The Anatomy of Turkey's New Heterodox Crisis: The Interplay of Domestic Politics and Global Dynamics

This is the accepted version of the paper to be published in Turkish Studies. This version of the publication may differ from the final published version.

Ziya Öniş

Koç University

Mustafa Kutlay

City, University of London

Abstract

A decade after the global financial turmoil, a new wave of crises is haunting the global South. This pattern is different from previous crisis episodes. Powerful shifts in the international order provide new policy space for emerging powers to manage their economic problems in a heterodox fashion. Key Western-led institutions no longer enjoy a monopoly in dictating the terms of financial assistance for countries in economic difficulty, as non-Western powers increasingly challenge the orthodox Washington Consensus paradigm. The present paper attempts to locate Turkey's ongoing economic crisis in a comparative-historical context. Its central argument posits that the current crisis is the reflection of a fragile and unconsolidated presidential system and its associated mode of economic governance with state capitalist features. Turkey's heterodox crisis allows us to draw attention to the complex interplay of global power transitions in a post-liberal international order and domestic political constellations during an era of growing authoritarian populism, generating a new equilibrium with rather unique features.

Key words: New heterodox crises, shifts in liberal international order, authoritarian populism, Turkey's post-2018 crisis, state capacity, state capitalism

Introduction

The 1990s are remembered as a period of emerging market crises. The frequency and intensity of the financial shocks in developing economies raised serious questions about the logic of the Washington Consensus – that is, the policy paradigm endorsing privatization, free flow of capital and deep integration with the global economy based on neoliberal principles. In the following decade, financial crises broke out in the very core of the system, first in the United States and then in the European Union. Now, a decade after the global financial crisis of 2008-9 (GFC), economic crises have returned to the global South. In this paper, we examine the Turkish experience within a comparative-historical framework. The Turkish case is critical for two reasons. First, it constitutes an illustrative case for identifying the basic parameters of a new wave of crises, which is affecting a variety of emerging powers geographically quite distant from one another. Second, the Turkish case is instrumental in terms of highlighting the interaction between international power shifts and the illiberal turn in the domestic realm, in order to understand the new wave of heterodox crises in the post-GFC era. The present paper argues that Turkey's 2018-19 crisis and the way in which it is managed reflect the uneasy political transition to hyper-presidentialism and the associated state capitalist practices, which have effectively undermined rule-based economic governance. We maintain that during the last decade the Turkish political economy has experienced a trend involving a move away from regulatory neoliberalism and towards a hybrid model with increasingly state capitalist features, with significant repercussions on domestic political-economic arrangements.

The paper is organized as follows: The second section develops a framework centered around the global-domestic nexus to present the key characteristics of the new wave of crises in the post-GFC era. The objective in this section is to identify the similarities and differences between the recent wave and earlier financial shocks in the golden age of the Washington Consensus. The main argument advanced in the third section is that Turkey's heterodox crisis of 2018-19 differs from the previous episodes that the country had experienced earlier, in 1978-79 and 2000-1. We suggest that Turkey's new crisis displays elements that allow us to draw attention to the critical role of domestic politics in the face of substantive shifts in the liberal international order. The fourth section advances the idea that Turkey's new crisis is strongly associated with an attempt to move to a hyper-presidential system and attendant economic policies with certain state capitalist features. We also propose that the crisis manifests the difficulties of consolidating an over-centralized, illiberal presidential system in a country that features a pluralistic society, a relatively long history of a democratic multi-party system and a diversified economic structure integrated into the global financial system, which is embedded in a long-standing alliance with Western powers, yet weak in terms of natural resources. The fifth section explores whether the ruling political elite in Turkey can utilize the ongoing creeping crisis as a means to consolidate the new presidential system, by helping to move the country further away from the West, while exploiting the geopolitical space that has opened up in the post-liberal international order. In this context, the central argument claims that such a strategy has fragile foundations and is likely to backfire in the face of growing domestic opposition, especially if economic problems reach such proportions that they undermine the performance legitimacy of the government.[1] The final section offers a broad synthesis based on the Turkish experience and identifies possible scenarios for the trajectory of state-market relations in Turkey.

