

THE POLITICAL ECONOMY OF TURKEY'S JUSTICE AND DEVELOPMENT PARTY

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The extraordinary electoral success of the Justice and Development Party (the JDP) in the November 2002 general elections, following a decade of political instability under successive coalition governments, represented a major turning point in Turkey's political and economic trajectory. The present study aims to explore the economic bases of this success and three interrelated hypotheses are advanced for this purpose. First, the party has been extremely successful in constituting a cross-class electoral alliance incorporating into its orbit both winners and losers from the neo-liberal globalization process. Business support, notably from small and medium-sized business units falling under the umbrella of a major nation-wide business association, constitutes a crucial element of the JDP's electoral support. Second, the strong track record of the JDP'S predecessors, the Welfare and the Virtue Parties (the WP and The VP respectively) at the level of the municipal governments is another element of key importance. Third, the failures of the conventional or established parties of either the center-right or the center-left in achieving sustained and equitable growth, avoiding costly financial crises and tackling the problem of pervasive corruption have also paved the way for the party's unprecedented electoral success in the recent era. In spite of its Islamist roots and a natural association in terms of its leadership and core bases of political support with the Welfare and the Virtue Parties, the JDP has nevertheless managed to present itself as a new face with a claim to the very center of

Turkish politics. Consequently, it has been able to construct a much broader electoral coalition judged by the standards of two major predecessors.

Whilst explaining the rise of the JDP is an interesting issue in itself, an even more interesting question is whether the party will be able to consolidate its power and establish itself as a major hegemonic force in Turkish politics, at least during the next decade. Clearly, an adequate answer to this question requires a systematic and critical analysis of the JDP's government's performance, notably in the economic realm. A second major objective of the study, therefore, is to examine the performance of the JDP in office during a short but unique period in terms of the intensity of political and economic reforms. Our assessment in this context is quite favorable though with certain reservations. Although it might be early to provide a full-scale assessment, nevertheless, the evidence to date suggests that the JDP government's initiatives in the interrelated realms of the economy, the polity and foreign policy have been rather successful. In the purely, economic realm, the JDP government's broad commitment to the IMF program helped the process of economic recovery from the deep economic crisis that Turkey experienced in 2000 and 2001 with inflation rates falling to their lowest level since the early 1970s. Furthermore, the government's strong commitment to the goal of EU membership and the associated reform agenda, both on the economic and democratization fronts, helped to inspire confidence among domestic and foreign investors.

Hence, for the first time for many years, Turkey found itself in the midst of a virtuous cycle with economic and political reforms as well as key foreign policy initiatives feeding onto one another, helping to produce a favorable environment for economic growth. Given these favorable developments, our central contention is that it is unlikely that the JDP will experience a major dislocation of its power base for the foreseeable future. Only major setbacks such as another major financial crisis or a dramatically negative response by the EU to Turkish membership aspirations, such as

closing the full-membership option altogether-which, in turn, may be translated to a violent negative reaction in financial markets precipitating a possible economic crisis-could seriously undermine the popularity and the electoral fortunes of the JDP. Whilst, the possibility of such an extremely negative scenario cannot be ruled out completely, at the time when this essay is written the prospects for such an outcome appear to be rather remote.¹ What seems to be more likely is the realization of a benign scenario whereby positive signals from the EU contributing to the process of economic and political reforms which, if successful, are likely to consolidate the JDP's power base even further. There is no doubt that, as we shall discuss in some detail, the JDP will encounter a number of serious challenges to its economic, political and foreign policy agendas over the course of the next decade. Our prediction, nevertheless, is that given the achievements of the party so far, these serious challenges are unlikely to cause a dramatic loss of popularity and electoral support leading towards its possible marginalization on the Turkish political scene.

The Underlying Political Economy of the JDP's Electoral Success

There is no doubt that the economic crisis, the deepest crisis that Turkey experienced in its recent history with negative repercussions on all segments of Turkish society, rich and poor, educated and non-educated, urban and rural, had a devastating impact on the electoral fortunes of established political parties in Turkey.² Clearly, the three parties that experienced major setbacks with a dramatic collapse in their electoral support were the parties that made up the coalition government that came into office following the April 1999 elections and were ironically though somewhat unintentionally responsible for some of the major economic and political reforms that Turkey experienced in recent years. The leading member of the coalition government, the Democratic Left Party (the DLP) led by Bülent Ecevit experienced

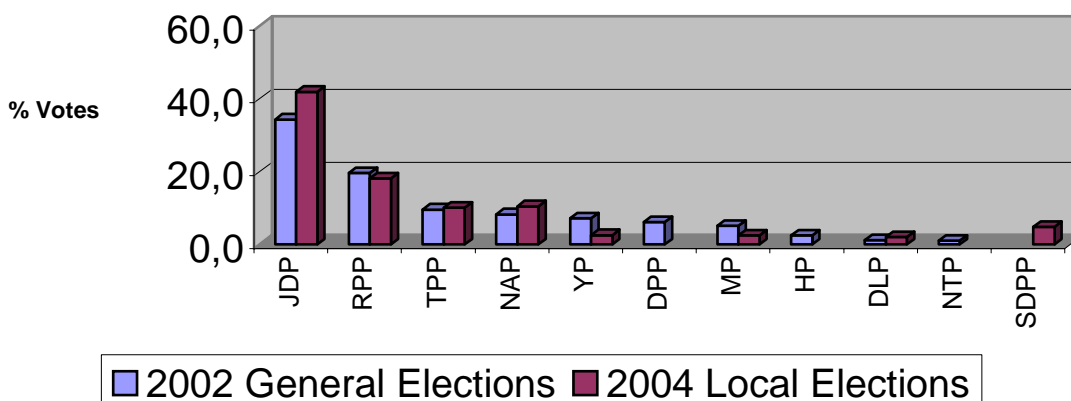
a total collapse. Similarly, the Nationalist Action Party (the NAP) and the Motherland Party (the MP) also experienced dramatic declines in their bases of electoral support. Indeed, none of the three members of the coalition government could even pass the ten percent threshold in the November 2002 elections which meant that they were effectively excluded from participation in parliamentary politics after 1999. Yet, another political party that was not in government in the 1999-2002 era, but nevertheless a major political force throughout the 1990s, namely the True Path Party (the TPP) also experienced a deep setback and was relegated to the sidelines. Clearly, large segments of the Turkish electorate displayed a deep dissatisfaction with established political parties on both the right and the left of the political spectrum. Center-left parties were penalized for failing to protect the interests of the poor and the underprivileged. The center right parties suffered, in addition, from their association with widespread corruption.

Hence, the JDP as a new force in Turkish politics capitalized on the failures of conventional political parties. The JDP managed to present itself to wide segments of the Turkish society as a progressive force that could come to terms with the positive aspect of economic globalization based on active participation and competition in the global market. At the same time, the JDP's approach involved a serious concern with social justice issues involving both the distribution of material benefits as well as the extension of individual rights and freedoms. Compared to its rivals, the party appeared to be forward-looking and reformist in its approach, aiming to come to grips with the forces of globalization meaning capitalizing on its material benefits whilst aiming to correct some of its negative consequences at the same time. Indeed, in certain respects, the JDP appeared to be more of a European style social democratic party of the third way, compared to its main rival in the November 2002 elections, the Republican People's Party (the RPP). With its emphasis on the benefits of the market, the need to reform the state in the direction of a post-developmental

regulatory state, its concern with social justice issues, its commitment to multiculturalism and extension of religious freedoms and its trans-nationalism as exemplified by its commitment to EU membership and the associated set of reforms more than any other political party in recent Turkish society, the JDP projected the image of a political party of the third way. In contrast, the RPP; appeared a much more inward-oriented and in certain respects far more conservative judged by the standards of European style third way politics.³

