

# BTI 2016 | Turkey Country Report

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This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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**Key Indicators**

Population	M	75.9	HDI	0.759	GDP p.c., PPP \$	19226.1
Pop. growth <sup>1</sup>	% p.a.	1.2	HDI rank of 187	69	Gini Index	40.2
Life expectancy	years	75.2	UN Education Index	0.652	Poverty <sup>3</sup>	% 3.1
Urban population	%	72.9	Gender inequality <sup>2</sup>	0.360	Aid per capita	\$ 36.5

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

## Executive Summary

For a long time Turkey was the only country with a Muslim majority that had adopted an explicitly secular political system – at least on paper: non-Sunni Muslim groups have faced considerable discrimination. In legal terms, this verdict still applies, but the claim has weakened. Since the moderate Islamic AKP party came to power in 2002, and in particular during the third term of office of former prime minister (and now president) Recep Tayyip Erdoğan (2011 – 2014), what might be termed “Islamic morals” have come to play an increasingly important role in Turkish social and political life.

Secular order, though, remains supreme. Turkey’s institutions operate with reasonable efficiency and in line with the constitution. In comparison to other countries in the Middle East, democratic rules of the game function rather well; elections are free and fair, although accusations of electoral fraud have been brought forward regarding the communal elections of 2014.

In principle, all citizens have the same civil rights; yet ethnic (Kurdish) and religious minorities suffer from discrimination. This is contrary to discrimination based on cultural, religious or ethnic differences being forbidden by the Turkish constitution. Together with the European Convention on Human Rights, the Turkish Constitution provides, in principle, warrants against any civil rights violations.

During the period under review, the independence of the judiciary – which could be said to be free from both direct influence and intervention by other institutions – has been affected negatively by pressure from the AKP government.

In general, the administrative system works sufficiently, public security and order is assured throughout most of the country. Exceptions to the rule are parts of East and South-East Anatolia, where several militant Kurdish organizations continue to operate. The regular reports by the European Commission monitoring progress in the fields of democratization and creation of a

functioning market economy have become increasingly critical in recent years, due to the observation that the government shows tendencies to authoritarianism.

In its 2005 annual progress report, the European Commission (EC) identified Turkey as a well-functioning market economy for the first time thereby fulfilling one of the Copenhagen accession criteria. GDP growth has been impressive since the financial crisis of 2001, despite the negative impact of the financial and economic crisis of 2008. Like other emerging economies that have taken off in recent years from a fairly modest basis, growth rates in Turkey have declined during the period under review. Turkey has the world's 17th largest GDP by PPP and 17th largest nominal GDP.

The chronically high inflation of the Turkish lira was brought under control in the first decade of the 21st century. However, the Turkish economy is still subjected to considerable fluctuations, which was noted with concern by the European Commission. Great income disparities within the country and the potentially negative effects of the crises in the Middle East and Eastern Europe are problems which Turkey will have to tackle in the future.

## History and Characteristics of Transformation

The proclamation of the Republic of Turkey (as one of the successor states of the Ottoman Empire) in 1923 signaled a new phase in the long history of the social and political transformation of Turkish society, which began as early as the beginning of the 19th century. The Turkish process of political and cultural transformation, has been described as unique, particularly with regard to the totality and success of that process against the background of a predominantly Islamic society. This process also sought to combine Western and pre-Islamic Turkish culture, in order to create a new "national culture" in line with the heritage of the Ottoman Empire. This was not an easy task, given the history and geographic location of Turkey at a strategic political and cultural crossroads between Europe and Asia, which has resulted in a Turkish identity that contains Western European, Middle Eastern and Asian elements.

After the death of Atatürk in 1938, İsmet İnönü became the second president of the republic. One of his greatest achievements was to maintain Turkish neutrality during World War II, though the country suffered nonetheless. The army was kept in a condition of alert, prices rose steeply, food and other commodities were rationed and the black market flourished. The Democratic Party (DP), founded in 1946 (the year Turkey embarked on multiparty democracy), managed to win a landslide victory in 1950 and stay in power until 1960. This period was marked by economic growth and a substantial increase of the average living standard. The DP's economic policies focused on infrastructure development, agricultural mechanization and industrialization. During the DP's second term, however, economic conditions deteriorated massively, inflation and public debt increased and the government adopted increasingly repressive policies in order to silence dissent. Growing tensions and the failure of the DP government to tackle the economic crisis triggered a

military coup d'état in May 1960. The DP government, led by Prime Minister Adnan Menderes, was replaced by a military junta under the leadership of General Cemal Gürsel.

However, military rule was short-lived; one and half a year later, the country returned to civilian government. In subsequent years, the political situation remained tense, as none of the ruling governments was able to stay in power for long. In 1971, the military intervened again (in a so-called "coup by memorandum"). The Turkish economy performed relatively well during the period, with growth rates of about 5.7% until 1970 and accelerated industrialization. Yet after 1971, Turkey once again went through a period of political instability and economic crisis. The two oil crises and the military embargo imposed by the United States after the Turkish invasion of Cyprus in 1974 hit the country hard. Political polarization between the communists and the ultranationalists lie at the heart of the problem. After the situation became unsustainable in the late 1970s, the military intervened again in 1980, dissolving all political parties and screening the formation of any new parties. Following the return to civilian rule in 1983, the conservative Motherland Party, led by Turgut Özal, emerged as the dominant party. Turkey's National Security Council, which is dominated by military officers, was positioned to guarantee order and the adherence of the government to the constitution.

Until 1980, the Turkish economy was based primarily on import substitution and the agricultural sector. Özal pursued a different economic strategy, aiming to create an export-oriented industry through economic liberalization. These new economic policies also brought about changes to the Law for the Protection of the Value of the Turkish Currency and the foreign currency exchange system, as well as a liberalization of imports and exports. State subsidies were reduced and a value added tax put into effect in order to increase state revenues. Revenue-sharing bonds were issued for sale, mass housing and privatization administrations established, and free trade zones formed. As a result, economic growth accelerated and the scale of the chronic foreign-currency deficit was reduced. In spite of significant progress, and a noteworthy empowerment of the private sector, Turkey's public finance policy has led to serious budget deficits, which have so far resulted in two severe economic crises (in 1994 and 2001, respectively).

Turkey's cooperation with the IMF and the World Bank since 2002 has ushered in several reforms that have helped stabilize the economy and enhance the functionality of the Turkish state under civilian leadership. The Turkish military has also since been brought under firm civilian control. However, while old problems have only been solved to a certain extent (particularly with regards to the Kurdish minority), new conflicts have arisen. These originate with the AKP party's increasingly authoritarian style of rule and its hitherto unchallenged leader Erdoğan (who had to step down as prime minister after three terms of office in August 2014 and is now president of the country). The political climate in the country is one of extreme polarization and there are no forces observable that could affect reconciliation.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

The state practices its monopoly on the use of force over the entire physical territory of the country. Religious fundamentalism and well-entrenched organized crime exist, but do not seriously challenge the state's monopoly.

Monopoly on the  
use of force  
8

The 30 years' armed conflict with the Kurdish minority in the south-east of the country recently showed strong signs of abating. On March 21, 2013, the long-jailed leader of the Kurdistan Workers Party's (Partiya Karkerên Kurdistanê, PKK), Abdullah Öcalan, called publicly for an end to the armed struggle against the Turkish state. A few weeks later, PKK declared its complete withdrawal from Turkish territory.

Since the rise of the "Islamic State" (IS) terror militia, the borders to Syria and Iraq seem to have become porous. This would challenge Turkish control over the border regions. The ambiguous policies of the Turkish government towards the IS, however, complicate that claim, as IS activity in these regions seems to be happening with the explicit consent of Ankara.

With the exception of militant Kurdish organizations, all Turkish citizens, including cultural, religious and ethnic minorities, accept the official concept of the Turkish nation state. Identification with the Turkish nation state is, in the case of some ethnic and religious minorities, negatively affected by a certain degree of official and unofficial discrimination against these groups. Though all citizens are entitled to the same civil rights, and in spite of any discrimination based on cultural, religious or ethnic being outlawed (reinforced by recent legislative changes), widespread negative attitudes toward minority issues leaves much room for improvement. Members of religious and ethnic minorities continue to be practically excluded from certain professional positions, such as civil servant or military officer.