Global power transitions, domestic politics and a new wave of economic crises

Since the early 1980s, the world economy has experienced profound shifts in the age of neoliberal globalization. These shifts have been accelerated further by the GFC. The dominant development regime under neoliberalism, as Babb and Chorev underline, was "tightly coupled" in the sense that the linkages between rule-based multilateralism, distribution of material resources and neoliberal ideas shaped a common set of developmental patterns in the global political economy.[2] The neoliberal paradigm reflected a coherent economic regime. First, international financial organizations such as the IMF and the World Bank uniformly imposed the Washington Consensus policies on developing countries. Second, the United States, as the hegemonic power, advocated unfettered markets as an integral aspect of the liberal international order, leaving no meaningful policy space for alternative economic paradigms.[3]

Parallel to the global power transitions, however, the liberal international order has increasingly been challenged by the rise of BRICS (Brazil, Russia, India, China, South Africa) and other second-tier non-Western countries.[4] This is leading to a hybrid international order, with significant repercussions on the nature and management of crises in the global South. The previous emerging market crises in the 1990s occurred in a G-7 world where the twin Bretton Woods institutions – the IMF and the World Bank – played a central role as transmitters of the neoliberal paradigm. They did so through “conditionality” in return for financial assistance, advocating the retreat of the state, free trade, capital account liberalization, privatization and macro-stability. From the late 1990s onwards, the modified version of the Washington consensus (the post-Washington consensus paradigm) expanded the scope of the reform agenda and placed major emphasis on independent regulatory institutions, central bank independence and social assistance.[5]

However, in the post-2008 context, which is predominantly a G-20 world, the power of major Western-led international financial institutions in dictating the terms of financial assistance has progressively weakened. New institutions, such as the New Development Bank and the Asian Infrastructure Investment Bank, have emerged to provide different forms of financial support for developing countries. Existing Bretton Woods institutions also seem to be in a process of soul-searching, in line with the pressure exerted by major non-Western powers, even though prospects for radical reforms appear to be slim.[6] For instance, there is reference to a new modus operandi of the World Bank, which at least on paper is more sensitive to calls for flexibility in its conditionality and lending practices.[7] The IMF also seems more inclined to display greater sensitivity than ever before concerning issues such as inequality; it furthermore appears more prepared to accept the use of heterodox development instruments such as industrial policy and short-term capital controls.[8]

More critical for our purposes, in the post-GFC era, the growing influence of the "Beijing norms" and authoritarian state capitalism allows for different forms of state-market relations to gain ground in the global political economy. It is important to highlight at the outset that there is no *single* form of state capitalist model. There exist different *varieties* of state capitalism, ranging from "direct state control through ownership" to "more subtle means of state involvement in markets."[9] Multiple faces of state capitalism might pose certain problems from a conceptual and methodological standpoint.[10] What is critical is that the authoritarian state capitalist practices, albeit incoherent in their current form, still pose an alternative to regulatory neoliberalism in a number of important respects. First, regulatory neoliberalism prescribes a more restricted pattern of state intervention. Regulatory neoliberalism promotes primacy of markets, independent regulatory institutions and rule-based fiscal governance. State capitalism, in contrast, advocates a hands-on approach for the state to organize industrial production, innovation, and distribution structures, either directly or indirectly. It also relies on flexible schemes for channeling financial credits to private firms, "personalized networks of capital accumulation,"[11] (often non-transparent) public-private partnerships and political disdain for autonomous regulatory institutions, including independent central banks.[12] Second, in most cases, state capitalist practices are inherently incompatible with the predominant political norms and institutions of democratic free-market capitalism.

