment of the society in these years. On the other hand, from 2007 onwards the political and economic institutions gradually transformed from inclusive to extractive institutions. Due to the deterioration of the quality of economic institutions by the ruling AK party, it will be shown in this section that the previously achieved 'inclusive economic growth' has been eroded in the coming decade starting from 2007.

Although Turkey's economy kept its slightly high economic growth pace between 2007-2017, it is argued in this paper that this growth was greatly lacking the characteristics of inclusive economic growth. The lack of inclusive economic growth is also referred to as 'low-quality growth', which refers to the economic growth which is not followed by an increase in

productivity or technological development, but rather made possible through government loans or natural resources which are likely to be unsustainable in the long term Acemoglu & Üçer (2020).

4.2 The Quality of Turkish Economic Growth

4.2.1 Total Factor Productivity

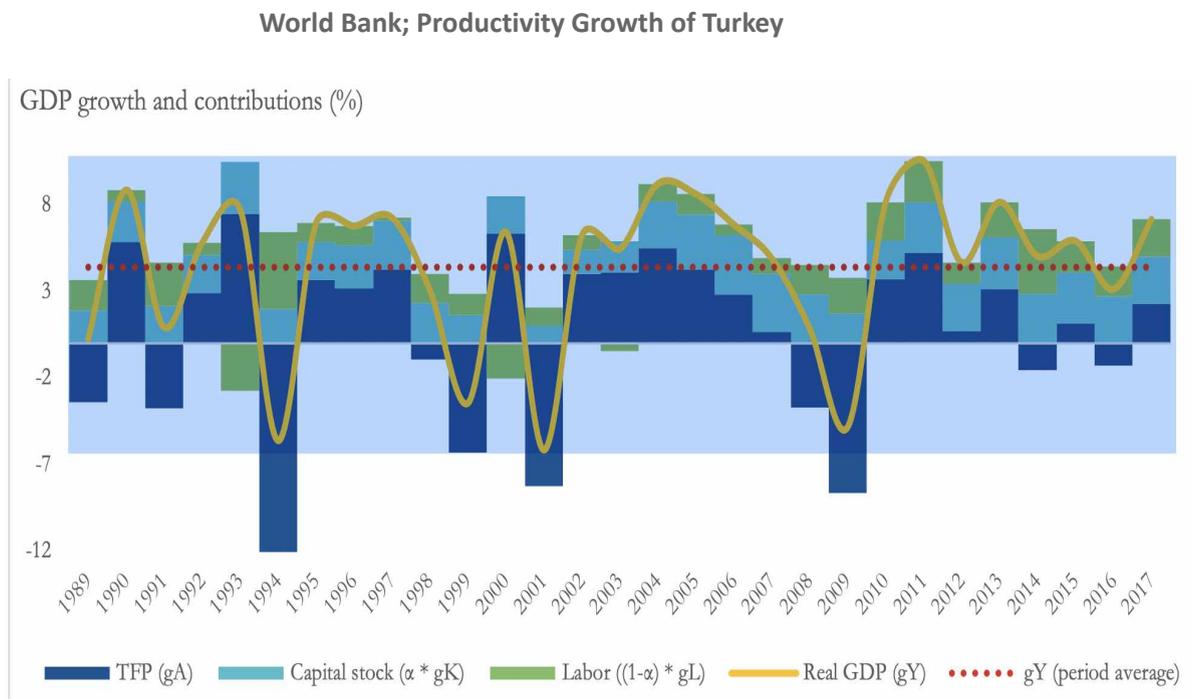
The growth of productivity is discussed as one of the main characteristics of inclusive economic growth. While the rise in economic growth is generally associated with the increase in productivity growth, not all countries' economic growth comes hand in hand with productivity growth. For instance, the economic growth and economy of Russia are highly dependent on the export of natural resources, such as oil, gas, and raw materials, while the growth of its productivity level much of its modern history is lower compared to developing countries with a similar pace of economic growth (Cusolito et al., 2020). It is an indication that the growth rate is not a sufficient instrument for measuring the quality of economic growth. The challenge to the form of growth is the dependency on unreproducible resources, the commoditization of public goods, as well as reliance on loans, while the non-renewability or the limitation of these resources and practices poses a threat to the sustainability of the growth in the long run (Esen & Gumuscu, 2018). Furthermore, in many cases, this form of growth mainly benefits a tiny segment of the society while excluding a larger segment of the society from the economic benefits (Acemoglu & Ucer, 2020). Therefore, despite the possibility of a high rate of economic growth, the growth which lacks productivity rise lacks the characteristics of high-quality or inclusive growth.