State identity  
8

From the foundation of the republic, secularism was the main basis of legal, social and political order. This is now in question. The accusation against the ruling moderate Islamist/conservative AKP party, that it pursued an “Islamist hidden agenda,” has proven partially correct. In the field of public morals (consumption of alcohol, the headscarf issue), the Turkish government pursues more “Islamic” policies than in the past. There have been no negative effects on non-Muslim communities yet, but the days of Turkey being a strictly laicist country seem numbered. This has in fact had some positive side effects: the Turkish state is far more amenable to the upkeep, restoration and – announced in January 2015 – construction of non-Muslim places of worship.

No interference of religious dogmas

6

As for non-Sunni Muslim communities, the well-known problems persist. They do not have any official representation with the state and as such continue to be marginalized.

The administrative system works reasonably well. Nevertheless, there is still the need for a comprehensive administrative reconstruction before Turkey can claim a modern, decentralized, participatory and transparent administration. Numerous administrative reforms have been introduced since 2003, though they leave much room for improvement.

Basic administration

9

## 2 | Political Participation

All elections since 1950 have been free and fair. Yet when political parties began to re-emerge after the 1980 military coup, they had to conform in their programs to rules set by the military authorities. There is also a 10% threshold for parties to enter parliament (higher than in any country belonging to the EU), and this correspondingly excludes smaller parties.

Free and fair elections

8

Accusations of electoral fraud – already heard during the parliamentary elections of 2011 – have been repeated during the communal elections of 2014. The accusations – including elimination of votes, intended power cuts during vote counting, intimidation of voters – could not be substantiated, but the increasingly authoritarian policies of the government, targeted at opposition parties as well as independent media, are a reason for concern.

The country’s first direct presidential elections on August 10, 2014, were conducted in a professional and smooth way, and Prime Minister Erdoğan secured 51.79% in the first election round. OSCE had sent a limited team of 29 long- and short-term observers to accompany the elections. The further candidates, Ekmeleddin İhsanoğlu from the Republican People’s Party (Cumhuriyet Halk Partisi, CHP) and Selahattin Demirtaş from the Kurdish Peoples’ Democratic Party (Halkların Demokratik Partisi, HDP), had no chance (38.44% and 9.76%, respectively).

The democratically elected government has the effective power to govern, and the reforms of the past have effectively removed the veto powers once held by the military. Parliament further restricted the former comprehensive domestic political powers of the army with amendments to the code ruling the military in July 2013, restricting its responsibilities to only defense of external threats. No new group has as yet emerged to challenge the government, which stands accused of monopolizing power to the detriment of all oppositional forces. The change of office of long-standing Prime Minister Recep Tayyip Erdoğan to that of state president has raised concerns about the growing power of the presidency, which as yet has no constitutional basis, but would attain it if constitutional changes proposed by Erdoğan are approved by the electorate. The parliamentary elections on June 7, 2015, will be crucial on this matter. Given this predominance, there is considerable concern about the antagonistic political atmosphere in the country.

Effective power to govern  
10

Concerning the freedom of association, the legal framework is generally in line with international standards. Freedom of assembly has been considerably curtailed after the anti-government demonstrations of summer 2013; these were crushed with excessive force by state security. Observers noted the excessive use of force by the police, leading to the death of several demonstrators and numerous injuries. Tear gas and rubber bullets were reported in frequent use.

Association / assembly rights  
6

The tendency to curtail freedom of expression, observable between 2012 and 2014 (as noted by the progress reports of the European Commission), continues. Anti-terror laws constitute a serious limit to freedom of expression and remain in place. A large number of journalists are held in custody; in particular, those who reported on the events around the Gezi park protests of summer 2013.

Freedom of expression  
5

This should not be taken as an indication that freedom of expression per se has diminished. In some areas – notably the Kurdish issue and the Armenian genocide during World War I – freedom of expression has in fact increased. What gives rise for concern is that any media critical to the government faces increasing harassment and restrictions. The government shows considerable creativity in order to curtail freedom of the press. Large media corporations (such as Doğan Media Group) have been sentenced to high tax fines; in other cases, access to internet platforms like YouTube and Twitter has been temporarily suspended.

Thus the accusations raised by the European Commission in recent years remains true – namely that Turkish law is not able (nor its lawmakers willing) to guarantee a level of freedom of expression as demanded by the European Convention of Human Rights and the European Court of Human Rights (ECHR). The organization “Reporters without Borders” continues to list numerous violations of freedom of the press; most of the violators target individuals or groups supposed to be critical of the government.

### 3 | Rule of Law

In principle, state powers in Turkey are separated. However, in recent years the government has frequently exerted considerable pressure on the judiciary, particularly in cases dealing with charges of corruption. Journalists reporting on such issues also faced retribution, through libel cases or worse. This activity increased with the state president's greater power after the country's change from parliamentary to semi-presidential system. In contrast to his predecessors, Erdoğan, now as president, chairs cabinet meetings himself. The dominating bloc of AKP deputies in the parliament guarantees the government comfortable support in most of its initiatives; unless the majorities change in the legislature, no relevant control towards the executive should be expected.

Separation of  
powers

7

The judiciary has come under considerable pressure by the government in recent years, giving reason for concern about its independence. Judges and other personnel suspected of being critical of the government – most often due to their supposed allegiance to the Fethullah Gülen movement, which the government has come to regard as one of its most important enemies – have been harassed or transferred without their consent. This was particularly observable in the investigations of corruption charges against government ministers from December 2013 onwards. The judicial system continues to suffer from structural weaknesses; cases proceed slowly and inefficiently, due to the large number of cases pending.

Independent  
judiciary

6

Reforms concerning the judiciary formed the core of the constitutional reform program of 2010. The 2014 progress report of the European Commission noted with approval that several measures of the 3rd and 4th judicial reform packages as well as measures announced in the democratization package of September 2013 were adopted and implemented. While these measures contributed to align Turkey's legal framework and practices with that of EU member countries, there still exists grave concern about the government's continued attempts to influence judicial proceedings against members of the government and their families.

The state and society hold civil servants accountable and conflicts of interest are sanctioned, although politicians enjoy a different treatment. Those who misuse their public mandate or power in office still hardly can be charged and prosecuted by the state tribunal. No progress on this issue has been noted by the 2014 progress report of the European Commission.

Prosecution of  
office abuse

6

The corruption charges revealed in December 2013 against members of the government and their families were not properly investigated. Police and judicial officials who tried so to do found themselves faced with harassment by the government. The 2010 – 2014 national anti-corruption strategy and action plan continued to be implemented, yet insufficient information was given to parliament or



civil society concerning the impact. The European Commission called on Turkey for greater political will and civil society involvement to fight corruption. Given the present-day political situation and the government's behavior after the 2013 corruption cases, little suggests that the situation will improve in the near future.

As Istanbul-based think tank Turkish Economic and Social Studies Foundation (Türkiye Ekonomik ve Sosyal Etüdler Vakfı, TESEV) demanded in its 2014 Corruption Assessment Report: "Turkey needs to adopt new regulations in legal statutes and institutional operations to decrease corruption. The most important steps to be taken in this direction will be the revision of the permissions system regarding the legal cases of civil servants and prevention of impunities, formation of a Council of Political Ethics, and reorganization of the Council of Ethics for Public Service. Further progress is needed on mandatory declaration of financiers for election campaigns and declaration of property and the regulation of the Public Procurement Law to conform to the EU norms."

Civil rights are guaranteed and protected, and though written regulation exists to the contrary, members of religious minorities are excluded in practice from becoming a civil servant or an officer of the army. The European Union supervises Turkey's fulfillment of the Copenhagen political criteria, and Turkey, as a member of the European Council, is obliged to implement the provisions of the European Convention of Human Rights.

Civil rights

6

The number of rulings of the ECHR finding Turkey guilty of violating the convention continues to increase. Most of the appeals concern the right to a fair trial and protection of property rights. The court's report noted with approval that Turkey complied with the majority of its rulings.

Although the government has declared human rights to be an important issue, human rights institutions still suffer from lack of resources, independence and efficacy. Some human rights defenders even faced criminal proceedings.

Civilian oversight of the army and security forces remains stable, although the 2014 progress report of the European Commission noted no progress in these fields. The judicial control of intelligence was narrowed, and the Turkish Constitutional Court indicated that judicial proceedings of the Ergenekon and Sledgehammer cases – which dealt with supposed attempts to topple the democratically elected government in 2003 and 2008/2009 – were seriously mishandled. As a result, a considerable amount of sentences handed out to defendants were quashed. 237 convictions in the Sledgehammer case were upheld by the Court of Cassation, but 99 defendants were released after the Constitutional Court found that the right to a fair trial had been violated. A similar procedure occurred in the Ergenekon case, when 52 persons convicted were released, including the former chief of staff, who had been sentenced to life imprisonment.