The RPP has capitalized on the benefit of the doubt of not being in government or even in Parliament during the 1999-2002 era. In some ways, in spite of its long history, it was also a partially new face that the voters could turn to in the face of their deep dissatisfaction with the principal parties in office. Nevertheless, the RPP leadership, in spite of the recruitment of the former Minister of State for the Economy, Kemal Derviş, failed to overcome its heavily nationalistic, statist and inward-oriented orientation. Furthermore, the party's single-minded adherence to a rather strict and rigid version of secularism helped to alienate it from important segments of the Turkish society that favored an extension of religious rights and freedoms within the boundaries of a secular state. Hence, the traditionalism, the lack of adaptability and the relative lack of concern of the RPP with economic issues constituted some of the key factors that clearly helped to enhance the JDP's electoral fortunes, with the gap between the parties widening even further in the municipal elections of November 2004 (Graph 1). Stated somewhat differently, the JDP has clearly benefited from the absence of a powerful and vocal opposition and this very absence of a genuine alternative from either the right or the left of the political spectrum with a capacity to adopt itself to changing circumstances and the new parameters within which Turkish politics operates may help to accentuate the dominance of the JDP even further during the course of the next few years.⁴

Table 1: Electoral Performance of Political Parties in 2002 and 2004



Sources: <http://www.secim2002.com>, <http://www.secim2004.com> and <http://www.ntvmsnbc.com>

At a deeper level, any analysis of the JDP's electoral success also has to take into account of the party's Islamist roots in the sense that the party whilst presenting itself as a new political movement with a claim to the very center of Turkish politics also capitalized on some of the inherent strengths as well as avoiding the mistakes made by its predecessors the WP and the VP. The main lesson that the JDP learned from the record of its predecessors involved the need to construct a broad based inter-class alliance. This alliance encompassed the more dynamic and prosperous segments of society benefiting from the globalization process in material terms as well as the more disadvantaged and underprivileged sections of society both in rural areas as well on the margins of major metropolitan areas, groups that clearly failed to participate effectively and benefit from the operation of the global market. Indeed, the active support of small and medium sized business units, notably in the rising Anatolian cities, collected under the umbrella organization, the MÜSİAD (The Independent Industrialists and Businessmen's Association) was a key element in the rise of the

Welfare Party in the mid-1990s.⁵ The support of small and medium sized enterprises continued to be a crucial element in the rise of the JDP as well. It is ironic that center-left parties in Turkey have failed to construct the broad inter-class alliances needed for electoral success which involved mobilizing small and medium sized business as a key component of the broad electoral coalition.⁶ From a political economy perspective, one of the crucial differences between the JDP and its rivals is that the former is able to cut across class cleavages and appeal to diverse segments of Turkish society using religion as an effective mechanism of mutual trust and bondage whereas the latter are able to appeal only certain segments of the Turkish society that are either the winners or the losers of the globalization process. The fact that winners of globalization are part of the broad electoral coalition also explains, in part, why Islamist politics in Turkey has been evolving in a moderate direction in recent years since these groups, far more than the poor and underprivileged strata of society, have a lot to lose from open confrontation with the secular establishment and the state elites.

Yet another positive legacy that the JDP derived from its predecessors was the performance of local governments. The broad evidence suggests that the municipalities run by Islamist political parties were more efficient and less corrupt than their counterparts run by other political parties throughout the 1990s.⁷ Islamists, and more recently the JDP with its Islamist roots, displayed a high degree of mobilization at the local level and also capitalized on the dense networks of informal relations that helped to mobilize the local community in addressing the problems of poverty and deprivation. In retrospect, the established parties lacked the kind of mobilization and supporting network of informal relations that would enable them to challenge the JDP in this regard.

In addition, Islamists in Turkey have experienced a serious learning process in recent years which effectively taught them to avoid some of the mistakes of the

previous era. This learning process became particularly pronounced following “The February 28 process “a post-modern coup” that effectively marked the end of the coalition government led by the Welfare Party and its leader, Necmettin Erbakan, in 1997. It became increasingly clear that a party that failed to respect the principles of secularism would have no chance of sustained and effective participation in the Turkish political system given its constitutional boundaries. Hence, this learning process was extremely important in pushing Islamists in Turkey towards a moderate, centrist direction. There was a learning process in the sense that hard-line Islamist politics would appeal only to a small segment of the Turkish population. Moderation was, therefore, the key towards the construction of a mass party of broad electoral support.

A parallel factor that also helped in this respect was Turkey’s deepening relations with the European Union. Islamists in Turkey increasingly recognized that promoting relations with the EU would be to their advantage in the sense that it would help to protect themselves against the hyper-secularism of the state elites and would create a congenial environment for the promotion of religious freedoms. At the same time, closer relations with the EU placed constraints on the Islamists themselves and clearly eliminated any option of political participation without respecting the principle of secularism, broadly interpreted, in the first place. Clearly, the opportunity space or the room for maneuvering provided by the EU has been well recognized and capitalized upon by the JDP leadership in the recent era. The JDP leadership has also seen the purely economic benefits of Turkey’s closer integration with the EU. Not surprisingly, therefore, the JDP has established itself as a vocal and active member of the pro-EU coalition in Turkey, a coalition in which civil society organizations led by key business associations such as the representative of big business in Turkey, TÜSİAD (The Turkish Industrialists and Businessmen’s Association) and MÜSİAD are also key elements. In retrospect, it is fair to say that the learning process that the

Islamist have gone through during the past few decade has been far more rapid and profound than their counterparts in mainstream parties such as the RPP.

In the process of moving to the center, the JDP has tried to maintain its traditional Islamist core but has also tried to widen its electoral base to include broad segments of Turkish society which are conservative or religious in their orientation but have not been part of hard-line Islamist politics.⁸ This broad-based character of the party is clearly projected from the electoral map that emerged after the November 2002 and March 2004 elections which marks a sharp contrast with the early versions of Islamist politics in Turkey that was primarily a regional, inner Anatolian phenomenon (Graph 2) It is fair to say that in terms of its moderate politics and its broad-based appeal the current profile of the JDP resembles more the Menderes style Democratic Party of the 1950s or the Özal style Motherland Party of the 1980s than the more narrowly situated Welfare Party led by Erbakan in the mid-1990s.

Graph 1: The Extent of JDP's Electoral Coalition Compared with its Predecessors.

1A. The Welfare Party in 1995



1B. The Virtue Party in 1999.



1C. The JDP in 2002.



1D. The JDP in 2004.



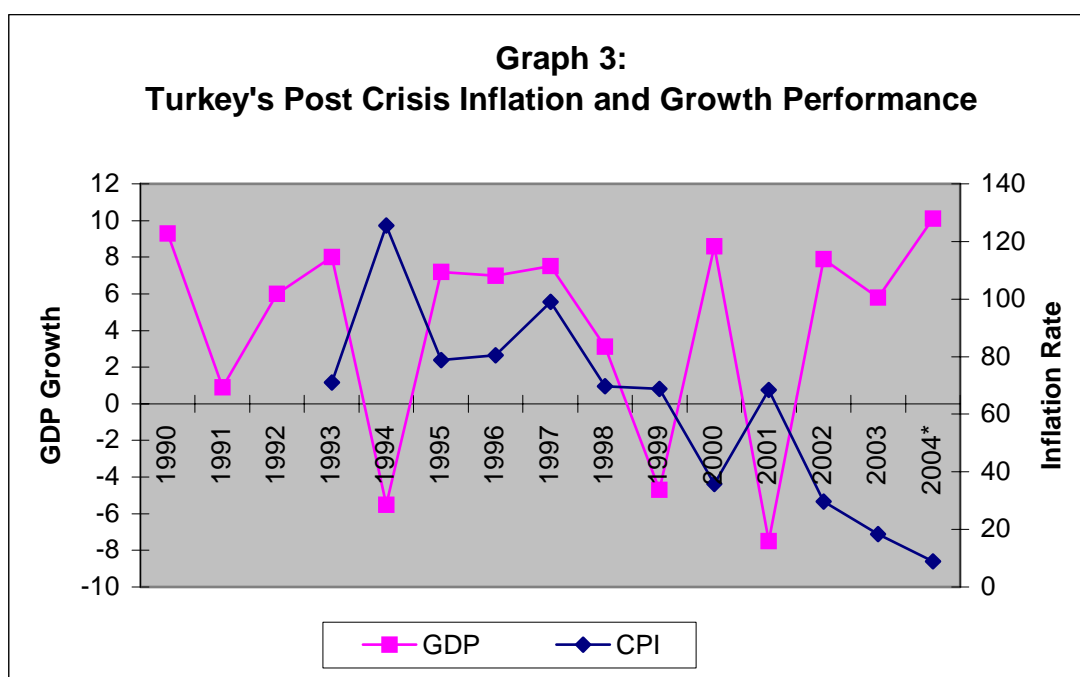
Source: <http://www.secimedogru.net>, <http://www.secimsonucu.com> and <http://www.lib.utexas.edu/maps/turkey.html>