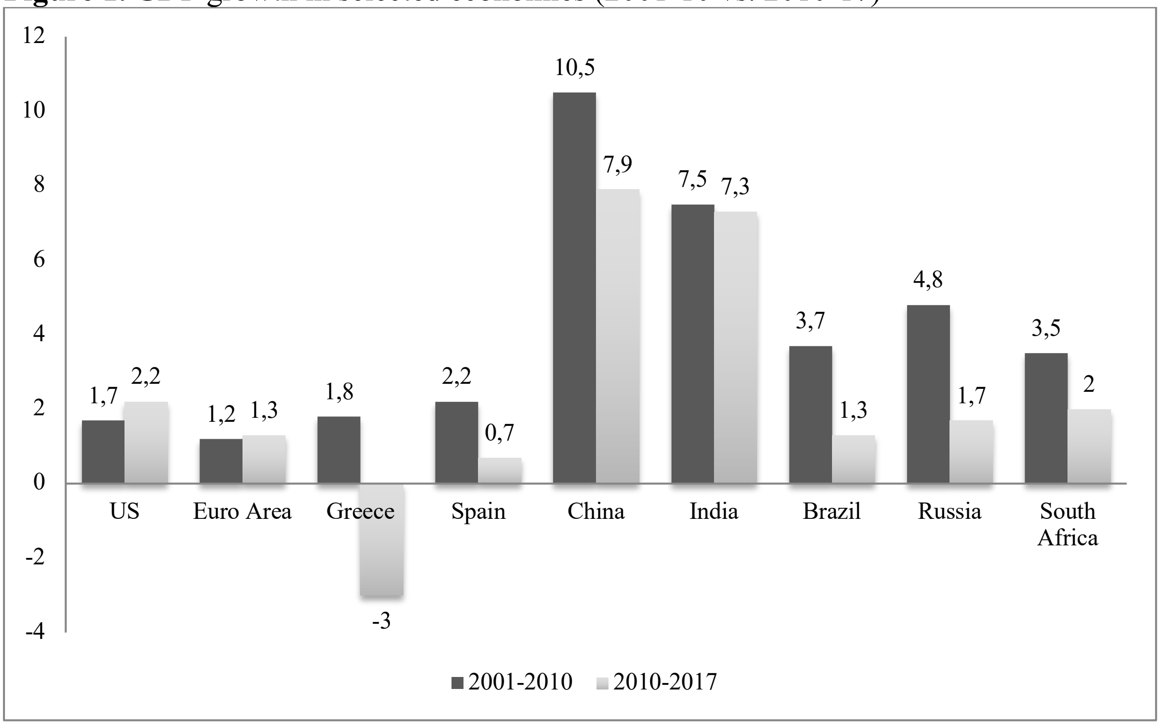
> State capitalist models are embedded in a distinct set of illiberal political governance structures incompatible with liberal democracy and political pluralism. In the post-crisis global political economy, when "democratic efficacy, self-confidence and economic dynamism recedes" in liberal democracies, the performance of the non-Western powers

> has lent credence to the notion that sustainable economic development can be accomplished in majoritarian political settings… To maximise their power, political elite in state capitalist models are inclined to use lucrative resources, government subsidies, infrastructure projects and credit allocation schemes to reward politically loyal economic actors and weaponise taxation and other regulatory instruments to punish dissidents.[13]

We should note at this point that state capitalism is analytically different from proper developmental states with high degrees of state capacity, based on meritocratic bureaucratic institutions, objective performance-based incentive schemes designed for the private sector as part of *competitive advantage-defying* objectives and institutional deliberation mechanisms structuring state-business relations. In proper developmental states, incentive structures are set in such a way as to reduce the possibility of rent-seeking motives on the part of private and state elites.[14] State capitalism, however, is more susceptible to *market capture* – that is, "the ruling elite picks winners and losers in the private sector based on their political loyalty,"[15] due to weak institutional checks-and-balances mechanisms. This market capture dynamic, in turn, is likely to pave the way for a model of oligarchic/crony capitalism in the long term. It is also true that the contemporary faces of state capitalism do not come in pure forms, such as the full-fledged import-substituting industrialization of the 1960s and 1970s, thus making it difficult to pose state capitalist practices categorically on the opposite end of the spectrum vis-à-vis neoliberal practices. To be clear, neoliberal policies still carry weight in the developing economies, as we will elaborate with reference to the Turkish case. The important to point to emphasize here is that, in the emergent hybrid international order, state capitalism has become increasingly dominant over the last decade.