#### 4 | Stability of Democratic Institutions

Basic democratic institutions work together in a relatively harmonious and effective way. All relevant political decisions are prepared, made, implemented and reviewed by the appropriate organ, as described in the Turkish constitution. Since 1999, the performance of the administrative system and the judiciary have been examined and improved with the guidance of the European Commission. However, in its 2014 progress report, the EC criticized the lack of progress and identified a reversal of democratization in some areas.

Performance of democratic institutions

7

All relevant political and social players with the exception of the PKK and its successor organizations accept the country's democratic institutions as legitimate.

Commitment to democratic institutions

9

#### 5 | Political and Social Integration

The Justice and Development Party (AKP) continued to be a remarkable phenomenon in the Turkish political landscape. Since its first electoral victory in 2002, it has managed to expand its power base continuously. This has allowed it to win the general elections of 2007 and 2011 with a comfortable majority.

Party system

7

The party also has been able to withstand the test of its political legitimacy and popularity when long-serving Prime Minister Recep Tayyip Erdoğan was not allowed to run for the office of prime minister for a fourth time and rather opted to contest the presidential elections in summer 2014. In these polls, he managed to become elected President of Turkey with almost 52% of the vote.

In the local elections held in March – June 2014, the AKP likewise was able to defend its strong position. It scored 38.39%, as opposed to its strongest contestant CHP (Republican People's Party) 23.08 %. The third party represented in parliament, MHP, attracted 15.97% of the vote. The BDP, a Kurdish party, was able to score 5.26%.

Changes in Turkish electoral and party law in recent years drastically reduced the number of parties represented in parliament and have thereby managed to bring under control the notorious fragmentation of the party landscape. However, the 10% minimum threshold is a serious threat to political representation. The Kurdish HDP party may well not surpass the threshold in 2015 elections, and this will leave the Kurds out of parliament. This omission raises concerns about the feasibility of a working opposition. The strength of the AKP at present is uncontested by any other party. The CHP is too closely associated to the Kemalist establishment previously in power. To date, the vehement anti-governmental protests since summer 2013 have

not resulted in a viable political opposition movement. Thus, a considerable dichotomy continues to haunt the Turkish party system: on the one hand, the AKP enjoys fairly widespread support by social groups, while the CHP has not managed to expand its support base beyond the Kemalist elites. There exists no “peoples’ party” to offer credible opposition to the AKP.

There are several interest groups promoting the growth of participatory democracy, and of public awareness for social problems. Currently, there is an increasing variety of organizations in Turkey that include approximately 80,000 registered associations, and several hundred unions and chambers. Yet, the major actors of civil society have had only limited substantial and beneficial influence on policy-making in recent years. As in other areas, the influence of civil society organizations has been curtailed considerably; the failure of the numerous interest groups involved in the Gezi park protests of summer 2013 to organize a credible political opposition movement has shown that the clout of such organizations is less than has been commonly assumed.

The consent of Turkish people to democracy is very high. With the exception of fundamentalist movements, all social, economic and political groups are devoted to a pluralist parliamentary system. On the other hand, the level of trust and confidence in political parties and politicians continues to be low and has been negatively affected by the behavior of the government since the Gezi park protests of summer 2013 and the rather off-hand treatment of the corruption cases brought against government ministers in December of 2013.

Autonomous, self-organized groups and voluntary associations are traditionally well-developed and well-organized. They work and cooperate well with each other. These self-organizations enjoy a high level of trust among the population. However, legislation affecting civil society has become increasingly restrictive in recent years, and serious red tape hampers their development. Although the government is criticized harshly by civil society organizations, they have not been able to bring about a credible organized opposition to the government. The government’s enforced response, begun with the Gezi park protests in 2013, has increased polarization within the society further, so that trust has reached notable low levels among certain groups of society.

Interest groups  
7

Approval of  
democracy  
8

Social capital  
6

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

Socioeconomic  
barriers  
5

Turkey continues to be a thriving economy, although growth rates have slowed of late. The crisis starting in 2008 hit the country with medium severity, and the country has weathered the economic crisis well, although without any changes in social and economic inequality. Turkey continues to be a country in which ethnicity, gender and place of residence determine and limit access to education and well-paid jobs. The gap between higher and lower income groups has not at all narrowed, not least as government policies do not seem to regard this issue as a priority.

This is reflected in the UNPD's Human Development Index 2014, giving Turkey a rating of 0.759 for 2013 as opposed to 0.756 in the previous year. This slight improvement did not lead to a better rank for the country (which ranks unchanged at 69 in worldwide comparison).

Gender inequality was slightly reduced, but considerable disadvantages for females continue to exist on the labor market. The 2011 Gini index of 40.0 poses Turkey close to the BTI countries' average of 39.8.

In spite of Turkey's overall positive economic development the poverty rate has continued to remain high at 2.6% of the population according to the World Bank Development Indicators for 2014 (which nevertheless marks an improvement in comparison to previous years).

Life expectancy at birth is now 74.9 years, which marks a considerable improvement during the last decade. Gender-dependent inequality of literacy has been greatly reduced. 94.9% of the population as a whole are considered literate, which amounts to 98.3% of males and 91.6% of females. Overall, the reduction of gender inequality is fairly remarkable, according to the U.N. development index Turkey has reduced gender inequality from 0.515 in 2005 to 0.360 in 2013. The demographic growth rate is at present calculated at 1.3%.

In recent decades, the access of the school-age population to education has been expanded significantly (according to the World Bank and UNESCO gross enrollment ratio is 100.0% primary, 86.1% secondary and 69.4% tertiary). However, the quality of education remains low, and the education system focuses predominantly on providing good quality education for the most able students, who are channeled towards university and work in the formal sector. As a result, the most severe human capital shortages are at the middle and low end of the labor market. Although it was

originally conceptualized as a merit-based system, the system did favor and continues to favor students from higher-income families with more resources. This bias raises efficiency and equity concerns.

The unemployment rate, calculated at 10.975% for 2008, rose steeply to 14.6% in 2009. From this all-time high, it has decreased to 9.2% according to the World Bank Report of 2014.

Religion and ethnicity continue to be problematic issues: any groups of the population not considered “Turks,” or Sunni Muslims, continue to suffer from discrimination. Non-Muslims are still not able to become military officers or public servants.

There continue to be extreme income disparities between rural and urban regions, particularly in the east and south-east regions of the country. These uneven development patterns affect the economic structure and cause remarkable social problems as well.

In conclusion, severe inequalities of income, access to education and well-paid jobs still exist in the country in spite of slight improvements observable during the recent period. Gender inequality remains high and place of residence, as well as one’s ethnicity and religion, continue to have a serious impact on access to education and jobs. The gap between poorer and wealthier groups in Turkish society has not narrowed; while medium to higher income groups profited from positive economic developments the same does not hold true for the poorer segments of society.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	482985.9	731168.1	823242.6	<b>799535.0</b>
GDP growth	%	8.4	9.2	4.2	<b>2.9</b>
Inflation (CPI)	%	10.1	8.6	7.5	<b>8.9</b>
Unemployment	%	10.6	11.9	10.0	-
Foreign direct investment	% of GDP	2.1	1.2	1.5	<b>1.6</b>
Export growth	%	7.9	3.4	-0.2	<b>6.8</b>
Import growth	%	12.2	20.7	9.0	<b>-0.2</b>
Current account balance	\$ M	-21449.0	-45312.0	-64658.0	<b>-46516.0</b>

Economic indicators		2005	2010	2013	2014
Public debt	% of GDP	52.7	42.3	36.1	<b>33.6</b>
External debt	\$ M	172130.5	299183.2	388243.0	-
Total debt service	\$ M	41143.7	59204.5	61602.3	-
Cash surplus or deficit	% of GDP	-	-3.2	-	-
Tax revenue	% of GDP	-	20.5	-	-
Government consumption	% of GDP	11.8	14.3	15.1	<b>15.3</b>
Public expnd. on education	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	3.7	4.4	4.3	-
R&D expenditure	% of GDP	0.59	0.84	-	-
Military expenditure	% of GDP	2.5	2.4	2.2	<b>2.2</b>

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

## 7 | Organization of the Market and Competition

The state fully guarantees and maintains market competition, and all market participants enjoy, in principle, equal opportunities. In 2005, the European Commission declared for the first time that a well-functioning market economy existed in the country, and there has been continuous progress in the liberalization of the market with reference to network industries, 85% having been opened to the market according to the EC progress report of October 2014. An impressive 100% is envisaged for 2015. In some areas – for instance electricity-generating assets – competition is still quite weak due to investors' difficulties to secure sources of funding.