The Performance of the JDP Government on the Economic Front: A Broad Appraisal

The initial reactions to the landslide electoral victory of the JDP among key segments of the domestic business community and international financial circles were one of serious apprehension. Arguably, the fact that Turkey for the first time for a period of over a decade had a single party government with a comfortable parliamentary majority was identified as a factor that could contribute towards economic and political stability. Yet, the potential benefits of a single party government were more than counterbalanced by the fear that given its broad electoral base, the government was likely to deviate from the IMF program and indulge in another wave of populist spending that would bring the country once more to the verge of yet another major macroeconomic crises. At a deeper level, there was also the fear that the political agenda of the JDP in the name of extending religious freedoms would inevitably create a head on clash with the secular establishment and notably with the military which, in turn, would be a major source of political and economic instability at a critical juncture of the post-crisis recovery process.

After a few months in office, however, it was quite clear that the fears and misgivings concerning the JDP government were rather exaggerated and lacked a serious basis. The government, by and large, displayed a strong commitment to the basic principles of fiscal stabilization and structural reforms embodied in the IMF program. Judged in terms of broad macroeconomic indicators, the JDP's performance could be classified as a significant success. Over the period of the past two years economic growth has been stronger than even the most optimistic forecasts and inflation lower than IMF-agreed end of the year targets. The degree of commitment displayed by the government to the program helped to restore investor confidence.

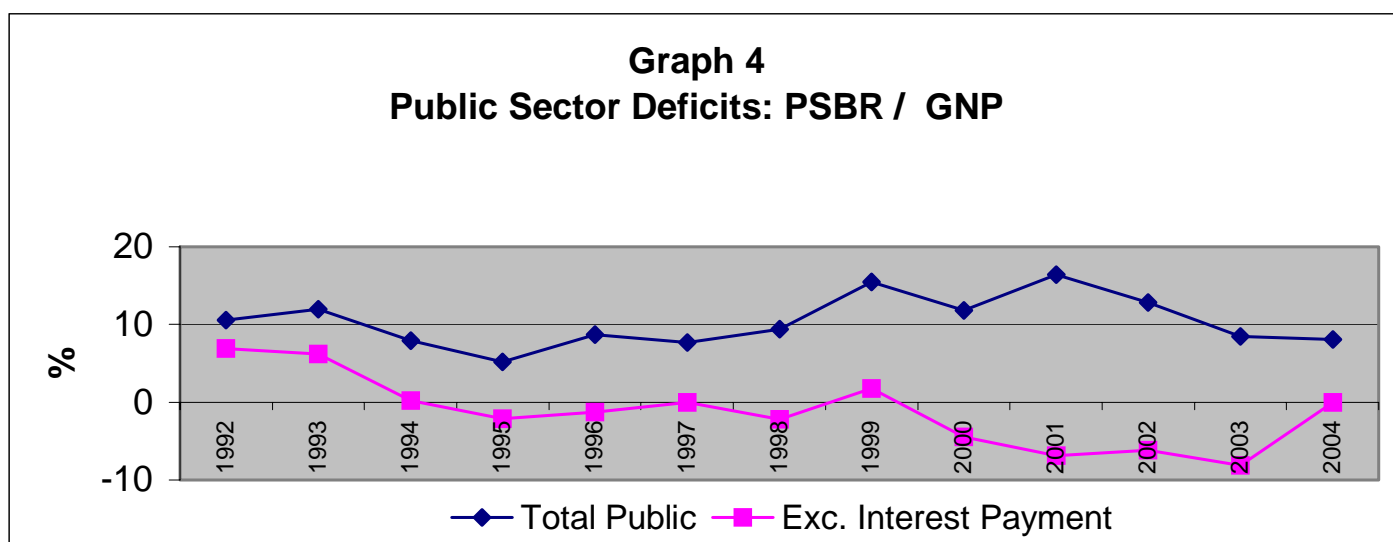
Indeed, during the first quarter of 2004, the Turkish economy recorded an astonishing growth of 12 percent in real GNP which could, in part, be interpreted as a concrete sign of rising investor confidence (Graph 3).



Note: CPI refers to the inflation rate based on the consumer price index.
Source: <http://www.dpt.gov.tr> and <http://www.treasury.gov.tr>

At the heart of this process of rapid recovery was a single-minded commitment to fiscal discipline. This commitment made a sharp contrast with the experience of the Turkish economy since the late 1980s during which serious fiscal instability has been associated with a major domestic and external debt burden and successive financial crises. In spite of a serious interest burden, the government has been able to accomplish and sustain a surplus in the primary balance in line with the IMF targets (graph 4 on government's Fiscal performance). In addition, the government has been able to continue with key institutional reforms such as banking sector regulation. Consequently, most commentators would argue that by the middle of 2004 the Turkish banking and financial system is far better regulated than in the past and the Turkish economy is more resilient and robust to possible domestic and external shocks.⁹ Indeed, the frequent reports published on the Turkish economy are quite

unambiguous in highlighting the broad macroeconomic achievements of the government to date, whilst at the same pointing towards some of the dangers and challenges that await the Turkish economy given the serious debt burden that the economy has inherited from the previous decades.¹⁰



Note: PSBR refers to public sector borrowing requirement.

Sources: <http://www.treasury.gov.tr>

In addition to its achievements on the macroeconomic front, the JDP government has been making a concerted effort for the first time to deal with the pervasive problem of corruption that has been a major negative feature of the Turkish economy during the neo-liberal era. The problem has been attacked through an improvement of the legal system as well as by taking legal action against key businessmen and politicians who are accused of having been involved in corruption during the recent era. Clearly, it is too early to judge whether this concerted effort against corruption will generate widespread rather isolated cases of success. Nevertheless, it is fair to argue that the process dealing with the problem on a large scale has effectively been initiated by the JDP at a time when the country has been experiencing a process of rapid “Europeanization” with an emphasis on democratization and the rule of law as the central elements of this process. Clearly, if

the attack on corruption is successful this will help to generate resources that could be used to finance education and other forms of social spending which are desperately needed by wide segments of the population.