Authoritarian forms of state capitalism have become much more visible, due to a new pattern of fragmentation that characterizes both the global North and the global South in the post-GFC era. During the 1990s, the Western "core" was in a robust position, whilst the "periphery" was quite fragile, as it was vulnerable to the vagaries of unfettered global capital mobility triggering successive emerging markets crises.[16] In the late 2000s, the "core" was in a relatively fragile state, while the "periphery" appeared to demonstrate strong growth performance and virtual immunity to the spread of crises from the core. Recently, however, we observe a distinct pattern of differentiation in economic performance of both the global North and the global South. In the case of the former, Western economies remained debt-ridden and stagnant. Even in relatively high-growth cases, we observe a pattern of growing income inequality giving rise to a populist sentiment with powerful protectionist and nativist overtones.[17] In the global South, a parallel process of fragmentation is evident. The two large BRICS, China and India, have continued on a strong growth path, while other members of the group (Russia, Brazil and South Africa) have been struggling (see Figure 1). This pattern of growing differentiation within BRICS – coupled with economic stagnation, increasing inequality and prolonged austerity policies in the democratic capitalist Western "core" – undauntedly increased the weight of China and the appeal of its authoritarian capitalist model.

Figure 1. GDP growth in selected economies (2001-10 vs. 2010-17)

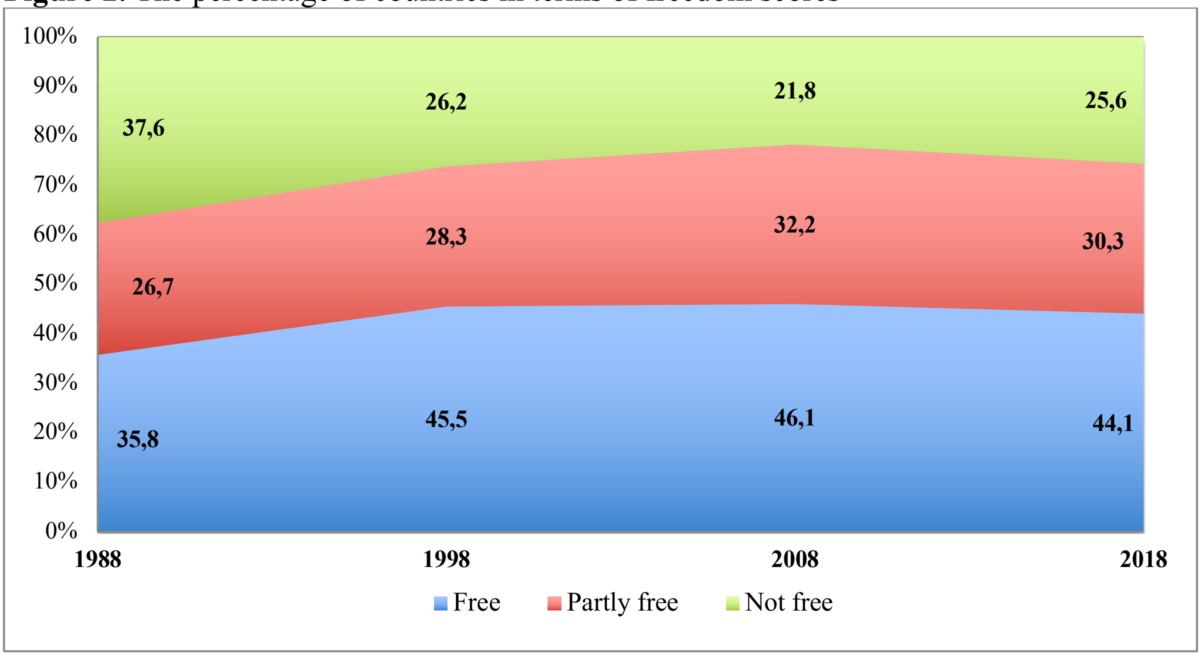


Source: The 2001-10 averages retrieved from the IMF World Economic Outlook Database (April 2019). The 2010-17 averages retrieved from the UN World Economic Situation and Prospects Report (2019).