The 2005 currency reform (1 new Turkish lira was substituted for 1,000,000 old Turkish lira), coupled with the significantly reduced rate of inflation have so far guaranteed the convertibility of the Turkish currency. Devaluation of the lira has continued, amounting to as much as 15.1% in real effective terms in the second half of 2013. Measures by the central bank to tighten monetary policy caused the lira to appreciate by 7.4% in the first half of 2014.

The number of newly established firms rose by 1.6% in 2013 as compared to the previous year. In the same period, the number of businesses to close fell by more than 20%. The European Commission noted that entering the market – particularly when

Market-based  
competition  
8

construction permits are needed – remains quite cumbersome, calling for substantial improvements to be made to market entry and exit.

The informal sector remains large in Turkey, particularly in comparison to EU member states. Estimated to comprise anywhere from 60% to 85% of the economy, the informal sector is a major obstacle to sustainable economic development in Turkey. The productivity gap between formal and informal labor is estimated at 80%.

Through the establishment of the customs union with the EU in 1996, Turkey fulfilled its obligation to adopt the anti-trust legislation of the EU; it established an independent body (High Committee for Competition) with a mission of monitoring the market and implementing the anti-trust rules when necessary. The Committee operates effectively with regard to privatizations, mergers and acquisitions, and it also ensured that market positions were not abused.

Anti-monopoly  
policy  
8

The State Aid Law supposed to come into effect in September 2011 was postponed to the end of 2014, which was noted with disapproval by the European Commission. In some areas, notably public procurements, developments were observed which could be seen to retract from further attempts at alignment to EU standards.

Turkey has a customs union agreement (mainly on non-agricultural products) with the EU, a free-trade agreement with EFTA (also on non-agricultural goods), and nine bilateral agreements in force (with Bosnia-Herzegovina, Egypt, Morocco, the Palestinian Authority, Syria, Tunisia, Croatia, Israel, and Macedonia (FYR). Negotiations are underway with other countries. Turkey is also part of the Euro-Mediterranean Partnership, the Economic Cooperation Organization (ECO) and the Black Sea Economic Cooperation (BSEC). While the WTO approves of Turkey's ongoing transformation to a competition-based market economy, it also drives attention to the fact that Turkey's membership in several arrangements makes its trade regime complex and seemingly difficult to manage. Despite improvements made with an eye toward EU accession negotiations, some technical barriers to trade continue to restrict the free movement of goods, as was noted by the EC in its 2014 progress report.

Liberalization of  
foreign trade  
9

To help aid the free movement of goods between Turkey and the EU, the Ministry of Economy implemented a risk-based electronic import control system in late 2010. TAREKS applies primarily to those products that have not been harmonized with European Union standards. Since 2014, it also includes second-hand and renovated goods. Products such as textiles, chemicals and foodstuffs still require prior approval and licensing for sale in the EU.

A mutual recognition principle for the exchange of goods between Turkey and the EU has been in place since 2012. In 2014, this recognition was extended to tractors and the manufacturing, renovation and assembly of vehicles. The import of goods like textiles, alcoholic beverages and second-hand goods remain constrained by

technical barriers. The European Commission noted that the de-facto import bans represented by licensing requirements on aluminum, paper and copper scrap constitute a violation of the customs union provisions. Market surveillance regulations were amended in February 2014.

Under the EU's "old approach" area regarding product legislation, Turkey adopted amendments to regulations for tractors, motor vehicles, biocidal products and fertilizers. No progress was reported in the fields of cultural products and firearms.

As a result of its participation in the customs union with the EC, Turkey has, since 1996, based its tariffs on industrial products and the industrial components of processed agricultural products (imported from third countries) on the EC common external tariff. The EC's 2014 progress report noted little headway being made in the field of customs legislation.

The rights to establish and freedoms to provide services are still constrained by several requirements. Service providers registered in the EU have to comply with registration, licensing and authorization requirements. The movement of capital is still not aligned with EU regulations, particularly with respect to real estate, the acquisition of which is not permitted for citizens of a number of countries (this list has not been made public by the Turkish authorities).

WTO agreements and Turkey's current trade relations with the EC are the main factors influencing the Turkish trading system. Turkey, having been a contracting party to the GATT since 1951, became an original member of the WTO in 1995. It gives most favored nation treatment to all its trading partners. Turkey is not a signatory to the Plurilateral Agreements that resulted from the Uruguay Round.

The Turkish banking system is organized according to international and European standards, with functional supervision, minimum capital requirements and market discipline. According to a report prepared by the central bank, the Turkish banking sector consists of deposit banks, development and investment banks and participation banks that operate according to the profit/loss-sharing principle. The Banking Regulatory and Supervisory Authority (BRSA) has been able to improve its supervisory and enforcement capacity over time, and was accepted as a member of the Basel Committee on Banking Supervision and Financial Stability board in 2009.

As of June 2013, banks held an 87.4% share of the financial sector's total assets. The value of these assets increased from 97% to 111% of GDP between 2012 and 2013.

The profitability of banks is considered adequate, albeit subject to great variation. Net profit in the sector increased to 5.1% in 2013, but fell by 12.4% in the following year. Macroprudential measures taken in October 2013 coupled with a tighter monetary policy gradually lowered credit growth in the first half of 2014. Banks'

Banking system

9



loan-to-deposit ratio increased during the same period, reaching 109% at the end of 2013.

The capital-adequacy ratio of the Turkish banking sector increased to 16.3% in May 2014, which is considerably above the EU legal requirement of 12%. Basel II standards in capital-adequacy calculations have been implemented since 2012. By late 2013, legislation necessary for the implementation of Basel III standards had been passed. The share of non-performing loans remained stable at about 3%. The European Commission report of 2014 attested that the financial sector had performed well in recent years, demonstrating resilience.

## 8 | Currency and Price Stability

Inflation fell from a high annual rate of 8.9% in 2012 to 7.5% in 2013, thus continuing to be significantly above the central bank's (Türkiye Cumhuriyet Merkez Bankasının, TCMB) target of 5%. The TCMB's monetary policy has been oriented toward price stability as its top priority, although macrofinancial stability is also an interest. Attempts to dampen exchange-rate fluctuations were not successful. Driven by changing international monetary conditions, domestic political tensions and regional turmoil, the lira depreciated sharply (15.1% in real effective terms) between May 2013 and January 2014.

Anti-inflation /  
forex policy

8

In spite of the TCMB's efforts, inflation increased significantly in 2014 to 8.9% again. The European Commission report of 2014 noted that the TCMB's policies lacked transparency and predictability, and that a clearer focus on price stability was needed.

After a slowdown in 2012, the Turkish economy grew by 4% in 2013, a level still considerably lower than that experienced before the financial crisis of 2008. Public expenditure, rising from 14.8% in 2012 to 15.1% in 2013, played a significant role in supporting GDP growth.

Macrostability

8

Net exports contracted sharply in the 2012 – 2013 period, while imports rose considerably. A significant current-account deficit and large public debt leave the country vulnerable to sudden changes in global investor sentiment. Inflation fell to an annual rate of 7.5% in 2013 from 8.9% in the previous year.

The current-account deficit totaled \$65.1 billion in 2013, a sharp increase from \$48.5 billion in 2012. Public debt in the same time rose slightly to 44.8% of GDP. Since 2009, the volume of external debt has continued to rise, reaching an all-time high of \$388.2 billion in 2013.

Total debt service has risen from \$55.3 billion to \$61.6 billion, and represents a considerable drain on the state's finances.

The cash deficit stood at -0.6% of GDP in 2012 according to the World Bank. However, total reserves reached an all-time high of \$110.9 billion in 2013.

The European Commission report of 2014 noted that the Turkish economy remains vulnerable to bouts of financial uncertainty and changes in global risk sentiment. Monetary and fiscal policies should be adjusted in order to lower macroeconomic imbalances.