Total Factor Productivity (TFP) is one of the main measures of the productivity growth of the countries. The rise of TFP growth is a useful indicator to show that the contribution to economic growth is not based on the accumulation of natural resources or labour and capital, but rather based on the increase in managerial efficiency, applied technological upgrades and financial innovations, as well as advancement in knowledge, input quality improvement and reallocation of resources (Nadiri, 1993). TFP growth is also a portion of the growth which was made possible through improvements in the productions and organisation of productions keeping the inputs constant (Atiyas & Bakis, 2013). It is argued that unlike the evaluation of economic growth based on the real GDP growth, in which the growth can be due to the depletion of non-renewable resources at the expense of the long-run welfare, Total Factor Productivity is a more appropriate indicator to evaluate the quality of economic growth (Hulten, 2001). Thus, it can also provide a more accurate picture of the sustainability of the growth. For this reason, TFP as a standard measure of productivity growth will be used to estimate the change in Turkey's economic productivity between 2002-2007 and 2007-2017. As it was argued that an increase in productivity, technological upgrading and innovations determines if the quality of economic growth is low or high, the change in TFP growth in these two aforementioned periods will be discussed to evaluate Turkey's economic growth.

Figure 1 shows the change in the Total Factor Productivity in Turkey between the years 2002 and 2017. According to the table, between 2002-2006 there is a comparatively high and continuous TFP growth, whereas, in the post-2008 crisis years the TFP growth not only fluctuated but also gradually decreased (Rab et al., 2018). Although the 2008 crisis affected TFP negatively, in the post-crisis period from 2009 onwards the TFP growth has been

considerably low in comparison to the period of 2002-2006.

Figure 6,



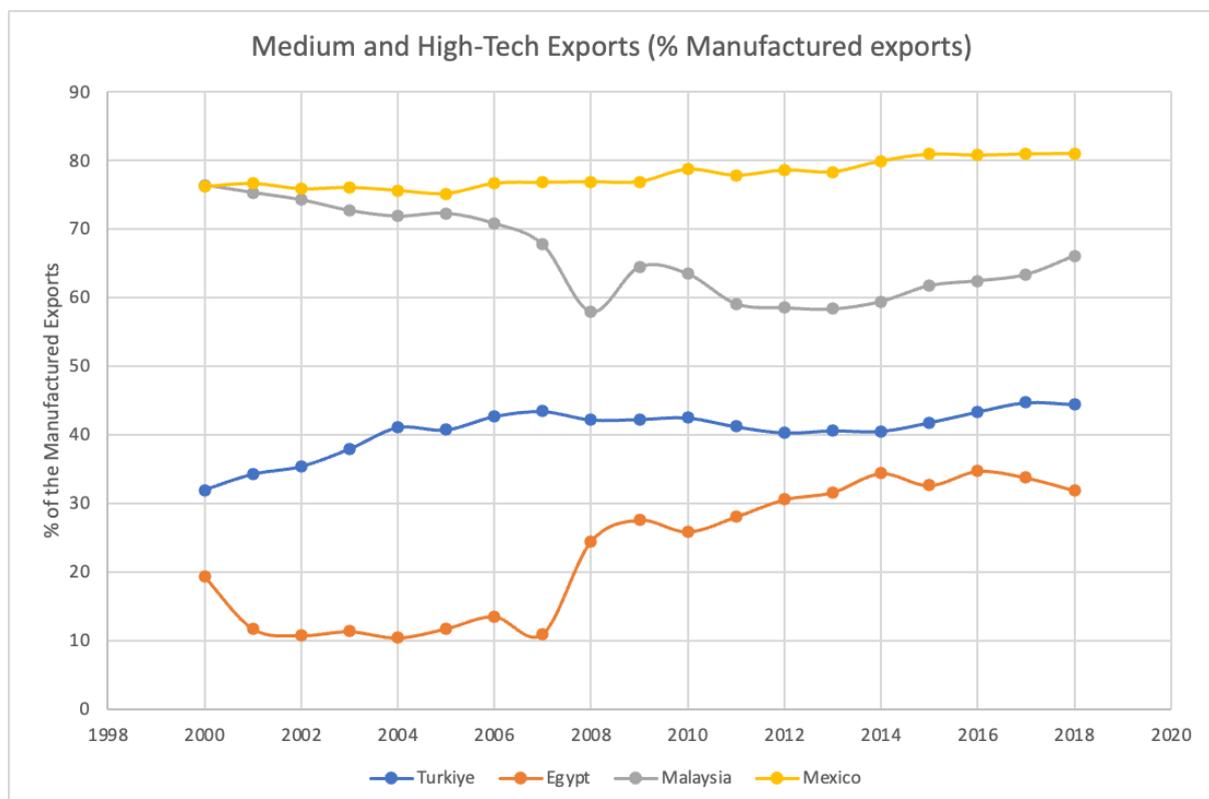
Source: World Bank 2019 Report, based on calculations from Turkstat, WDI