The ideational and material power shifts in the international order have considerable impact on how state-market relations are organized and economic crises handled in the domestic realm. To be clear, the question whether authoritarian powers actively promote their political-economic regimes, or the extent of "authoritarian learning" are issues intensely debated in the literature.[18] It is plausible to suggest, however, that the growing weight of authoritarian state capitalism informs incentive structures in a number of different ways. In a post-liberal order characterized by hybrid governance institutions and norms, ruling elites in developing countries are no longer single-mindedly dependent on the Western-led institutions and paradigms. They enjoy escape routes in terms of their ability to finance investments from alternative sources.[19] The opportunities to diversify development finance and, thereby, to reduce dependence on the West entail critical political implications. Several states, especially those with illiberal regimes, are seeking further political-economic autonomy by experimenting with more heterogenous policies.[20] This signifies not only new economic policy space for emerging powers, but also an alternative to democratic capitalism, where the underlying assumption is that market economy and liberal democracy are complementary and inseparable.[21] The growing presence of authoritarian capitalism is accentuated by the fact that liberal democratic capitalism in the advanced Western countries confronts a major crisis of moral and performance legitimacy, resulting from the inequalities produced through extended exposure to neoliberal globalization.[22] Stated differently, the growing right-wing populist backlash in the West and the challenge of authoritarian capitalism generated by the non-Western great powers are mutually reinforcing phenomena. Advanced democracies of the global North encounter major challenges in terms of their ability to deal with increasingly unequal societies. Consequently, the liberal democracies of the core, which appeared to be robust for much of the post-war period, experience a "rise of anti-system parties claiming to challenge the neoliberal cartel."[23] The rise of Trump in the United States is perhaps the most striking example of this backlash, accompanied by an emergent illiberal counter-movement in Europe, particularly visible in, but not limited to Hungary and Poland.

In the non-Western world, by contrast, we observe a distinct pattern of authoritarianism alongside state capitalist paths. Already authoritarian cases, such as China, have been moving in the direction of further centralization and personalization of political power, as the recent presidency of Xi Jinping signifies. Among the "democratic BRICS," both in India under Narendra Modi and Brazil under Jair Bolsonaro, the pendulum has been swinging in a profoundly illiberal direction.[24] Apart from these well-known cases, the rise of powerful nationalist-populist leaders with illiberal inclinations appears to be a common feature, ushering in a new era of democratic regression as a global phenomenon. Figure 2 clearly highlights the fact that the share of authoritarian countries has been increasing over the last decade, whereas the share of democratic countries is in decline around the world.

Figure 2. The percentage of countries in terms of freedom scores



Source: Freedom House, Freedom in the World Report (2019), p. 3.

The emergent pattern described above is clearly distinct from the 1990s with respect to the nature and management of economic crises in the global South. During that period, countries that had unsustainable policies due to intense capital mobility within a poorly regulated global financial system experienced a sharp reversal of financial flows and rapid economic collapse, leading to "sudden stop" crises.[25] This, in turn, forced them to resort to IMF policies and disciplines. The post-crisis reform template also reflected Western-led orthodox policies entailing tight conditionality. Furthermore, growth in core economies was robust, which meant that there existed considerable optimism regarding their ability to pull up the global economy in the direction of regulatory neoliberalism. Given the lop-sided growth in the global North and the powerful alternatives emerging in the global South, in the post-GFC era countries in trouble can somehow survive and manage to finance their path to development, even though the type of economic policies they pursue may appear inchoate and inherently fragile in the long term. Also striking in the present context is that countries of this nature are able to avoid the IMF conditionality and the associated politically unpopular austerity programs.[26]

The case of Brazil deserves particular emphasis in this context. When the Workers' Party (*Partido dos Trabalhadores*, PT) occupied office under the leadership of Lula da Silva, Brazil became a successful example of Southern social democracy, combining economic growth with extensive income redistribution through comprehensive social assistance programs. More recently, however, Brazil plunged into deep economic stagnation, coupled with a series of massive corruption crises, which precipitated a dramatic political shock with far-reaching consequences and led to the rise of the authoritarian-populist Jair Bolsonaro.[27] It is not clear at this point whether the economic revitalization promised by Bolsonaro will lead to a phase of renewed growth. What is interesting for our purposes is that Brazil has managed to muddle through these crises without experiencing a sudden economic collapse. Similar patterns can be detected in the South African and Russian cases. South Africa, as a democratic BRICS, has been struggling with economic stagnation, endemic inequality and rampant corruption involving the former president Jacob Zuma, a pattern rather reminiscent of Brazil.[28] The case of Russia under Vladimir Putin is also quite striking. Compared to the early years, Russia has found itself on a distinctly slower growth path during Putin's second decade in power. To be fair, the current state of the Russian economy contrasts sharply with the dramatic collapse and profound dislocations associated with the Yeltsin era of the 1990s. Yet, authoritarian capitalist practices, of which Putin's Russia presents a striking example, display new forms of economic fragilities and harbor crisis tendencies. This is due to the personalization of political power, weakening state capacity, non-transparent capital accumulation strategies and discretionary interventions to markets in the absence of robust checks-and-balances mechanisms. The next section examines the Turkish case in order to substantiate our main argument.