In the domain of social policy, a clear gap exists between what the government has promised and what it has been able to deliver so far. Part of the explanation of this lies in the severe fiscal constraint that any incumbent government faces in a debt-ridden economy which is undergoing through a process of massive fiscal austerity. Nevertheless, there is evidence that the government has been developing specific programs within the available budgetary limits aimed directly towards the alleviation of poverty. There is also evidence that with the recovery of the economy, the JDP government has been able to channel more resources in the form of larger volumes of lending made available to small and medium-sized enterprises through public banks, an avenue which is crucial to address the basic imbalance that exists that big and small business in the Turkish context.¹¹

Explaining the JDP's Success in the Economic Realm: The Interplay of Economic and Political Factors and Foreign Policy Initiatives

Having argued that the macroeconomic performance during its early term of office has been broadly successful, it would be rather ahistorical to attribute this success exclusively to the JDP. The Turkish economy has been undergoing a series of reform initiatives during the second phase of neo-liberal reforms throughout the 1990s with the signing of the Customs Union agreement with the EU (which became effective at the beginning of 1996) and the signing of an IMF program in December 1999, prior to the onset of an economic crisis, constituting key turning points. The decision of the EU Council in December 1999 to announce Turkey as a candidate country for full membership also exerted a dramatic impact on the incentive structure

facing the economic and political actors, providing a powerful impetus for a mix of economic and democratization reforms in the process. Given the strong externally generated impetus for reform, the coalition government in office, in spite of lukewarm approach to reform and its reservations concerning loss of national sovereignty, was nevertheless responsible for most far-reaching set of reforms in recent Turkish history.¹²

The economic crisis of February 2001 itself, in spite of devastating consequences, had one positive unintended consequence. It helped to break down resistance to reform on the part of the Euro-skeptics and helped to accelerate the momentum of the reform process. Following the crisis, it became much easier to gather support for EU membership and its associated conditionality on the basis of the material benefits they offered. Not surprisingly some of the major reform initiatives such as the elimination of the death penalty occurred after the crisis during the critical month of August 2002. The crisis also strengthened the hand of the IMF itself which was important in terms of breaking down resistance in domestic circles for key reform initiatives such as the regulation of the banking sector through the effective operation of the autonomous regulatory authority for the banking sector (the BRSA).

The appointment by the coalition government of Kemal Derviş, from the World Bank, as the Minister responsible for the economy shortly after the economic crisis also constituted an important step. Derviş and his team, through their single-minded commitment to fiscal discipline and regulatory reforms, appeared to play an important role during the crucial period between March 2001 and August 2002, during which the key ingredients of the recovery process were largely instituted. Given his links to transnational financial circles, the presence of Derviş was also important in generating confidence and securing external support for the recovery process.

It is paradoxical, therefore, that the JDP capitalized on some of the important initiatives that the coalition government introduced notably after the crisis whilst benefiting immensely from the loss of popularity that the coalition government due to precipitating the twin economic crises in the first place. Indeed, it was also ironic that Kemal Derviş (as a member of the DLP at the time) unintentionally helped to contribute to the subsequent success of the rival party, the JDP, first, by laying the basis of the economic recovery and second, by contributing to an inner party struggle resulting in the collapse of the coalition government and the calling of an early election that brought the JDP to power.

This historical background is important in placing the recent performance of the JDP into proper perspective. It is also fair to argue, however, that the JDP itself displayed a far greater degree of unity and commitment to the reform process, both on the economic and the political fronts, compared to the preceding coalition government which was largely swimming against the tide in this process. It is striking, for example, that the JDP was far more pro-active on the issue of Turkey's EU membership, meaning a commitment to undertake reform and not membership as a vague ideal in itself, than any other political party in recent history. It is striking, for example, that the party made a decisive effort to tackle the Cyprus problem through diplomatic initiatives right after the electoral victory of November. This pro-active stance on Cyprus designed to eliminate one of the key obstacles on the path to EU membership was adopted in spite of the fact that it was a risky decision for party leadership creating the possibility of a serious clash with key segments of the military and foreign policy establishment. Nevertheless, the pro-active stance paid dividends in the sense that it helped to gather further support in both external and domestic circles and overcoming the initial reservations concerning the party's alleged Islamist credentials. Indeed, the pro-active stance of the JDP on the EU front was also

instrumental in reshaping the public opinion in Europe and helping to mobilize support in key centers within Europe around the cause of Turkey's full-membership.

In retrospect, the JDP government has been able to benefit from the synergy that has been created through its initiatives in the economy, democratization reforms and foreign policy actions. For market actors, domestic and international, the future success of the Turkish economy was effectively tied to the prospect of EU membership. EU membership was regarded as the permanent or the long-term anchor needed for the stable development of the Turkish economy given that the role that the IMF could provide was necessarily a temporary one. Given this linkage between the EU and performance of the economy, the pro-active stance of the JDP on the EU issue and its ability to move beyond established nationalist rhetoric on sensitive issues such as Cyprus helped to inspire confidence and contributing to the process of economic recovery in the process.

Looking back to the economic performance of the JDP during the first two years in government one could detect an interesting mix of commitment and pragmatism. To give an example, the government was clearly committed to the objective of fiscal austerity. Yet, in its early stages it was much more lukewarm in its attitude towards independent regulatory bodies such as the BRSA. This lukewarm attitude perhaps reflected the pressure that came from a key component of its electoral coalition, namely small business in the direction of a more relaxed attitude towards banking sector regulation in order to obtain more bank credit to finance its operations. Hence, there was a certain clash between the government and the IMF in the early stages on this issue, with the government putting forward the case for greater political control and accountability of such institutions whilst the IMF put the primary emphasis on autonomy.¹³ Yet, when the government realized that this conflict would jeopardize the economic program and undermines the confidence of the key actors involved the issue was gradually pushed aside and the conflict over autonomous

regulatory bodies faded away. One could identify similar instances of pragmatism on the part of the JDP leadership that helped the party to come out of possible crises relatively unharmed through a swift shift of the public debate away from the divisive issue concerned. For example, again reflecting pressures from its more conservative, religiously inclined constituencies, the government introduced a reform bill for higher education during the spring of 2004, key elements of which were interpreted as providing serious concessions to the Islamists. This initiative helped to create a crisis of considerable proportions along the secular-Islamist axis, a crisis that had the potential to create a negative effect on the economy. Realizing that the bill would have potentially destabilizing consequences, the government did not contest the vetoing of the bill by the President and the controversial piece of legislation was effectively sidelined for the time being.

There is no doubt that the JDP government also benefited from a certain dose of fortune. To provide a striking example, the government was able to muddle through its relations with the United States in conjunction with the Iraq War without suffering major harm in the process. Indeed, the fact that Turkey was able to stay out of the war completely, by failing to allow the passage of American troops from Turkish territory to Northern Iraq (against the wish of the JDP leadership itself) had the unintended consequence of bringing Turkey closer to the core of Europe, helping to breakdown the resistance of Euro-skeptic elements in Turkish society even further. Hence, the Iraq War was also instrumental in increasing the momentum of EU related reforms engineered by the JDP leadership, reforms such as the closure of national security courts and broadcasting in Kurdish language, the kind of reforms that would have been unthinkable only a few years ago.¹⁴

Business Perceptions of the JDP Government's Performance: TÜSİAD and MÜSİAD Compared

Big business in Turkey primarily located in Istanbul and the Marmara region and represented under the umbrella of TÜSİAD has typically enjoyed a tense relationship with political parties or governments with Islamist roots or orientation. The position of TÜSİAD in protecting the secular principles of the Republic has been rather close to the position of the established state elites. In contrast, small and medium sized business units represented by the other leading business organization, MÜSİAD, whose membership covers enterprises located both in Istanbul and in the dynamic inner Anatolian towns, has been closely associated with Islamist politics ever since its inception in 1990 and its strong affinity with the rise of the Welfare Party during the early and the mid-1990s. Although MÜSİAD has tried to distance itself from individual political parties following the February 28 process, nevertheless there is no doubt that there is a considerable overlap between the respective agenda of this organization and the JDP. In recent years, MÜSİAD has followed TÜSİAD's lead, adopting a strong commitment towards Turkey's integration with the European Union and the associated democratization and reform agenda, though with a somewhat different emphasis on the need to extend religious freedoms.¹⁵

A systematic comparison of these two influential business associations is beyond the scope of our present inquiry. What is important in the present context is that the two organizations differ sharply in their interpretation of secularism. Consequently, whilst MÜSİAD membership is very much part and parcel of the JDP's broad electoral coalition, big business represented by TÜSİAD has been outside this coalition and has clearly has been rather apprehensive about the JDP when the party established a clear parliamentary majority in November 2002. It would be interesting, therefore, to compare the perceptions of government performance held

by these two rather contrasting associations following a period where the JDP has been in office for a period of nearly two years. The comparison is naturally based on the periodic reports published by the two organizations, notably on the state of the Turkish economy, as well as the pronouncements of leading figures in these organizations in public.