The TFP growth which was additionally calculated by Atiyas & Azik (2013), indicates that Total Factor Productivity is very high between 2002- 2006 and it declines in the period 2007-2011, while taking into account the 2008 global financial crisis. The paper's finding shows that the TFP growth of Turkey between 2002-2006 has been "more than 3% per annum", which is "quite high for the international comparison as well" (Atiyas & Azik, 2013, p.26).

It is argued by the authors that the TFP growth between 2003-2007 is noteworthy since it was one of the highest TFP growth rates in the history of the Republic of Turkey.

Furthermore, according to Atiyas & Azik (2020), the high TFP growth has been made possible through investments in better technologies, innovation, research and development, as well as reallocating of the resources from low productivity agriculture sector to the higher productivity industrial and service sectors. Same authors (Atiyas & Azik, 2020) have pointed out that the years between 2003-2007 correspond to a period of intensive and deep-rooted political and economic reforms that, “overall, institutions of economic policymaking were more rule-based than traditionally has been the case in Turkey” (p2). While it is noted that in the coming years AK party turned increasingly authoritarian, the TFP growth has been low from 2008 onwards and has been in its lowest point between 2014-2018 (Atiyas & Azik, 2020).

Figure 7



Source: own calculation based on data from World Bank

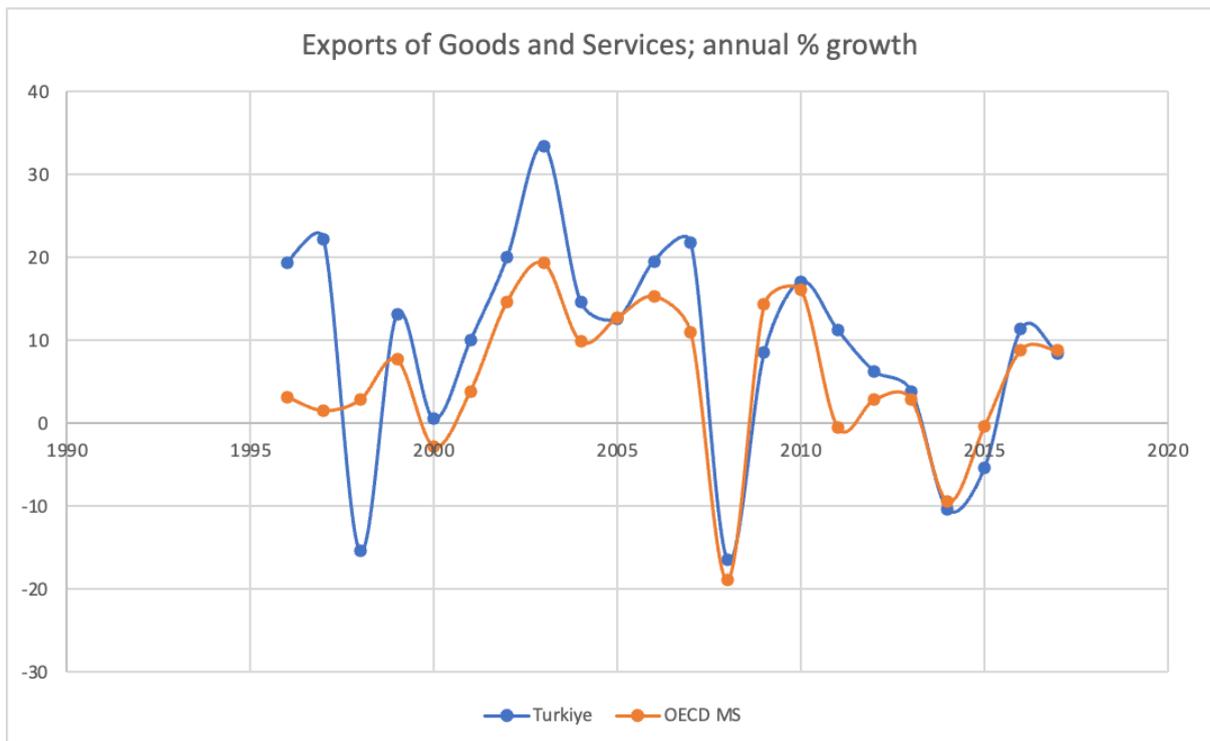
The structure of Turkey's exports is one of the areas which is likely to be impacted by the changes in productivity. This argument is based on the presumption that when the existed industries transform into more advanced and higher productivity industries, utilizing upgraded technologies, and attempt to gain competitive advantage and become internationally successful industries, they tend to export more advanced products with higher technology content (Atiyas & Azik, 2020; White 1991). In this regard, the countries with a growing number of competitive firms are likely to have an increased rate of technologically advanced products in their export.