## 9 | Private Property

Property rights and the regulation of the acquisition of private property are in principle well-defined in the Turkish legal system. Further progress was made in aligning legislative provisions with the EU's *acquis communautaire* concerning copyright and related risks and rights. The European Commission noted the presence of additional shortcomings in the field of intellectual-property rights.

Property rights  
9

The time required to establish a company was shortened, and application procedures have been simplified. According to the Turkish treasury, the time to establish a business can be as short as one day if the necessary documentation is already prepared. This is somewhat qualified by the World Bank's 2014 Development Indicators, which suggest an average period of six days and identify six procedures that must be completed.

Corporate-governance principles are not fully implemented. Turkey has an SME strategy in line with the European Charter for Small Enterprises. A common SME definition for all Turkish institutions was introduced, and is in line with the *acquis communautaire*.

The promotion of private economic activities has been one of the AKP government's biggest successes, and is key to the party's widespread support by newly emergent middle-class entrepreneurs, particularly in once neglected areas of the country (the realm of the so-called Anatolian tigers). Private companies are accorded broad legal and institutional safeguards and comprise the most important component of the Turkish economy. Privatization is continuing, albeit at a slower rate than before the crisis. What privatization was carried out was generally consistent with elementary market principles.

Private enterprise  
10

Registering a property and setting up a business in Turkey are both fairly simple. According to the World Bank's 2014 Doing Business Report, the seven procedures that must be completed to incorporate and register a new firm require an average of seven days. However, the European Commission's report of 2014 also noted that obtaining planning permission to erect buildings can be a slow, cumbersome and expensive process.

## 10 | Welfare Regime

Turkish labor law has yet to be aligned with EU standards. Although unregistered unemployment has fallen to 33.6% of the whole, great differences based on sector, employment status and gender continue to exist. Subcontracted workers often face poor working conditions, unjustified dismissals and difficulties in joining trade unions. Health-and-safety regulations are often poorly implemented, a fact brought to public attention through the accident in the Soma mine in 2014.

The first national employment strategy was adopted during the period under review, containing ambitious employment targets. Labor-market participation rates (75.6%) and employment rates (69.5%) among males are comparable to conditions within the European Union, while those for females (33.2% and 29.6% respectively) are significantly lower. The percentage of young people neither in employment nor education, while falling, is still high at 25.5%.

The social-security system reported large deficits due to high pension and health care expenditures. This situation could be remedied by higher employment rates among women and youth, and by reducing the share of undeclared work. The health care system in general functions well, providing largely accessible and almost universal coverage; yet differences still exist in different regions of the country. The country lacks a long-term care system that covers children and people with disabilities. Public expenditure on health rose slightly from 4.5% to 4.7% of GDP in the 2012 – 2013 period.

Life expectancy at birth increased to 74.9 years in 2013, up from 74.5 years in 2012. All in all, Turkey has made progress in the field of social safety nets, but the continued existence of an informal sector still gives rise for concern.

The 2010 European Commission noted some progress in the field of equal opportunity. Achieving substantive equality between men and women was part of constitutional reforms approved in September 2010. However, despite considerable activity by the government and parliament, women's employment and labor-force participation rates remain lower than those in all EU states, and among the lowest of all OECD countries.

The literacy rate is high, but still considerably lower for women (91.6%) than for men (98.3%). Gender differences in primary/secondary/tertiary enrollment continue to exist (female-to-male-enrollment rates 98.6%/94.8%/85.2% respectively, with 100.0%/86.1%/69.4% overall enrollment rates).

Social safety nets  
7

Equal opportunity  
7

Women comprise just 30.7% of the total labor force. The European Commission progress report of 2014 noted with disapproval that a large percentage of the female labor force are unpaid workers in agriculture.

Progress has been made in combating discrimination on the basis of racial or ethnic origin, religion or belief, disability, age or sexual orientation, although the current state of affairs still leaves much to be desired. Although written anti-discrimination regulations do exist, members of religious and ethnic minorities continue to be in practice still excluded from becoming civil servants or army officers.

## 11 | Economic Performance

The rapid recovery of the Turkish economy after the crisis of 2001 was due to tight monetary and fiscal policies, as well as to structural reforms. Although the economy was hit hard again by the financial crisis in 2009, recovery was rapid. GDP contracted in 2009, as a consequence of global economic conditions and tighter fiscal policies. Growth rebounded to 9% in 2010 – 2011, but sank to 2.1% in 2012 before recovering to 4.1% in 2013. According to the IMF, the unemployment rate fell gradually to 9.2% in 2012 after reaching a high of 14.0% in 2009; the Turkish Statistical Institute recorded a further decline to 8.8% in the summer of 2014, but the rate had returned to 10.9% by January 2015.

Output strength  
8

Two rating agencies upgraded Turkey's investment rating in 2012 and 2013. However, the country remains dependent on volatile short-term investments to finance its large current account deficit. GDP has grown continuously, reaching €18.4 billion in 2013, up from €56.3 billion in 2011 and €11.9 billion in 2012. This corresponded with GDP per capita of €8,131 in 2013.

After having reached an all-time high of 16.3% in 2012, export growth contracted by 0.2% in 2013 but grew again by 6.8% in 2014. In the same period, imports increased from -0.4% in 2012 to 9% in 2013, yet this was followed by a decline of 0.2% in 2014.

The inflation rate stood at 6.5% in 2011, rose to 8.9% in 2012 and declined to 7.5% in 2013. However, this remains impressively low compared to earlier years and the period under the old Turkish Lira.

The net public-debt-to-GDP ratio has fallen continuously since 2001, when it stood at 92%. In 2012, this reached 44.5%, rising slightly to 44.8% the following year.

Total FDI stock by the end of 2013 was estimated to have reached \$195 billion. The World Bank's 2014 Development Indicators estimated net FDI inflows to amount to 1.6% of GDP, a slight contraction from 1.7% the previous year. Turkey's relatively high current-account deficit, domestic political uncertainty and turmoil within

Turkey's geographic neighborhood leave the economy vulnerable to destabilizing shifts in investor confidence.

The country's current-account deficit rose sharply in the period 2012 to 2013, from \$48.5 billion to \$65.1 billion. This figure is still substantially lower than the \$75.0 billion posted in 2011, not long after having an all-time low of \$12.1 in 2009. Turkey's current-account deficit has been persistently high in recent years, and an occasion for the expression of regular concern by the European Commission. The public debt burden is calculated at 44.8% of GDP, which means that the burden has remained stable since 2006, smaller changes notwithstanding.

The close connection to the IMF and the prospects of becoming an EU member state used to form the main anchors for the Turkish economy. As EU membership is today not the only conceivable long-term goal for the country, it is to be expected that this factor will decrease in importance. It remains to be seen whether strategic economic partnerships with other powers in the region, perhaps Russia and Kazakhstan, will replace extant alliances with the European Union.

## 12 | Sustainability

Turkey has not ratified the Kyoto Protocol and is not party to the Espoo and Aarhus Conventions. It has not transposed the Emissions Trading Directive and related decisions of the European Union.

Environmental  
policy  
4

The EC progress report of 2014 expressed concern that horizontal legislation on the environment passed in late 2013 was not aligned with the EU's Environmental Impact Assessment Directive. Several large infrastructure projects have deliberately been excluded from national environmental impact-assessment (EIA) procedures, notably micro-hydropower plants and the third Bosphorus bridge.

Moderate progress was made in legislation concerning air quality and waste management. The EC also noted with approval legislative advances concerning water quality, specifically in the areas of surface and groundwater monitoring and river basin management strategy. However, in several fields, such as industrial pollution, control and risk management, there was little progress. Turkey's national climate-change action plan also lacks a domestic greenhouse-gas emissions-reduction target.

However, the country's main problem seems to be weakness of enforcement rather than any lack of legislation. As a developing economy, Turkey experiences considerable difficulties in reconciling growth imperatives with protection of the environment, a field in which outside observers have recommended greater efforts. The construction of hydropower plants represents a grave environmental danger in many parts of Anatolia. The planned construction of a third Bosphorus bridge and a new airport in the vicinity of Istanbul endangers the forests to the north of the city,

which are essential for guaranteeing the water supply. A huge new presidential palace was recently erected in the outskirts of Ankara, partly in a natural protected area. The government offered a rather callous response to concerns raised by environmentalists regarding this issue.