Turkey's new heterodox crisis in comparative-historical perspective

Turkey was plunged into economic turmoil in 2018, after a period of relative stability and growth during the AKP rule (Table 1). Given that economic crises are recurring phenomena in the Turkish political economy, ongoing fluctuations should come as no surprise.[29] However, we argue that this time the pattern is quite different, in terms of both underlying sources and crisis management. If the current experience is placed within a historical-comparative context, the principal structural problem of the late 1970s consisted of the import substitution strategy and the resulting combination of export pessimism, which led to unsustainable balance-of-payments deficits.[30] The adjustment process involved structural reforms that integrated Turkey into the global economy, through an export-oriented growth model implemented with the neoliberal-oriented 24 January 1980 Decisions under the cross-conditionality of the IMF and the World Bank. In the second phase of Turkish neoliberalism, during the 1990s, the key structural problem was an under-regulated banking system in the presence of a "premature liberalization" of the capital account regime, which fully exposed Turkey to the vagaries of global finance.[31] The adjustment measures following the 2000-1 crisis aimed at restructuring state-market relations, by facilitating the establishment of strong regulatory institutions in line with the new logic of the post-Washington Consensus, notably in the banking sector.[32] Again, key Western institutions, the IMF and the World Bank – this time together with the EU anchor – heavily shaped the crisis management process and the post-crisis reform agenda. Following the 2001 economic crisis, Turkey adopted a series of reforms, which involved large-scale privatizations to reduce the role of the state in the economy, the establishment of nine independent regulatory institutions to consolidate the rule-based market economy and independence of the central bank to maintain price stability.[33] The AKP government fully adhered to the prescriptions of regulatory neoliberalism until the 2008-9 GFC.

In retrospect, economic crises had important political ramifications in both cases. The crisis of the late 1970s brought about the collapse of the Turkish democracy during the early phase of neoliberal reforms. From late 1983 onwards, a top-down, centrally engineered gradual re-democratization process followed a repressive period of military interlude. The crisis of 2000-1 was also associated with structural problems of the Turkish democracy, as successive weak coalition governments failed to address the deficit-led growth model in the economy, which resulted in the collapse of the poorly regulated financial system. It is true that the adjustment took place in a predominantly democratic framework in the post-2001 era. However, the parties involved in the coalition government were penalized in the elections of November 2002, even though they were responsible for significant reforms under the auspices of the key Western institutions.[34]

We may classify the crises of the late 1970s and 2000-1 as "orthodox," in the sense that in each case (a) the underlying economic model was unsustainable, leading to a major breakdown followed by the intervention of the key Western-led institutions to stabilize and restructure the Turkish economy; (b) post-crisis adjustment occurred in a geopolitical context where Turkey was firmly embedded in the Western alliance and within a neoliberal framework of economic governance; and (c) there was an underlying assumption that post-crisis adjustment would take place in a predominantly democratic framework, at least in the medium run. The final element constitutes a contestable proposition, given the democratic breakdown in September 1980. Even in that context one could argue that the military regarded their intervention as temporary, facilitating an ultimate return to democracy. Indeed, by Latin American standards, there was a relatively short military interlude and a comparatively swift return to parliamentary democracy and multi-party politics, although the military elite tried to shape the future of Turkish democracy through political engineering. The Constitution of 1982 strengthened the powers of the executive and facilitated the emergence of a *de facto* presidential system during the Özal era of the 1980, when top-down decision making through cabinet decrees increasingly became the norm.[35] The question of whether the early experiment with presidentialism during the 1980s constitutes a prelude to the current presidential wave in Turkey is a question that deserves investigation in its own right. Our position on this issue is that Özal's approach to presidentialism was based much more on democratic norms, taking the United States or the Latin American cases as its primary point of reference.