Figure 2 indicates the share of the medium and high tech exports of Turkey in the percentage of its total manufacturing exports. While the share of the Medium and High tech products increases from 33% in 2002 to around 43% in 2007. In the coming years, this share of medium and high-tech products remained stagnant, fluctuating between 40% and 45%. Thus, the figure reveals that while Turkish technology exports have significantly raised between 2002-2007, it has not made visible progress in the coming decade. This supports the claim that Turkey did not register any technological improvement over the course of 10 years between 2007-2017.

According to the OECD survey (2016), the challenge to Turkey's tech export is described as that while Turkey's share in the foreign value added in its export has increased, its capacity to produce intermediate inputs for other countries' export remain limited. In other words, while Turkey's backward participation is relatively high, the industries are less forward in Turkey. It is also pointed out in the report by OECD (2016) that Turkey's weaker participation

in the Global Value Chain (GVC), which has been below its potential, is “owing to its institutional features that hamper efficient allocation of capital and labour, underdeveloped human capital and insufficient investments in innovation, R&D and knowledge-based capital” (p.89).

Figure 8



Source: own calculation based on data from World Bank

Furthermore, In Figure 8, the annual % growth of Turkish goods and services has been indicated in comparison to the annual % growth of the OECD member countries. From the graph, it is shown that the trend of Turkey’s annual export growth rate has been higher than the average growth rate of the OECD member countries between 2002-2008, in the coming years the trend declined to the level of the OECD member states. This comparison has again

been done to single out the effects of the AKP institutional reforms from the larger global trend.

4.2.2 Foreign Direct Investment

Foreign Direct Investment is another important factor that positively contributes to economic development, local human resources, technological upgrading, innovations, and productivity increases in the countries (Te Velde et al., 2006). Jürgen & Holger's (2005) investigation of the productivity effects of the Foreign Direct Investment in 17 OECD countries shows that there is, on average, a positive impact of the inward FDIs in productivity growth, although there is substantial heterogeneity in effect across the 17 countries¹³. However, Sanjaya (2004) argues that the possible FDI alone is not *a sine qua non* for economic development. But, if there are already existing domestic industries with necessary technological capacities, FDI is likely to contribute to the competitiveness of the domestic sector and promote local industrial development (Sanjaya, 2004).

Considering the importance of the FDI as the necessary component of the high-quality growth of the country, the Figure 9 indicates the FDI inflows as a percentage of the countries' GDP. It shows the changes in the FDI inflow of Turkey, as well as Malaysia and Mexico. These two countries have been chosen because they are in the same economic categories; developing countries with considerably large economies and major countries by population and areas in their regions, that has similar GDP per capita with Turkey. This comparison is done to determine, whether the changes in FDI have been caused by effective