Our comparison reveals a rather striking and paradoxical pattern. TÜSİAD, in spite of its fears concerning the JDP in the stages grounded on the possibility that the party could create political instability through attacks on the secular constitutional order and economic instability by engaging in populist expansionism, has been quite satisfied with the JDP government's performance to date. The periodic assessments provided by the organization highlight the overall improvement in the macroeconomic performance of the Turkish economy and praise the government's commitment to fiscal discipline as a key ingredient of stability. Similarly, the organization has been quite satisfied with the pro-active stance adopted by the JDP in promoting the cause of EU membership and initiatives shown by the government to bring the long-standing dispute on Cyprus were also welcomed.¹⁶ What is interesting for our purposes is that the JDP in office has displayed a position, judged by the degree of commitment to IMF disciplines and the goal of EU membership, which was much closer to the position held by TÜSİAD on these critical issues.¹⁷

Indeed, a close examination of MÜSİAD's reports during the recent era reveals a much more critical attitude towards government's economic performance during its early term of office.¹⁸ MÜSİAD recognizes that the government has achieved a certain degree of success in terms of fiscal stability, control of inflation and the recovery of the real economy in the post-crisis era. Nevertheless, there is a strong emphasis on the lop-sided nature of the recovery process, pointing the dangers of continued dependence on short-term capital inflows and the problems that are likely to be generated by running a large current account deficit. MÜSİAD is quite

critical of what it considers to be excessively tight fiscal rules imposed by the IMF such as the primary surplus target of 6.5 percent of GDP. Similarly, the organization has been critical of the tight set of regulations imposed on bank lending imposed by the so called autonomous regulatory agencies such as the BRSA on the grounds that such an approach puts too much emphasis on financial sector stability at the expense of the development of the real economy.¹⁹ Indeed, MÜSİAD feels that a more appropriate strategy for Turkey would be to adopt an independent path of stabilization and reform when the current agreement with the Fund ends in February 2005. This approach sharply differs from the position of TÜSİAD as well as significant sections of domestic and international community who strongly believe that a continued relationship with the IMF in some form, on top of the EU anchor, is absolutely critical for the crisis-free development of the Turkish economy over the next few years.²⁰ A systematic comparison of the respective positions of MÜSİAD and TÜSİAD on a number of key economic issues are presented in a stylized table (Table 1)

Table 2: MÜSIAD and TÜSIAD on Government's Economic Performance and the Role of the IMF: A Stylized Comparison

	MÜSIAD	TÜSIAD
Attitude Towards the IMF	Rather critical of certain aspects of the IMF program. Government should bargain more effectively with the Fund over social issues and the needs of the real economy. The weight and the influence of the IMF in the policy making process should be reduced.	Firm belief that the government should singlemindedly conform to the basic principles of the IMF program. It is also vital that an agreement with the IMF is concluded for the period after 2005. Monetary, fiscal and structural reform components of the program are considered to be vital for long term success.
Degree of Commitment to the Program	An alternative program of stabilization and reform is proposed, which deviates from the existing one in critical respects..	Firm commitment; deviation from program targets will generate significant costs.
Growth	Assessment is favorable and yet critical. Attention is drawn to the fragile and lopsided nature of the recovery process based on short term capital inflows and rising current account deficit..	Highly favorable assessment of growth and inflation performance. Government should focus even more intensively on longer term structural reforms.
Budgetary Discipline	Accepts that the government has been successful in imposing fiscal discipline but also draws attention to some of the costs of excessive budgetary discipline, notably in the sphere of public investments.	Highly supportive of the Government's budgetary stance and commitment to fiscal discipline.
Unemployment	Highlighted as the major social and economic issue. The government is not doing enough to deal with the problem effectively. In addition to growth, direct measures are needed.	Also considers unemployment as a serious issue. Yet, the way to deal with the problem involves a commitment to the existing program rather than deviating from it..
Financial Sector Regulation and the Real Economy	Financial Sector regulation should be in line with the needs of the real economy. Single minded focus on tight banking sector regulation is costly in terms of growth and performance of the real economy.	Tight regulation of the financial sector is crucial. Weak regulations may create the basis of yet another financial crisis.
Regulatory Institutions in Action	Critical of such institutions. These institutions should be more accountable for them to be able to adopt a balanced approach to regulation.	In line with the IMF, firm belief that for tight and effective regulation, these institutions should be highly autonomous. Not much emphasis on accountability.

In retrospect, the sharp difference in the perceptions of the two organizations is perhaps not that surprising in the sense that big business and small-medium size business find themselves in different structural locations in terms of their positioning with respect to the globalization process. A fundamental asymmetry exists between big and small capital in the sense that what matters for the former is stability at all cost whereas for the latter continued growth and competitiveness necessitates access to both bank finance and state resources. Stated somewhat differently, a large segment of TÜSİAD membership do not face the kind of financial constraints that small and medium-sized businesses, which typically fall under the umbrella of MÜSİAD, are facing. Typically they have either their own banks as part of the broader conglomerate or they have the kind of reputation needed to borrow without major problems from domestic or external sources. Moreover, big business through its close relations with the state Turkey has enjoyed historically superior access to state resources although its currently much less directly dependent on the state for its future performance. What is also critical here is that the typical IMF program that Turkey has been undergoing not only affects overall macroeconomic performance, but also the pattern of income distribution. One of the key distributional consequences of tight rules on budgetary discipline and financial regulation is the creation of further asymmetries between big and small business.

From a political economy perspective, another interesting lesson that could be drawn from this stylized comparison is that the existing structures of economic and political power as well as the manner in which the economy has been integrated into the global economy and the global financial markets severely constrains the options available to particular governments, to which the JDP government is no exception. The key to success in this environment, therefore, depends how successfully a particular governments capitalizes on the benefits offered by this structure and the

extent to which it can overcome its asymmetries and negative side effects without jeopardizing its electoral prospects in the process.

Is the Transition from a Vicious to a Virtuous Cycle Sustainable? Possible Challenges to the Electoral Dominance of the JDP in the Medium Term

The picture presented so far suggests that Turkey in recent years has managed to overcome the instability and the impasse of the 1990s and has entered into a process of virtuous cycle whereby a series of economic, political and foreign policy initiatives have been contributing to an unprecedented pace of democratization and a more pronounced economic recovery than many analysts had predicted in the aftermath of the 2001 crisis. Although the JDP itself did not initiate this process, it certainly helped to accelerate it by a considerable margin after November 2002. Clearly, if the recovery process continues uninterrupted and Turkey is able to obtain a date for the start of accession negotiations from the EU in December, the JDP will find itself even in a much stronger position and then it would be highly unlikely that its electoral dominance will be challenged by the time of the next general election in 2007.