The U.N. Education Index of 2013 gave Turkey a score of 0.652. In 2006, the most recent year for which this information is available, Turkey expended 2.9% of GDP on education. According to the World Bank's 2014 World Development Indicators, gross enrollment rates at the primary, secondary and tertiary levels were respectively 100%, 86.1% and 69.4%. The literacy rate has increased considerably to an overall rate of 94.9%; however, there are significant differences in the rates for men (98.3%) and women (91.6%). Inequality also persists with regard to male and female enrollment rates; at the primary, secondary and tertiary levels, female-to-male enrollment rates are respectively 98.6%, 94.8% and 85.2%. It has to be noted, however, that these values constitute a significant improvement in comparison with earlier periods of investigation. The number of applications for the Lifelong Learning and Youth in Action programs, financially assisted by the European Union, has continued to grow, and the number of beneficiaries has reached 70,000. The enrollment rate in pre-school education programs for five-year-old children grew by 2% between 2013 and 2014, and now stands at 42.5%.

Although Turkey is at an advanced stage in implementing the Bologna process for its universities, the EC report of 2014 noted considerable quality differences between the country's 176 universities. Such differences have increased further when compared to the 154 universities that existed during the previous review period. This was attributed partly to the lack of any independent quality-assurance and accreditation agency. In 2014, Turkey joined the EU's Erasmus program.

Regarding research and development, the 2014 EC report noted further progress in the area of science and research. However, the 2014 Innovation Scoreboard accorded the country only the status of a modest innovator, well below the EU average in most fields. The country's 10th development plan, announced in 2013 for the 2014 – 2018 period, seeks to promote science, technology and innovation. The long-term aim of its measures is to turn Turkey into one of the world's top 10 economies by 2023. R&D expenditure is supposed to reach 3% of GDP (in contrast to the present-day rate of 0.9%, which is considerably below the EU average of 2.07%). The number of full-time equivalent (FTE) researchers in the country is forecast to reach 300,000, while FTE researchers in the private business sector are to increase to 180,000. The EC noted that great efforts will be necessary for Turkey to perform successfully in the framework of the EU's Horizon 2020 program, but expressed a certain confidence in the country's ability to meet these challenges.

Education policy /  
R&D

7

# Transformation Management

## I. Level of Difficulty

There are comparatively few structural constraints on governance in Turkey, particularly given that the influence of the armed forces on politics has been nearly eliminated. The strength of the country is certainly its relatively high level of economic development and the presence of a relatively young and well-educated labor force.

Structural  
constraints

5

Infrastructural shortcomings in southeastern and eastern Anatolia represent a considerable problem. Elements of traditional and modern society have proven difficult to reconcile. Deficiencies in the administrative and legal system constitute additional problems. The beginning of the accession negotiations with the EU in October 2005 contributed significantly to the preservation of political and economic stability.

Turkey only has a moderately well-developed tradition of civil society. While civil-society institutions have existed in the past, they have never been able to function apart from the state; indeed, they have most often served to facilitate administration within remote areas where the state was weak, and have also formed important elements of urban administration. This continues to make it difficult to distinguish between official institutions and civil society in Turkey. The attitude of the state and its institutions to civil society is ambiguous. When civil society's institutions are regarded as beneficial, they enjoy considerable attention from the state and are consulted frequently. However, institutions considered to be critical of the state and its policies are regarded as a threat and face serious legal and financial obstructions. Legislation passed in recent years has aggravated the situation for such civil-society institutions. Thus, the situation faced by critical and independent civil-society institutions has deteriorated. This was most visible in the government's unilateral reaction to the Gezi park demonstrations – a development that the European Union has noted with considerable concern.

Civil society  
traditions

5

The heritage of the Ottoman Empire is still significant in present-day Turkey. It is clear that Turkish society contains different groups of every nationality that once made up the Ottoman Empire. According to Article 66 of the Turkish constitution, “everyone bound to the Turkish state through the bond of citizenship is a Turk.” Turkish nationality is thus based on a modern constitutional citizenship, and not on ethnicity. Consequently, Turkishness/Turkdom refers to all citizens of Turkey. Since all Turkish citizens enjoy the same rights and benefits of citizenship, there is no nomenclature of “minority” in Turkey apart from the three minorities recognized by the Treaty of Lausanne (Armenians, Greeks and Jews). The treaty stipulates that such groups in Turkey consist only of non-Muslim communities. However, there are in actuality various different ethnic communities in Turkey, and they are eager to qualify as minorities according to international and European standards.

Hakan Yavuz describes the conflict potential between various groups in Turkish society as follows: “The two main determining factors of recent sociocultural behavior in Turkey are two polarizations along the lines of nationalism and religion. The first is Kurdish vs. Turkish nationalism, the second Islam vs. secularism. Moreover, it should also be pointed out that extreme Turkish nationalists and nationalistic Kemalists are at least as militant and aggressive as their opponents, and the answer to the question ‘who agitates whom’ is by no means a clear one if seen within the framework of a longer historical perspective.”

In today’s Turkey, the struggle between Kemalists and “Islamists” seems to have been more or less decided in favor of the latter group. The Turkish military as the embodiment of Kemalism has been brought under effective civilian (read government) control.

Considerable efforts have been made to bring the conflict between the Turkish state and the Kurds closer to a settlement. At the end of 2009, as prime minister, Erdoğan announced his intention to launch a new initiative for a political solution to the conflict in front of an audience of 400,000 Kurds in Diyarbakir. The announcement was greeted with a mix of approval and doubt with regard to the sincerity of the initiative. At the end of 2010, the Kurdistan Worker’s Party (PKK) announced a ceasefire, and some observers believe it is increasingly changing from a militant movement to a political party. In 2013, the fight against the Turkish state was officially declared to have ended, and by the end of the review period, the PKK had pulled back entirely to Iraq. However, the important role played by Kurdish forces in combating the jihadist Islamic State militia in Syria and Iraq has led to a great upsurge in Kurdish self-confidence. The emergence of a Kurdish national state in the Middle East is by no means impossible; it remains to be seen how these developments will affect Turkey’s Kurds.

The increasingly authoritarian policies pushed by the AKP and its forceful approach in combatting the Gezi park protests in the summer of 2013 attest to a political climate

Conflict intensity  
4



marked by high tension and antagonism. Although the AKP government managed to score a number of impressive successes in the communal and presidential elections of 2014, an atmosphere of conflict persists. The government intends to turn Turkey into a strong regional power able to act as a global player. Opposition groups are highly concerned about the decline in democratic and civil liberties observable in recent years. The increasing introduction of “Islamic morals” in a country once marked by a commitment to secularism threatens the progress made toward liberal democracy. Observations of the government’s behavior in the period under review lead to the conclusion that a democratic political culture in Turkey has yet to emerge.

## II. Management Performance

### 14 | Steering Capability

After coming to power, the AKP government embarked on an impressive reform process in the fields of democracy and human rights. Standards were increasingly aligned to European Union norms, no doubt in order to facilitate Turkey’s EU accession process, which began with the country being given candidate status in 1999. The opening of membership negotiations in 2005 further accelerated this process. The European Commission’s progress reports noted these efforts with approval until about 2012, when the tone of the reports began to change. Since this time, authoritarian measures by the government that have affected regime-critical media and civil society alike have been the subject of increasing criticism.

A change in the priorities of the Turkish government has also been evident in the period under review. Membership in the European Union – the benefits of which continue to be clouded by the consequences of the post-2008 crisis – no longer seems to be the only option for the future. On the one hand, this is due to by Turkish decision-makers’ realization that the hostility of several influential EU member countries makes a Turkish accession to the EU improbable. On the other hand, a strategic reorientation is also evident. Turkey increasingly seems to be determined to become a regional power, with ambitions of becoming a global player. It has sought to cooperate closely with the predominantly Muslim countries of the Middle East. However, these plans are threatened by the severe crisis affecting neighboring countries, particularly Syria and Iraq.

In terms of economic priorities, Turkey is continuing a process of industrialization and third-sector development. However, growth rates have recently slowed down considerably; the main Turkish asset (a comparably cheap labor force) may not be enough to guarantee consistent growth in the future.

Question  
Score

Prioritization  
8

The European Commission Report for 2014 noted that the implementation of several important reform packages had ground to a halt. This is obviously not due to the weakness of the government, which won approval for far-reaching constitutional reforms in the plebiscite of September 2010. Rather, it appears probable that the AKP government, ruling in an increasingly authoritarian style, has intentionally delayed implementation of reforms that might endanger its power. While most of these reforms concerned strictly domestic issues, Turkey still has not implemented the Additional Protocol requiring it to open its harbors and airports to craft from the Republic of Cyprus, which in effect blocks negotiations on issues important to Turkey's EU accession process.