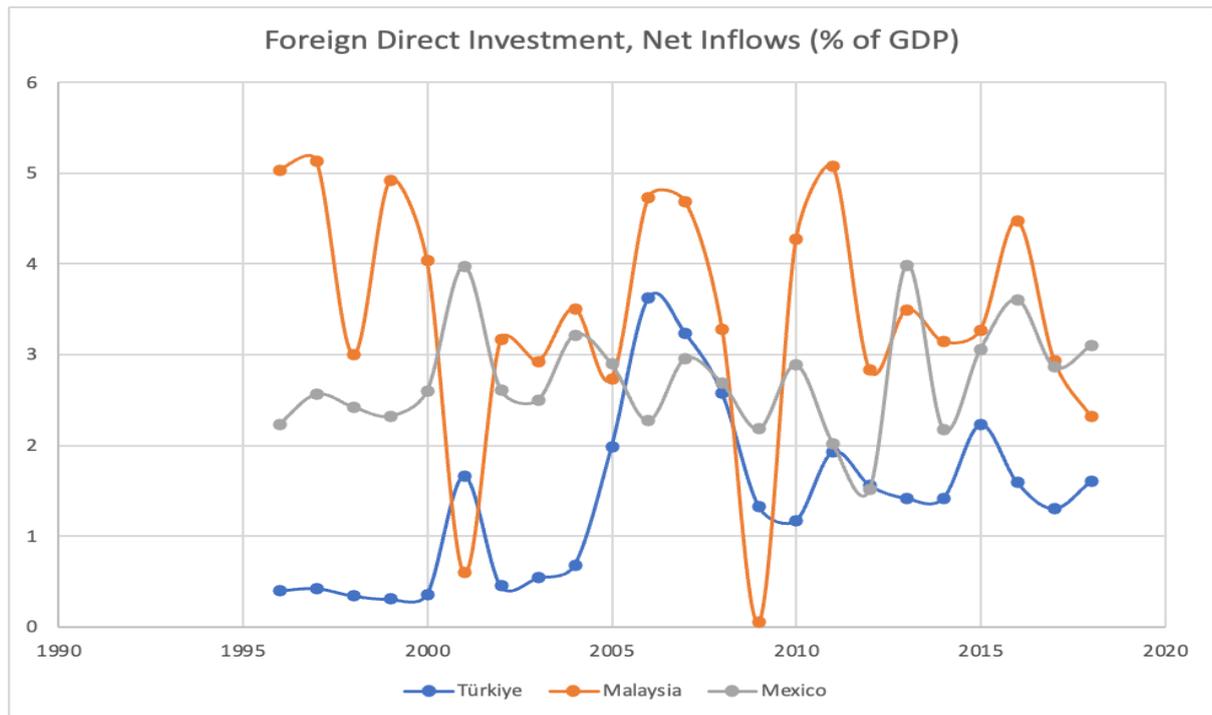
¹³ The authors use Cobb-Douglas Production Function to represent the relationship between FDI stocks and productivity growth across 17 OECD member countries.

government policies, or if there was an overall worldwide trend of increase in FDI inflows, regardless of the AKP policies.

Comparing the FDI inflow to Turkey with its category countries, the Figure indicates that the growth percentage of Turkey's FDI considerably increased between 2005 and 2007 in comparison to previous years, which is not the case with both Mexico and Malaysia although they both have higher FDI share in most of the indicated years¹⁴. It can be seen that Mexico's FDI inflow was stalling in the period between 2002 - 2007, and Malaysia's was rising, albeit by a much slower rate than Turkey's. In comparison of Turkey's FDI inflow to other developing countries, it was named as the 5th largest recipient of the total FDI among emerging countries (Vural & Zortuk, 2011). Moreover, under the AKP government Turkey attracted the highest FDI flow in its history, reaching US\$22.1 billion in 2007. Turkey's attraction of the highest FDI between 2005-2008 compared to other developing countries reinforces the notion that the rise of FDI inflow into the country was caused by the effective policies of the AKP, rather than by worldwide trends.

¹⁴ In the data from World Bank it is seen that in the years between 2005-2008 countries are comparatively attracted more FDI. Taking that into consideration

Figure 9



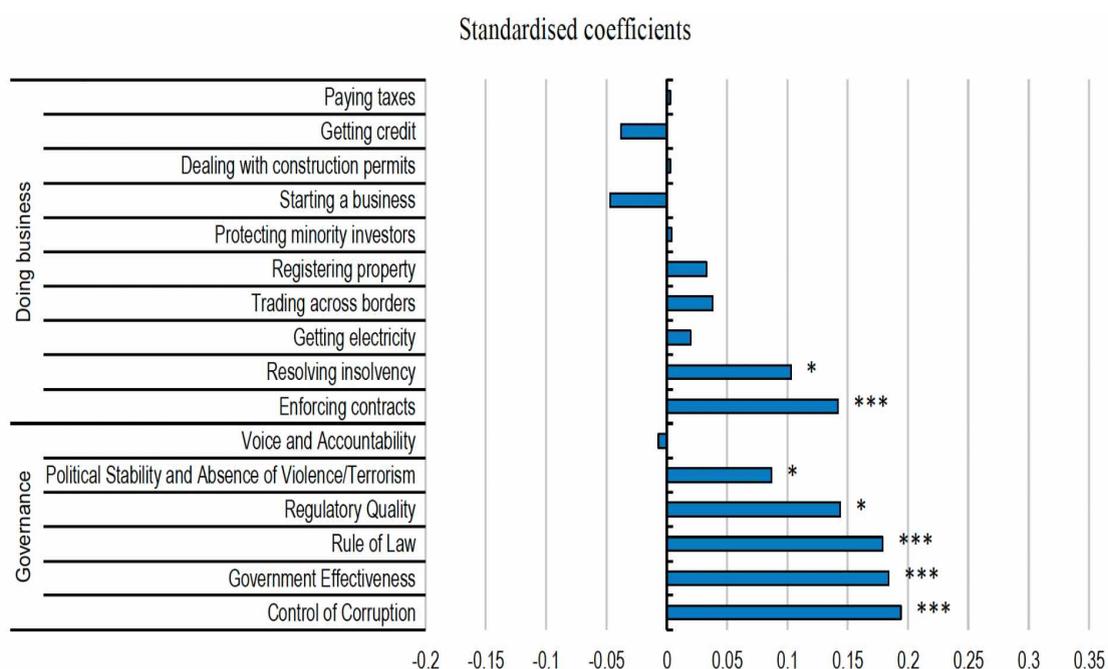
Source: own calculation based on data from World Bank