The crisis of 2018-19 also has structural and proximate causes. This time, the underlying structural cause may be diagnosed as an attempt to consolidate a top-down political system to ensure maximization of political power, along with a highly centralized, state-led economic governance model in the presence of considerable political-economic constraints. The desire to establish the new institutional framework faced serious challenges in a large natural-resource-poor economy that yet is significantly integrated within the Western-led global financial system and that, despite periodic breakdowns and interludes, boasts a long-standing history of democratic development. The proximate cause was the confidence crisis that occurred following the June 2018 elections, with Turkey's transition to presidential system. The most obvious manifestation of the recent economic turmoil was a serious currency crisis during the summer of 2018, in the immediate aftermath of the presidential elections. In 2018, the Turkish Lira lost more than 30 per cent of its value. It is reported that between "May and August 2018, residents transferred $17.4 billion of their savings abroad."[36] The Central Bank increased the policy rate (one-week repo auction rate) by 625 basis points in September to stabilize exchange rates. The magnitude of the currency depreciation was significant in terms of the impact on the real economy, which triggered an economic recession and increase in unemployment figures. This is because the corporate sector has been accumulating a large amount of foreign-denominated debt and depreciation in the Turkish Lira, which made a large number of firms vulnerable to a corporate debt crisis, with spill-over risks to the banking sector and beyond. As a result, in November 2018 the government had to restructure the loans of the banks worth 118 billion TL, in an attempt to avoid a full-scale collapse.[37] Whereas the sharp currency fluctuation was a clear manifestation of the 2018-19 crisis, macroeconomic indicators had been pointing towards a pronounced weakening of the economic performance, highlighted by a combination of slowing growth rates, rising unemployment figures, a series of bankruptcies in the real sector and inflationary pressure hiking back to double-digit rates for the first time since the early 2000s (Table 1; Figure 3). As a matter of fact, a much deeper crisis was in the making in the form of a prolonged stagnation – or "slumpflation," as aptly called by a popular commentator.[38]

Table 1. Turkey's main macroeconomic indicators

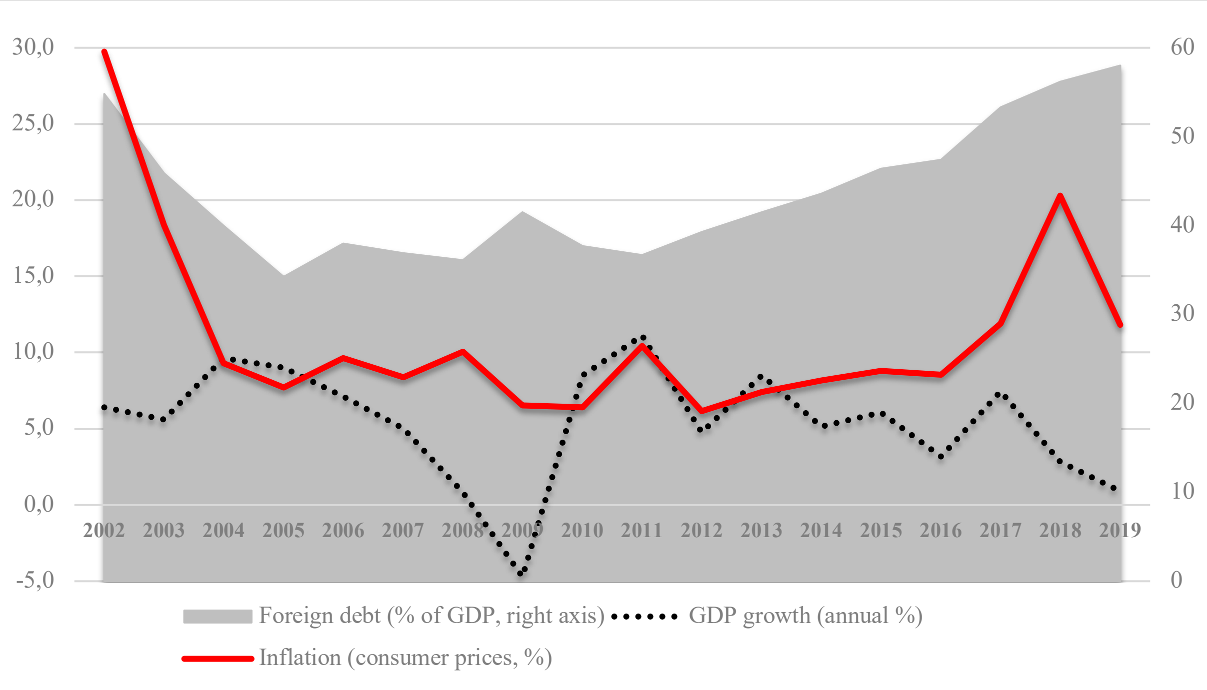
Basic indicators	2002	2004	2006	2008	2010	2012	2014	2016	2017	2018	2019
GDP growth (%)	6.4	9.6	7.1	0.8	8.5	4.8	5.2	3.2	7.5	2.8	0.9
GDP (billion, $)	236.3	403	547.8	776.6	772.4	871.1	934.9	862.7	852.6	789	753.7
GDP per capita ($)	3,581	5,961	7,906	10,931	10,506	11,588	12,112	10,883	10,616	9,693	9,127
Current account balance	-0.26	-3.5	-5.7	-5.1	-5.8	-5.5	-4.2	-3.1	-4.8	-2.6	1.2
External debt	54.8	40	38	36.1	37.7	39.3	43.6	47.4	53.3	56.2	58
Budget balance	-11.2	-5	0.6	-1.8	-3.5	-1.9	-1.10	-1.10	-1.5	-2.00	-2.9
Inflation (annual %)	29.7	9.3	9.7	10.1	6.4	6.2	8.2	8.5	11.9	20.3	11.8
FDI (billion, $)	1.08	2.8	20.2	19.9	9.1	13.7	13.3	13.9	11.1	13	8.6
Unemployment (%)	10.3	10.3	9.0	10	11.1	8.4	9.9	10.9	10.9	11	13.7
Gini index	41.4	41.3	39.6	39	38.8	40.2	41.2	41.9	41.4	41.9	…