Certainly, smooth developments on the EU front are likely to be translated into the economic realm and may be translated into a significant wave of long term foreign investment in the same fashion that Poland has experienced after 1994. It is also quite likely that the government will sign a new agreement with the IMF which will be important for an economy with a huge debt burden such as Turkey to sustain investor confidence and to keep the cost of additional borrowing at acceptable levels. The alternative of trying to maintain an independent path of stabilization and reform as recommended by MÜSIAD, for example, involving experimenting with heterodox instruments such as controls over short-term capital flows and more flexible

implementation of budgetary discipline and banking sector regulation can be an exceptionally risky path to follow in the circumstances that the Turkish economy finds itself.²¹ In an environment where investor confidence is rising and foreign direct investment, which has remained at low levels by the standards of most emerging markets throughout the neo-liberal era, rises by a considerable margin and this is supported by steady improvements in productivity by domestic economic actors, then Turkish economy would be able to generate the kind of 6-7 percent growth rate per annum on a sustained basis over time. It is this kind of sustained growth which is crucial in terms of the country's ability to raise its per capita income on a significant basis and to deal successfully with the pervasive problems of poverty and inequality. In this kind of environment, where JDP would capitalize on the benefits of economic growth it would be rather difficult for opposition parties to mount a serious challenge to the JDP's electoral dominance, at least in the short-run.

Yet, a balanced perspective has to take into account that certain developments may occur which may upset this benign equilibrium. One such possibility that immediately comes to mind in this context is the possibility, although a remote one, that the EU provides a decisive negative response that puts an end to Turkey's membership aspirations and offers the option of a looser relationship based on a special status, an option that some German Christian Democrats recommended. Clearly, if such a bleak scenario materializes-which incidentally is rather different from another possibility that opening up of accession negotiations is not ruled out but postponed due to the Commission recommendation that finds certain loopholes in the reform implementation process- this may lead to a revival of Euro-skepticism in Turkey. It is also possible that such a bleak scenario will have an immediate negative impact on financial markets and the behavior of economic actors, both domestic and external, helping to undermine the investor confidence that has been built up over the

past few years. In such an environment, the two parties that have already experienced a recovery in their electoral fortunes during the municipal elections of March 2004 (see graph 2) the center right TPP and the ultra-nationalist, the NAP, could significantly improve their electoral fortunes and place a major challenge to the dominance of the JDP by the time of the next election.

Apart from the obvious EU factor, there are other elements that need to be taken into account in evaluating the medium-term electoral prospects of the JDP. Although the economic recovery process is under way, the process is still a fragile recovery. One has to take account that part of the recovery process in 2003 was due to the inflow of short-term capital which was, in part, due to low interest rates in the US.²² Given Turkey's huge public debt burden with a disproportionately large share of short-term debt, a widening of current account deficit, rising US interest rates and large repayments on its external debt in 2005-2006 render the economy vulnerable to sudden shifts in investor sentiments (Table 2) Hence, possibility of yet another financial crisis with costly consequences cannot be ruled out completely although most financial analysts would argue that the risk of a debt default has diminished considerably due to a mixture of strong economic growth, large primary budget surpluses and flexible exchange rate policy. The risks would naturally be reduced even further if Turkey continues uninterrupted on its EU trajectory and signs a new agreement with the IMF at the same time, strengthening the double external anchor that Turkey has enjoyed in recent years. It is important to emphasize, however, that external anchors per se are not enough and do not provide an adequate substitute for insufficient commitment to fiscal discipline and the overall reform process on the part of the policy-making elites and the key economic actors involved.

Table 2: Comparative Debt Performance of the Turkish Economy - 2002						
	Turkey	Argentina	Poland	China	S. Korea	Brazil
External Debt / GDP *	72,2	53,6	38,8	12,7	28,1	49,6
Short Term Debt **	15190	20560	9325	18414	42514	26765
Total Debt Service**	29872	32437	8763	20825	26311	53390

Note: In percentage Wise, ** Million \$

Source: <http://www.bradynet.com> and <http://www.die.gov.tr>

Clearly, one important issue that will affect the JDP's electoral fortunes concerns the distributional aspect of its economic policies. What is important in this context is that not only is high rates of economic growth achieved but also growth trickles down and improves the material position of large segments of the population. It will also be important for the party in government to be able to pursue an active social policy targeting those groups at the lowest end of the income scale. Although the government may face significant budgetary constraints in this respect nevertheless a combination of high growth, the resources saved through an effective anti-corruption campaign and a downturn in defense expenditures could help to produce a significant impact in terms of poverty alleviation.²³ Unemployment is increasingly singled out as a major social and economic program in this context. The corollary of

this is that if growth is not translated into a substantial improvement in employment prospects for a country with a disproportionately young population, the issue could be taken up by the rival parties and could present a major challenge to the electoral fortunes of the JDP over time.

Finally, a major challenge to the party could originate from its core supporters who clearly expect significant progress on issues relating to Islamic identity such as the freedom to wear the head-scarf in public places, the extension of opportunities for graduates of religious secondary schools (the Imam-Hatip Schools) and so on. Although the JDP labels itself as “Conservative Democrats”, there is no doubt that it embodies a certain core of supporters who have traditionally been associated with Islamist political parties. In the early period of office, the JDP leadership could easily postpone such sensitive issues to the future on the grounds that more immediate and pressing issues need to be tackled first such as the economy and relations with the EU.²⁴ Yet, such demands for cultural recognition cannot be postponed indefinitely. At the same time any attempts to respond to their demands in the current domestic and international context embodies the potential to create considerable political and economic instability as the episode involving the controversial higher education reform bill clearly testified.²⁵ Hence, the party faces a dilemma in the sense that in its search to capture the center and form a broad center-right coalition it may alienate some of its core group of supporters who over time could shift to other political parties such as the more radical Islamist party, the HP or even the ultra-nationalistic, the NAP which compete for similar segments of the electorate. The same problem exists in a different form for small and medium sized business that forms a significant component of the party’s electoral base. Building on the earlier observation that MÜSİAD membership is quite critical of the government unequivocal commitment to the program, the possibility that small and medium sized business seeks refuge in neighboring political parties should not be discarded altogether. The plight of the rural

poor could constitute another cause of concern given that 35 percent of the active labor force still continues to be employed in the agricultural sector and this particular segment of society has been exposed to major cuts in subsidies as part of the IMF induced fiscal adjustment process. Clearly, one should not discard the possibility of significant electoral swings against the JDP again in the direction of the TPP and the NAP by the disenchanting rural population.

What is crucial to highlight is that the JDP is ultimately a broad coalition that has capitalized on the failures of political parties on the left and the right of the political spectrum. This coalition is made up of a quite a different set of interests and in the Turkish setting it may be increasingly difficult to keep this broad entity together in the absence of the kind of benign scenario that we have outlined, the kind of scenario which is associated with rapid and sustained economic growth.

Concluding Observations

Economics and politics are interlinked in a peculiar way in the age of financial globalization. In this context, the JDP, has been able to come to terms with globalization more than any other political party in the Turkish context. Its success so far has been based on its ability to move beyond class-based politics and to forge a broad cross-class coalition that incorporates both the winners and losers of neo-liberal globalization. Through commitment to the IMF program mixed with a certain dose of pragmatism and its pro-active approach to Turkey's relations with the EU, the JDP, in office, has contributed to Turkey's economic recovery and an intense phase of democratization reforms that was already under way before the party had actually assumed power. In spite of its Islamist roots, the party has skillfully moved towards the center of Turkish politics and has by and large successfully evaded the kinds of conflicts that could have been emerged through open clashes with the state elites and the secular segments of the Turkish society. In retrospect, the JDP has capitalized on

the deficiencies of both the center right and the center left parties in the Turkish setting. Clearly, the party itself is a hybrid formation. From a certain perspective, in line with what the party leadership tries to describe itself, with its emphasis on religion and conservative values, it constitutes a typical center right party close to the Christian Democratic tradition in Europe. Yet, in certain respects the “ Muslim Democrats” or “ conservative Democrats”, with their cosmopolitanism, commitment to multi-culturalism and emphasis on social justice, differ quite sharply from their Christian Democratic counterparts and overlap with social democratic parties third way in Europe.