Implementation  
8

Thanks to the AKP majority in parliament, the government can easily pass laws and implement its policies. However, the government often fails to achieve a societal consensus around such policies. One of its strengths, the extension and modernization of infrastructure, marked further milestones during the review period. For example, the Marmaray rail tunnel under the Bosphorus was opened on 29 October 2013, and the high-speed Pendik (Istanbul) – Ankara line was inaugurated on 25 July 2014.

In Turkey, the government holds primary decision-making power, and has shown itself to be somewhat unwilling to delegate its power. As a consequence of this old-fashioned attitude, the majority of the political elite still shows little willingness and ability to learn. Accepting failures is the first condition of learning from such failure.

Policy learning  
7

However, in the recent past Turkish decision-makers have shown considerable readiness to learn if it suits their interests. This has been true of former prime minister, now President Erdoğan, as well as of former foreign minister and now Prime Minister Davutoğlu and former President Gül. This learning process also influenced the plans of leading Turkish politicians for the future of the country. As EU membership seems an increasingly elusive goal despite Turkey's candidate status and ongoing accession negotiations, a reorientation of Turkey's strategic plans toward becoming a regional great power is observable. In combination with the increasingly authoritarian style of government adopted by the AKP, a closer cooperation with other authoritarian countries such as Russia has also been evident.

## 15 | Resource Efficiency

The allocation and efficient use of resources remains one of the fundamental shortcomings of Turkey's public sector. Turkey's public sector is vast, with many employees lacking sufficient qualifications and capabilities for their jobs. It is widely believed that political considerations rather than merit are responsible for securing employment in the public sector. The public sector employs about 13.5% of all employees in Turkey. There have been some efforts made and discussions launched regarding modernization of the state's administrative capacity of the state, but no comprehensive reform or decentralization processes has been planned.

With respect to budgetary efficiency, the deviation of actual expenditures from planned outlays stayed within acceptable margins during the review period. Actual deficits were lowered than initial forecasts; the central government's 2013 deficit target of 2.2% was revised to 1.2%, which in 2014 was estimated to have been met. However, some individual budgetary items did post spending overruns.

The country's debt-to-GDP increased slightly to 44.8% in 2013, up from 44.5% in 2012.

A condition of effective one-party government has contributed to stable governance since 2002. The party's leaders coordinate central governmental issues with local administrative issues. A harmonious performance at all levels of management has produced political stability. Given the far-reaching nature of the government's latest actions (reducing the army's competences, struggling with the Gülen movement, the mass firings of prosecutors and police personnel, advancing the Kurdish peace question, the harsh crackdowns on the Gezi park protests), it seems remarkable that no serious internal quarrels have come to light. However, in the midst of the December 2013 corruption scandal, Minister of Environment Erdoğan Bayraktar initially rejected his dismissal by Recep Tayyip Erdoğan, and demanded instead the resignation of the prime minister himself. Former Interior Minister Idris Naim Sahin cancelled his AKP membership.

However, the AKP managed to extend its grip on power in the communal elections of 2014. The ability of long-serving Prime Minister Erdoğan to secure a victory in the first round of the presidential elections also attested to the strength of the AKP. Thus, despite the tense political climate, the government was able to show success on a large number of important issues.

Efficient use of  
assets

6

Policy  
coordination

9

Corruption remains a major issue in Turkey. In late 2013, this even affected high government echelons. However, investigations into this issue – which was particularly problematic for the AKP, as it had announced a rigid anti-corruption stance – were in effect rendered impossible by authoritarian measures imposed on regime-critical media and criminal investigators. This raises concerns regarding the credibility of the government’s strategy for promoting transparency and fighting corruption, as pursued since 2010. On the other hand, Turkey has implemented a number of recommendations made by the Council of Europe’s Group of States against Corruption (GRECO) since 2010.

Anti-corruption  
policy

5

Training of government employees with the aim of propagating professional ethics has continued. However, the annual report of the European Commission in 2014 noted that no concrete steps had been taken to remedy deficiencies in the political-party financing system. Likewise, no progress has been evident with regard to the issue of immunity for members of parliament. Neither parliamentarians nor civil-society organizations have been provided with information detailing the outcome of the government’s anti-corruption strategy. The European Commission has recommended that Turkey focus more strongly on fighting corruption, and that it involve civil society more closely in this important issue.

## 16 | Consensus-Building

All major actors in Turkey agree on the desirability of democracy. This consensus is due to the country’s long history (since 1946) of multiparty democracy. However, questions have arisen as to the exact character of the “democracy” considered desirable by the ruling AKP party. Domestic and foreign observers have noted that the AKP’s leaders and supporters seem to feel that making Turkey a strong regional or even global power is more important than offering support for formal democracy or civil liberties. Authoritarian policies adopted by the government in recent years have done nothing to ease domestic tensions on this issue.

Consensus on goals

8

There is also broad consensus within Turkey on the desirability of a market economy. However, considerable conflict exists regarding the details of economic organization. Privatization campaigns and neoliberal labor laws have meant that Turkey’s economic boom has come at considerable social cost. A large part of the Turkish labor force still works for comparably low wages, and has been unable to partake in the advantages brought about by economic growth.

After the military was brought under firm civilian control following the Ergenekon case in 2009, there no longer exists any anti-democratic veto powers able to serve as a significant brake on government policy. During the period under review, the government successfully enacted reforms and constitutional changes. Concern has been expressed about the increasingly authoritarian policies adopted by the AKP government.

Anti-democratic  
actors

8

The cleavages between religious, conservative, traditional and modern groups hold the potential for conflict that threatens to escalate unless the government takes appropriate conflict-management measures. The government has failed to serve as effective mediator in a number of recent conflicts, a fact particularly evident during the 2013 Gezi park protests in Istanbul. The country's political climate is very tense, with government supporters pitted against the defenders of the "old" Kemalist system and groups advocating more democracy and civil liberties. The wearing of headscarves by women in public buildings (including universities) and state regulations on the production, advertising and consumption of alcoholic beverages are examples of issues that split the country ideologically. In terms of ethnic conflicts, the government has attempted to depolarize the conflict between Turkish and Kurdish groups, and has repeatedly emphasized the necessity of a political solution. These measures have met with some success, as the PKK announced a ceasefire in 2010 and indicated its willingness to contribute to a political solution. The position of non-Muslim minorities improved slightly during the period under review. In late 2014, the government gave its permission for the construction of a Christian church (a rarity since the foundation of the Turkish Republic). However, non-Muslim groups within the country as well as foreign observers note that the issues of non-Muslim and non-Sunni groups and their cultural and religious rights need to be addressed in a more satisfactory manner.

Cleavage /  
conflict  
management

6

Officially, the government claims to regard civil society as an integral part of participatory democracy. In practice, civil-society institutions continue to face severe difficulties. The fates of these institutions, particularly of professional and economic interest associations, frequently depend on whether they are considered by the government to be useful. Legislation affecting civil-society institutions has become more restrictive in recent years, reducing their capacity to hold an increasingly authoritarian government to account.

Civil society  
participation

5

Despite several contradictory announcements by the government, there has been little practical progress in resolving two long-standing conflicts. The AKP government has not been able to deal satisfactorily with the issue of the Armenian genocide during World War I, although – due to changes in public opinion and frequent calls for more attention to be paid to the issue – it has displayed greater openness than did its predecessors. The visit of then-President Abdullah Gül to Armenia in 2008 did not

Reconciliation

5

lead to a normalization of relations between the two countries. Turkish nationalists continue to be reluctant to admit guilt or responsibility.

Little progress has been evident in settling the conflict with the Kurds both within and outside Turkey. In 2009, as prime minister, Erdoğan announced a new initiative with the ostensible goal of reaching a settlement. Few tangible acts have followed this announcement, although the Turkish government has been more open to the use of the Kurdish language in education, broadcast and publishing settings than in the past. Turkey also continues to cooperate with the Kurdistan Regional Government in Northern Iraq, partly out of an interest in maintaining a certain degree of control over any attempts to establish an independent Kurdish state.