Considering the significant increase in the FDI flow to Turkey, did the institutional reform between 2002-2007 play an instrumental role in attracting FDI to Turkey? Or does the decline in the FDI inflow have any correlations with the degradation of the institutional qualities in Turkey? While the full answer to this question exceeds the limitation of this paper, there is growing consensus among scholars that the rule of law, judiciary independence, and protection of private properties are correlated with the FDI inflows (Staats & Biglaiser, 2012; Peres et al., 2018). For example, based on the surveys from the U.S corporations in Latin America, the research of Biglaiser & Staats' (2010) discovers that the investors are most concerned with the enforcement of property rights, adherence to rule of law, impartial and effective courts, while they consider less important democracy *per se*; protecting of human and civil rights. Analysing the institutional qualities by the sum of rule

of law and control of corruption¹⁵ indicators of 41 developed and 69 developing countries, the finding of Peter et al. (2018) infer that the quality of institutions and the relevance of governance indicators are pivotal factors in attracting FDI inflows both to developed and developing countries.

Figure 10

The Correlation between business environment and FDI



Source: OECD Economic Surveys (2018).

Furthermore, In the survey by the OECD (2018) on the Turkish economy, it is shown that the country's institutions highly affect its FDI inflow. Among the measures of institutional quality, attracting FDI is highly correlated with control of corruption, government effectiveness, rule of law and regulatory quality. As it was evaluated in the previous section, these four measures of

¹⁵ The control of corruption referred to the extent by which the governing bodies use public resources for the private gain. Both petty (small scale) and grand forms (the larger amount of resources) of corruption, "as well as "capture" of the state by elites and private interest" are included (p630.) See Peres et al. (2018) for further discussion.

governance indicators have significantly deteriorated in the years between 2007 and 2017, eroding the achieved progress between 2002-2007.

The indicated positive correlations between institutional qualities and FDI present a picture that the AKP-led intensive institutional reforms between 2002-2007 enabled Turkey to attract quite high FDI flow into the country. In a similar way, this supports the notion that the decline of the FDI inflow in the upcoming decade after 2007 is largely due to Turkey's worsening record of rule of law, erosion of political checks, deterioration of judiciary independence and legal protection, as well as rising corruption. These arguments further imply that the institutional changes in Turkey have had a visible impact on the capacity of Turkey to attract FDI inflow into the country.

4.2.3 Inclusiveness of the Turkish Economic Growth

Since the foundation of the republic, there has been a wider inequality gap, not only within the region but also among the regions. While the western part of the country benefited from most of the growth, the eastern regions mainly remained economically backwards and underdeveloped (Pamuk, 2018). For decades the eastern Anatolian region was not on the economic map of Turkey as a large segment of the society did not participate in the economic life of Turkey. For this reason, Turkey's economic development in these years was arguably not inclusive, nor was it a high-quality growth.

AKP coming to the power with a vow to shrink the gap in economic and regional discrepancies, the party initiated a considerable redistribution of the resources to the eastern provinces, which have been historically underdeveloped and their population largely kept outside of participation in Turkey's economic life. In these years the eastern Anatolian

region experienced the allocation of significant state resources to social projects, education, and healthcare (Pamuk, 2018). The AKP government also supported infrastructure and regional development projects, promoting the emergence of industrial cities across Anatolia. The support of the ruling party also extended to the business sector, the Anatolian business enterprises were highly backed by the AKP through political, financial and material means (Pamuk, 2018).