Our basic prediction is that the party will be able to consolidate its position and maintain its electoral dominance in Turkish politics through the next general election based on the assumption that relations with Europe will develop smoothly and contributes further to the economic recovery process that is already under way. Clearly, rapid growth in the order of six to seven percent per annum on a sustained basis will be critical to the ability of the party to keep its broad electoral coalition together. However, if this benign scenario fails to materialize than the party its success so far may experience a significant reversal of its popularity and electoral base. With the extra-ordinary debt burden accumulated over time and an open capital account regime, the Turkish economy continues to be vulnerable and one cannot rule out the possibility of a yet another costly crisis in the future even if a new IMF agreement is signed for the period after 2005. The IMF program is an important source of protection and discipline. Yet, as the experience of 2000 and 2001 has clearly illustrated an on-going IMF program per se cannot provide full insurance against a possible crisis. Clearly, economic success depends not only on positive signals from the EU and the IMF but also continued commitment on the part of the government to long-term structural and regulatory reforms. Even favorable assessments of government performance during its early phase qualify their optimism

by arguing that the government has not displayed sufficient commitment in key areas of reform such as privatization of state economic enterprises and the reform of the social security system. One could go even further and argue that even if crises are avoided, slow growth will not be sufficient to keep the JDP's broad electoral coalition together over a substantial period of time. The negative distributional repercussions of the IMF program under a slow growth-high unemployment scenario are likely to alienate key elements within its existing coalition, resulting in significant swings in favor of contending parties such as the TPP and the NAP.

Finally, moving beyond the purely economic realm, the debate concerning the boundaries of secularism has not been fully resolved in Turkish politics and is unlikely to be resolved through EU membership since the EU itself does not offer a single blue-print in this context. Clearly, this observation has implications for the future of the JDP. There is still a considerable element of mistrust concerning the JDP's centrist attitude among wide segments of the Turkish state and society. Indeed, one could argue that the degree of popularity of the JDP in international circles has been more widespread and uniform compared to its more ambiguous position in the domestic sphere. Hence, the party is faced with a dilemma which it will ultimately have to confront. Either, it will choose to alienate its core Islamist supporters by choosing to relegate their claims for cultural recognition into the background or it will face the charge from key segments of the Turkish state and society that it is ultimately an identity-based party and its claim to being a political movement of the center is not a genuine claim. Clearly, such dilemmas or conflicts will also continue to exercise a key influence over the electoral fortunes of the party in the coming years.

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¹ The essay was written during the Summer of 2004 before the critical decision of the EU on the question of opening up accession negotiations with Turkey leading to full-membership.

² On the nature of the twin economic crises of 2000 and 2001 that exercised such a deep impact on the Turkish economy and society see the collection of articles in Ziya Öniş and Barry Rubin, *The Turkish Economy in Crisis*, (London: Frank Cass Publishers, 2003).

³ For a further elaboration of this point involving the characterization of the JDP as a global third way response to Turkey's pervasive economic and political problems, see Fuat Keyman and Ziya Öniş, "Turkey's Delayed Encounter with Global Third Way Politics: The AKP and the Possibility of Democratization" *Journal of Democracy* Vol. 14, No.2 (2003), 95 – 107. and Fuat Keyman and Ziya Öniş, "Globalization, Social Democracy and the Third Way: Paradoxes of the Turkish Experience," available at <http://home.ku.edu.tr/~zonis/publications.htm>.

⁴ On the nature of the Turkish party system and the principal characteristics of the political parties involved see the articles in Metin Heper and Barry Rubin, *Political Parties in Turkey*, (London: Frank Cass, Spring 2002).

⁵ There is a need for qualification here that only a subset of small and medium sized businesses in Turkey is represented by MÜSIAD. A complete analysis has to take into account the role of the Union of Turkish Chambers and Stock Exchanges, TOBB, This is an organization membership is compulsory by law for all legally recognized business units. The non-conservative elements within the small and medium-sized business community are represented under the auspices of this particular organization.

⁶ On the social bases of electoral support for the Welfare Party and the significance of small and medium-sized business in this respect, see Ziya Öniş, "The Political Economy of Islamic Resurgence in Turkey: The Rise of the Welfare Party in Perspective," *Third World Quarterly*, Vol. 18 No. 4 (1997), and Haldun Gülalp, "Globalization and Political Islam: The Social Bases of Turkey's Welfare Party," *International Journal of Middle Eastern Studies*, Vol. 33 No. 3 (August 2001), 433-448. On the evolution of islamist politics in Turkey since the early 1970s see Ayşe Buğra, "Political Islam in Turkey in Historical Context: Strengths and Weaknesses," in Neşecan Balkan and Sungur Savran eds., *The Politics of Permanent Crisis: Class, Ideology and State in Turkey* (New York: Nova Publishers, 2002) 107-145. For a recent contribution on the linkage between Islamists and the globalization process in Turkey, see, Yıldız Atasoy, "Cosmopolitan Islamists in Turkey: Rethinking the Local in A Global Era," *Studies in Political Economy*, 71-72 (2004) 133-163.

⁷ For evidence, see, Uğur Akıncı, "The Welfare Party's Municipal Track Record: Evaluating Islamist Municipal Activism in Turkey," *Middle East Journal*, Vol. 53 No. 1 (Winter 1999) 75-94.

⁸ Indeed, following the split of the Virtue Party into two separate factions, the progressive wing of the VP that evolved into the JDP has been in coompetition with the more traditionalist or conservative wing represented by the Happiness Party (the HP). The outcome of the 2002 elections clearly illustrated, however, that the more hardline, Erbakan style Islamism as represented by the HP had little electoral appeal with the party claiming only 2.49 percent of the vote. On the forces that have been pushing Political Islam in Turkey in a moderate direction see Ziya Öniş, "Political Islam at the Crossroads: From Hegemony to Co-existence," *Contemporary Politics*, Vol. 7 No. 4 (December 2001) 281-299 and Quinn Mecham, "From the Ashes of Virtue, a Promise of Light: The Transformation of Political Islam in Turkey," *Third World Quarterly*, Vol. 25 No. 2 (2004) 339-358.

⁹ For further details' see various reports published by the Bank Regulation and Supervision Authority, the BRSA, available at <http://www.bddk.org.tr/turkce/yayinlarveraporlar/yayinlarveraporlar.htm#1>

¹⁰ Reports by TÜSIAD, Turkish Economy 2003-4, available at <http://www.tusiad.org.tr>, and the Economist's Intelligence Unit, "Turkey at a Glance: 2004-05, Country Forecast," June 2004, are quite representative of the reports published in domestic and international circles concerning the broad contours of Turkey's macroeconomic performance during the recent era. For the improvement in the

performance of the banking sector in the post-crisis era, see reports by the BRSA (BDDK), “Banking Sector Evaluation report,” (February 2004). “BRSA Annual Report,” (2003). “Banking Sector Restructuring Program: Improvement Report VII,” (October 2003). All reports were prepared by BRSA staff members and they are all available at <http://www.bddk.org.tr>.

¹¹ The JDP government has been trying to follow an active social policy within the limits of fiscal austerity. Several programs have been developed to deal with the issues of poverty alleviation directly. The government has been cooperating with the Turkish Coal Mining Authorities to provide free distribution of coal to the poorest segments of the society. Also as indicated by the Ministry of Agriculture, there is an ongoing process of broadening the “Social Assistance Project” in rural areas. Similar programs have also been developed within the domain of the Ministry of Employment and Social Insurance. The details of such policies are expounded in the official JDP website, <http://www.akparti.org.tr>

¹² Here one needs to make the qualification that the Motherland Party, the MP, under the leadership of Mesut Yılmaz, as the junior member of the coalition government displayed a greater degree of commitment to reform on all fronts compared to the more nationalistically inclined the DLP and the NAP, the two dominant members of the coalition government.