## 17 | International Cooperation

The multidimensional character of Turkish foreign policy expresses itself in and is best reflected by the country's membership in a wide range of leading international and regional organizations such as the United Nations, the Council of Europe, the North Atlantic Treaty Organization (NATO), the Organization for Economic Cooperation and Development (OECD), the Organization for Security and Cooperation in Europe (OSCE), the World Trade Organization (WTO), the Organization of the Islamic Conference (OIC), the Black Sea Economic Cooperation Organization (BSEC), the Economic Cooperation Organization (ECO) and the Developing 8 (D-8). Turkey has been an EU candidate country since October 2005, and benefits from pre-accession funds and support. Otherwise, the support Turkey seeks from these organizations is generally rather limited; the Council of Europe, for instance, has repeatedly criticized Turkey for human-rights abuses, but the government has never done more than the minimum necessary in response. Criticism from the European Union, though coming with greater frequency, increasingly seems to be neglected by Turkish policymakers.

Binational business initiatives, often conducted by Turks who formerly lived abroad, are common and afford a significant degree of knowledge transfer, for instance in the area of alternative-energy production. However, the government signed deals with Russia (2010) and Japan (2013) to build the country's first two nuclear-power plants, which are expected to be active between 2020 and 2023. After some initial hesitation, Turkey requested the support of international donors such as the United Nations High Commissioner for Refugees (UNHCR) in dealing with the Syrian refugee crisis.

Effective use of  
support  
9

For the most part, the international community considers the Turkish government to be a credible and reliable partner, although some suspicions remain of an alleged hidden AKP agenda to turn Turkey from a modern, secular, democratic state into an Islamic state.

Credibility  
7

During the period under review, there was considerable concern among Kurdish forces that Turkey was giving at least tacit support to the activities of the Islamic State (IS) terror militia. The antagonistic stance taken by IS toward the Kurds, as well as toward Shi'i powers, were cited as motivation for this support. At the time of writing, these accusations had not been substantiated.

Turkey adopted a so-called zero-problems strategy underlying its foreign policy in 2010. In doing so, it remained committed to the foreign-policy strategy outlined by Mustafa Kemal Atatürk: "Peace at Home, Peace with the World." In the modern version, the country would seek to have "zero problems" particularly with its closest neighbors.

Regional  
cooperation  
6

However, Turkey has since become involved in a number of conflicts, making it difficult to achieve a condition of zero problems.

Most urgent is the new conflict that has erupted with and over Syria. Shortly after the outbreak of the Syrian Civil War in 2011, the Turkish government announced its support for the forces opposing incumbent Syrian President Bashar al-Assad. In doing so, it also gave support to radical Sunni Islamist groups, a move that led to considerable aggravations with Turkey's western allies. One of them, the so-called Islamic State (IS), has in fact managed to establish control over roughly one-third of the state territories of Iraq and Syria. Western and Middle Eastern powers have subsequently intervened in the conflict through air support and training missions for the mainly Kurdish forces opposing the Islamic State. In early 2015, IS's hold over the Kurdish city of Kobane (Arabic: 'Ain al-Arab) was broken. The Turkish government was accused of putting obstacles in the way of Kurdish forces by impeding the transport of military equipment and fighters over Turkish territory. Kurdish forces have also accused Turkey of giving tacit support to IS by allowing wounded IS fighters to obtain medical treatment in Turkey. As a Sunni Muslim power with an increasing orientation toward the Middle East, Turkey seems intent upon the construction of a Sunni alliance involving Turkey, Saudi Arabia and perhaps a Sunni-dominated Syrian government after the expected fall from power of the Shi'i al-Assad. The country is thus involved in a conflict with the so-called Shi'i axis, which comprises Iran, al-Assad and the Lebanese Hezbollah.

Turkey has been engaged in one long-standing conflict with Armenia (over Turkey's involvement in the Armenian genocide during World War I), another with the Republic of Cyprus (Turkey continues to occupy the northern third of the island), and a third with Greece. The discovery of natural-gas deposits in Cypriot territorial waters

has given rise to a new conflict: Turkey, the only country to recognize the Turkish Republic of North Cyprus, has claimed it is entitled to conduct its own explorations, over the protests of the government of the Republic of Cyprus.

Turkey's plans to develop its southeastern Anatolian provinces through the so-called Southeastern Anatolia Project (Güney Anadolu Projesi, GAP) involves the construction of a large number of huge dams. This will result in significant reductions in the amount of water in the Euphrates and Tigris rivers, on which Syria and Iraq as Turkey's downstream neighbors depend. In general, relations between Turkey and its Middle Eastern neighbors have soured as a consequence. The new foreign policy outlined by then foreign minister and now Prime Minister Ahmet Davutoğlu and based on "zero-problems", was intended to overcome these tensions, but must now be regarded as a failure.

Turkey's orientation toward and ultimately accession process to the European Union started as early as the late 1950s, and has strongly influenced Turkish foreign policy ever since. However, Turkey has recently begun to extend its economic ties beyond to the Balkans, the Middle East, the Caucasus and Central Asia. Its official vision for the 21st century is to become both a fully integrated member of the European Union (although it appears doubtful that this is still regarded as a top priority) and a leading country in the Middle East. Turkey participates in the activities of the Organization of American States, the Association of Caribbean States and the African Union as a permanent observer. It has sought to establish similar links to the League of Arab States and the Association of South East Asian Nations.

The Turkish government's shift from a pro-European secular policy toward a focus on establishing good relations with the predominantly Muslim countries of the Middle East has caused additional delays in the slow and cumbersome EU accession process. In addition, Turkey's relations with Israel are at a low point, with Turkey taking its most pro-Palestinian stance to date.

In the economic field, Turkey has established free-trade agreements with Jordan, and continues to cooperate with the countries of the South Caucasus and Central Asia, including through the formation of a strategic-partnership agreement with Kazakhstan in 2010. It is clearly interested in becoming a regional great power, and has the potential to influence the reconstruction of the Middle East to a great degree should the present conflicts be resolved. However, the lack of progress with regard to conflict resolution in many fields remains a cause for concern.



## Strategic Outlook

Turkey has changed in recent years. Recently regarded as a positive example of transformation in part due to its prospects of EU membership, the tendency in recent years toward the concentration of ever-greater powers in government hands, to the detriment of regime-critical media and civil society, has threatened freedom and democracy. The president holds more constitutional powers than ever, while the 10% minimum vote threshold required by parties to enter parliament has greatly hampered opportunities to establish a functional organized opposition. Legal regulations affecting the media and civil-society organizations have been tightened to the point that the viability of societal forces critical of the government is now in doubt. The Gezi park protests of 2013 were met with excessive force by the security organs.

In terms of foreign policy, it has become obvious that in spite of all claims to the contrary, EU membership – which was not strongly supported within the Turkish population even in previous years – is by no means the only option the government and large segments of the population envisage for the future. There is a strong body of opinion that instead sees Turkey becoming a regional great power cooperating closely with the region's Muslim countries as well as with Russia. This would in effect represent a turn away from the West and from Europe, and would in fact substantially alter the political and social course set by Atatürk and followed by successive Turkish governments since.

In pursuit of this new political course, Turkey faces both internal and external obstacles. Within the country, income disparities between rural and urban regions, particularly in the eastern and southeastern regions of the country, are and will remain a source of social problems for some time. The political climate today is marked by antagonisms. In the past, political tensions were primarily evident between supporters of the AKP government on the one hand and partisans of the “old” Kemalist system and elites on the other. By contrast, the front lines today may be identified as being drawn between AKP supporters, who regard President Erdoğan as the strong leader they suppose the country to need, and those groups who remain advocates of greater liberalism, civil rights and social justice on the other.

Turkey's external problems originate primarily with the deteriorating situation in the Middle East. The Syrian civil war, which broke out in 2011, continues to rage. An estimated two million Syrian refugees are believed to remain in Turkey. The continued expansion of the Islamic State terror militia has further disrupted the region. The fact that Kurdish armed forces have proven the only credible and effective opposition to this threat – managing with considerable support by Western and Middle Eastern powers to inflict some serious defeats on IS in early 2015 – means that the likelihood of a Kurdish national state emerging in the Middle East has increased substantially. Given the long-term conflicts between the Turkish state and the Kurds, this poses a grave problem for Turkey. As a large, militarily and economically fairly strong state, Turkey will be able to play an important role in the region in the years to come. It remains to be seen whether the country's remaining structural weaknesses will allow it to profit from future developments.