One of the main arguments here is that the AKP's policies of promoting the development of economically backward eastern regions and supporting social projects for the low-income populations have had positive impacts on the inclusiveness of Turkish economic growth in these years. This argument follows the premise that the AKP's policies lead to the rising rate of participation of the eastern regions' population in Turkey's economic life, regions which have not been on the economic map of Turkey for decades despite accounting for a large portion of its total population. Furthermore, these years are characterized by the growing number of Anatolian businesses that were becoming competitive in domestic, as well as in the international market, which positively contributed towards Turkey's potential economic growth. Along with the growing business sector, the new middle-income and high-income classes from these regions have emerged, which indicates that a broader segment of the population has benefited¹⁶ from the economic growth of Turkey (Pamuk, 2018). Last but not least, the rise in the quality of growth in these years is not only because of the guaranteeing the participation of the population but also because of the fairness of the state distribution,

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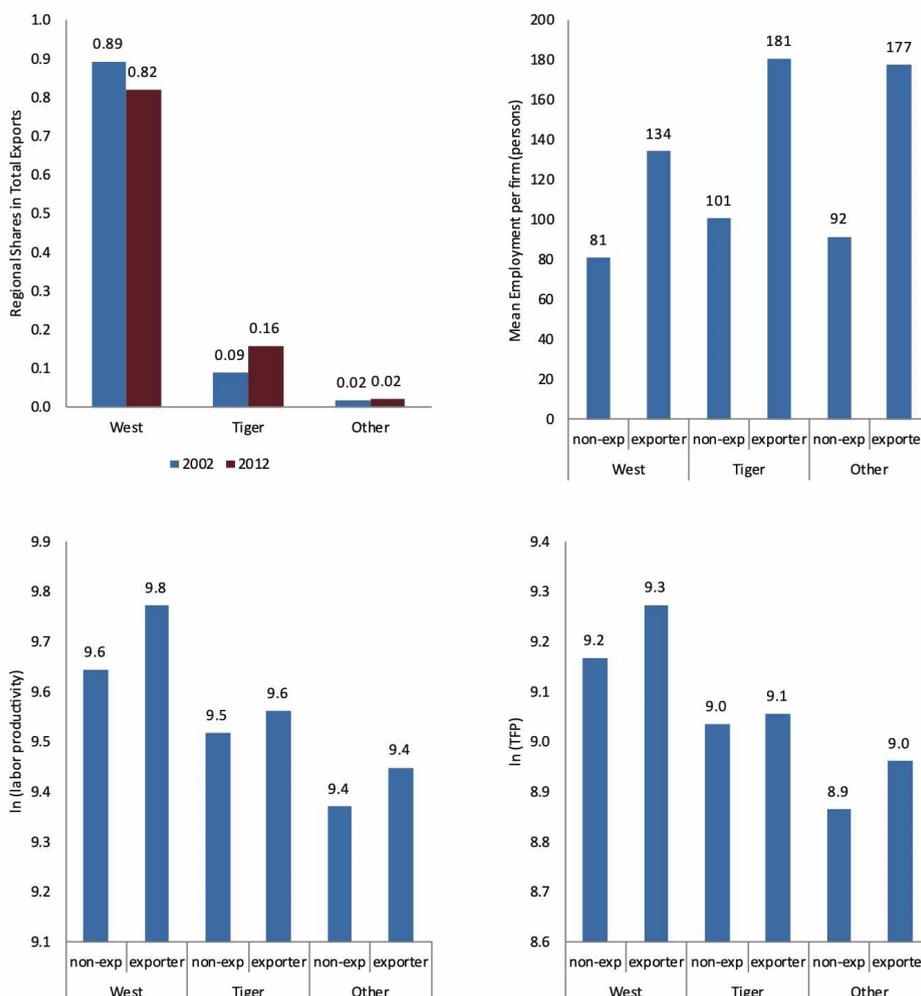
guaranteeing the basic necessities such as nutrition¹⁷, access to healthcare, education etc. in comparison to the previous years in the republic's history (report).

Another indicator that shows the growing inclusivity of the growth in this period is the gradual decline of the gap between the regions' contribution to Turkey's economic development, although the rate is slow. Figure 11 indicates the catch-up of the Anatolian enterprises to the western companies in Turkey. It indicates that the regions' total export increased from 9% in 2002 to 16% in 2010, while the gap with the western region has declined in these years. Considering the labour productivity and TFP growth, there is a convergence of Anatolian tigers with western enterprises of Turkey, which is indicated in the figure. Moreover, since Turkey's overall export significantly grew between 2002-2012, it infers that along with the relative share in total export, the overall export of Anatolian companies also increased in parallel with the growing export percentage of Turkey's export between 2002-2012.