¹³ The JDP leadership has adopted a critical attitude towards autonomous regulatory institutions. The critical attitude however, should not be interpreted as if the government is intending to eliminate such institutions completely. The aim appears to involve a restructuring of such institutions and the style in which they operate. As Abdullah Gül mentioned, “There are some problems regarding the functioning of the Regulatory bodies, especially concerning the appointment of the members and the accountability of these institutions.” For further information please refer to <http://turk.internet.com/haber/yazigoster.php3?yaziid=5858>. Similar opinions are also evident in the election declarations of JDP, “...these bodies will continue their regulatory and supervisory functions, however we will make these bodies more accountable to the public and they will provide more information to the general public.

¹⁴ For a further elaboration of this point see Ziya Öniş and Şuhnaz Yılmaz, “Turkey-EU-US Triangle i Perspective: Transformation or Continuity?” available at <http://home.ku.edu.tr/~zonis/publications.htm>. On the changing position of the Islamists vis-a-vis Europe see Burhanettin Duran, “Islamist Redefinition(s) of European and Islamic Identities in Turkey,” in Ugur and Canefe (2004). On the post-1999 dynamics of Turkey-EU relations and its dramatic impact on Turkish politics and democratization process see the collection of essays in Carkoglu and Rubin (2003) and Mehmet Ugur and Nergis Canefe, eds. *Turkey and European Integration: Accession Prospects and Issues*, (London and New York: Routledge, 2004), 125-147, as well as Paul Kubicek, “Turkish Accession into the EU in Comparative Perspective,” *St. Anthony’s College Oxford, Occasional Paper*, No 1 / 04., May 2004.

¹⁵ For systematic comparisons of these two key business associations see Ayşe Buğra, “Class, Culture and State: An Analysis of Two Turkish Business Associations,” *International Journal of Middle East Studies*, Vol. 30 (1998) 521-539, Ziya Öniş and Umut Türem, “Business, Globalization and Democracy: A Comparative Analysis of Turkish Business Associations,” *Turkish Studies*, Vol. 2 No. 2 (Autumn 2001) 94-121.

¹⁶ TÜSİAD appears to be fairly satisfied with the performance of the JDP government. Both in terms of the relations with the IMF (Extension of the collaboration with the Fund) and JDP’s stance and attitude towards the EU, TÜSİAD and JDP carry similar opinions. As the recent report of the TÜSİAD, “Turkish Economy 2003,” available at <http://www.tusiad.org.tr> indicates, the recorded growth rates in the recent period and ameliorations in some of the key macro economic variables establish the vital framework in order to fulfill the desired structural transformations in the economy. Together with the fall in the inflation rate, we do observe a decline in the real interest rates and in addition to the overvaluation in the real exchange rate, we can expect continuing economic growth. Also, the success of the government in public finance will be determining factors for the decrease of inflation and interest rates.” For further information see, TÜSİAD, “Public Sector Indicators in Turkey from a Comparative Perspective,” (2004) available at <http://www.tusiad.org.tr> and see the then Chairman of TÜSİAD, Tuncay Özilhan’s positive views about the Contingency Plan of the JDP government available at <http://www.milliyet.com.tr/2002/11/17/ekonomi/eko01.html>

¹⁷ This is not to suggest that TÜSİAD is totally receptive or uncritical to the government’s actions. For example, TÜSİAD reports emphasize the need to accelerate the pace of long-term structural reforms in such areas as privatization and social security and argue that the government has not pressed ahead sufficiently to generate the kind of progress needed in these critical areas. For instance, though TÜSİAD appreciates the performance of the government, it is still suspicious about the maintainance of the high growth-low inflation trajectory. Also, from the point of the private sector, TÜSİAD’s reports emphasize that private sector should have a more competitive and productive nature. Existing levels of productivity and excess labour supply hinder new employment opportunities and limit the increase in real wages. For details see, TÜSİAD, “Turkish Economy 2003,” available at <http://www.tusiad.org.tr>.

Similarly, TÜSİAD was quite critical of the government's policy during the War on Iraq and accused the government for the deterioration in Turkey's relations with the United States in the immediate aftermath of the war. As Tuncay Özilhan clarified, "the War in Iraq will begin outside the control of Turkey, so if we do not have the right to start and stop the war, then for the sake of protecting our interests, Turkey should not be totally outside of this war," also "by taking part in the War, Turkey could learn more about the prospects and objectives in that area and could take more systematic precautions." For details see, Tuncay Özilhan, "Iraq Crisis: Military Intervention and Political Outlook," Opening Speech, 28 February 2003, SwissHotel Istanbul available at <http://www.tusiad.org.tr/haberler/konusma/duyuruno285.pdf>. In terms of the recent debates on education and universities, TÜSİAD has maintained its traditional hard-line secularist stance and its critical attitude towards the government in this particular respect. For details, see Güntay Şimşek, "Whose TÜSİAD?" available at <http://www.sabah.com.tr/2004/04/05/simsek.html>

¹⁸ See in this context MÜSİAD Report, "The First Year Performance of the JDP Government," December 2nd 2003, Istanbul, available at <http://www.musiad.org.tr>. For example, the then Chairman of MÜSİAD, Ali Bayramoğlu argued that "the Government should resist some of the key demands of the IMF, notably the demands involving restrictions over wage increases and imposition of additional taxes.. While the business world is expecting for a decline in their costs, additional taxation would be detrimental." For details see, Press Release by MÜSİAD, which is available at <http://www.musiad.org.tr/basinBultenleri>

¹⁹ For details see, <http://www.musiad.org.tr/detay.asp?id=143>. Also, the above mentioned MÜSİAD report, "The Performance of the JDP Government During its First Year," (December 2nd 2003) 32, Istanbul, available at <http://www.musiad.org.tr> is vital to have a better understanding of the approach of MÜSİAD towards the regulatory bodies

²⁰ MÜSİAD report, "The Performance of the JDP Government During its First Year," (December 2nd 2003) 32, Istanbul, available at <http://www.musiad.org.tr>.

²¹ This is not to suggest that heterodox policies are inferior. Rather the argument is that such policies can be utilized much more effectively by countries that have avoided financial crises in the past and display relatively low levels of public debt.

²² See, Mahfi Eğilmez, "The Background to Rapid Growth," *Radikal*, 08/07/2004 and Hurşit Güneş, "What we have (not) learned from the Crisis?" *Milliyet*, 20/07/2004.

²³ The downturn in defense expenditures is a new phenomenon in Turkey that clearly reflects the impact of the recent Europeanization process and democratization reforms. Clearly, the origins of this process may be traced to the end of the armed conflict with the PKK in early 1999.

²⁴ On the characterization of the JDP as a conservative democratic party see Yalçın Akdoğan, "AK Parti ve Muhafazakar Demokrasi," available at <http://www.akparti.org.tr/muhazafakar.doc>

²⁵ The close interaction between politics and economics, especially the finance sector still plays a decisive role in Turkey. Negative signals from the realm of politics can easily influence the financial sector and create turmoil for a temporary period of time. As it has been experienced a few months ago, JDP's stance and proposals about the Imam-Hatip Schools created a similar kind of instability. This was an excellent example of the JDP's push for the Islamist agenda and checking out the actors' appraisal of the situation like the Military and Secularists. For details, see Ömer Sabancı, "Do not Deviate," *Radikal*, 05/06/2004 and Haluk Şahin, "The Reform Process Faces a Real Setback," *Radikal*, 04/06/2004. Also in terms of the views of the Chairman of Turkish Exporters Congress, Oğuz Satıcı, see "the Critique of YÖK from TIM," *Radikal*, 02/06/2004.