¹⁷ For example, the research conducted by Keskin et al. (2005) indicates that iron deficiency in schoolchildren in urban Turkey is remarkably higher in the low income families due to the malnutrition. One of the main reasons for the iron deficiency in the body is the less frequent consumption of fruits with C vitamin and red meats, which indicates many low-income families are not beneficiaries of the economic growth.

Figure 11

Anatolian Tiger’s Catch-up; Increase in Tiger Exports, Productivity Increase



Source: WB staff calculation based on Turkstat Data

Notes: For the 1st figure (upper-left), the data is taken by the Turkstat for each provinces separately. For the rest of the data, it is based on the manufacturing firms with 20 or more employees.

Despite the achieved positive outcome of the comparatively fair redistribution of the resources and declining inequality gaps, the AKP’s gradual turnaround from its redistributive policies erased some of the positive developments that have been achieved. From 2007 onwards, especially after 2011, the government’s policies were skewed towards favouring

business groups close to the party. As it was discussed in sub-section 3.3.2, the ruling party engaged in fostering network-based clientelistic relations to redistribute existing public resources and rents - lands, mining concessions, as well as providing tenders - to the loyal businesses linked to the party. (Esen & Gumuscu, 2018). In this way, the authorities used the public resources for private gains, and the ruling political and business elites of the state captured the economic benefits which came at the expense of the welfare of Turkish society.

The re-growing of inequalities from 2007 onwards is indicated in the Gini Index of Turkey, which is shown in Figure 12. While the inequality is high when Gini index is closer to 1 on a scale of 0 to 1, it is seen in the figure that the inequality has overall been high in Turkey in these years. However, while the progress toward a more equal income share has been made between 2005-2007 and was kept until 2010, in the next years the inequality gap tends to widen again.

Figure 12



Source: own calculation based on data from World Bank

The high rate of inequality and increasing corruption rate in Turkey shows that Turkey's growth in the last decade has been not inclusive or shared growth that a relatively smaller section of society has been the main beneficiary of the economic growth. Although some progress has been achieved through AKP's policies of allocating more resources to the underdeveloped regions of Turkey, as well as contributing to the welfare of the low-income broader, the high rate of inequality demonstrates that the economic development of Turkey's growth doesn't promote shared prosperity. Turkey's inability to achieve inclusive or shared growth is underpinned by the fact that the country could not strengthen its inclusive institutions and turned to become dominated by more authoritarian and extractive institutions.

Conclusion

In this paper, the impact of AKP's reform policies between 2002-2007 and the party's turnaround from the reform policies was discussed. Based on the articles, reports, and available data, it has been indicated that AKP undertook wide-ranging institutional reforms which improved the democratic records of Turkey, such as improvement in regulatory and legislative bodies, building a more rule-based system, as well as re-delegation of decision-making power to the autonomous agencies, strengthening checks and balances, ensuring transparency etc. On the other hand, the government's reversal policies deteriorated the institutional qualities, while it made an authoritarian shift with an increasing state influence and control of the independent agencies, which was indicated in the reports of Freedom House, RSF, World Bank and other organizations.

By analysing the change in political and economic institutions, it is attempted to study if the institutional change affected Turkish economic development. While Turkey made structural reforms toward democratization between roughly 2002-2007 and it became gradually more autocratic in the years 2007-2017 under the same government, these two periods were contrasted to examine how the institutional change affected the economy of Turkey in these two periods. The change in Total Factor Productivity (TFP), the Foreign Direct Investment (FDI) inflows, as well as the redistribution of the resources in two consecutive duration were investigated. The result shows that in a period which Turkey undergone deep-rooted democratic reforms, the country achieved continuous TFP rise, attracted an enormous FDI inflow compared to previous years, and the share of technologically advanced products in Turkey's export has been increased. Turkey's economic advantage and productivity growth in this period are visible not only in comparison to its past economic performance, but also in comparison to the developing countries. The finding of the paper also indicates that the economic growth in this period has benefited a wider segment of the society and enabled a significant number of the population from underdeveloped parts of the country to participate in the economic and political life of Turkey. On the other hand, with the gradual deterioration of political and economic institutions from 2007 onwards, the economic performance of Turkey and its capacity to attract FDI inflow were weakened, while TFP growth was considerably less or non. This period also coincided with the growing inequalities and unequal distribution of resources in society.

The finding of this research in Turkey's case infers that the institutions matter or they play an important role in the economic growth and for the quality of the growth. However, to show

more detailed relations between the institutions and economic growth, and the way institutions shape economic performances, further analysis is needed. One of the main weaknesses in the research of this paper is that since institutions cover a broad range of indicators, the paper couldn't address which specific institutions impact to certain spheres and areas of economic development.

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