Source: Republic of Turkey, Ministry of Finance and Treasury. GDP and GDP per capita, in current prices (US$). Budget balance and external debt are calculated as percentage of GDP. Current account balance is percentage of GDP. FDI is the annual inflow of foreign direct investment in US$. Gini index measures income inequality in a country. Gini index data taken from World Bank (https://data.worldbank.org/indicator/SI.POV.GINI), as a value between 0 and 100. Accordingly, 0 represents "perfect equality" and 100 "perfect inequality."

Turkey's recent experience is rather different from that of previous episodes. The Turkish authorities have been able to muddle through the *creeping crisis* without experiencing, at least for the time being, a complete collapse that would necessitate a radical bailout package from the IMF. In comparison to the major crises experienced in 1978-79 and 2000-1, the current economic turmoil and post-crisis management displays two qualitatively distinct characteristics. First, the earlier crises were the products of unsustainable populist cycles and the "inability of governments in power to manage distributional conflicts within the institutional boundaries of parliamentary democracy."[39] Typically, large budget deficits due to the fiscal profligacy of the state and high inflation rates were translated into a chronic balance-of-payments crisis. With a dramatic decline in international reserves, under the fixed-exchange-rate system the balance-of-payments deficits could no longer be financed, and the country had to resort to the IMF for financial assistance. In a predominantly Western-led international system – with Turkey being firmly embedded in the transatlantic security architecture – rescue attempts in both 1980 and 2001 involved large-scale assistance from key international financial institutions. As Kirkpatrick and Öniş underline, after the 24 January 1980 Decisions, Turkey secured an extended three-year financial support from the IMF, along with five structural adjustment funds from the World Bank.[40] In the aftermath of the 2001 crisis, the Turkish ruling elite once again considered the IMF as the only viable option and "envisioned continuity in their relations with the IMF as part of a broader foreign policy stance that involved closer relations with the USA and the EU. The IMF, in return, and in line with US foreign policy, was willing to lend significant sums of money to Turkey, several multiples of its quota at the Fund, to facilitate the country's recovery and reform process."[41] The scale of the assistance provided in both cases enabled as well as compelled Turkish authorities to undertake radical neoliberal reforms, resulting in a substantial economic overhaul, a restructuring of the state sphere and the swift resumption of growth after a sudden and sharp collapse. Stated differently, Turkey's geostrategic position, as a key member of the Western alliance, was a significant factor in the underlying commitment of key Western actors to the recovery process in an essentially American-led international order.

Turkey has once again been experiencing elements of a populist cycle, especially in the late AKP era. However, the scale of the problem is not comparable to the depth of the distributive crises that had unfolded in earlier periods. The 2018-19 crisis has not involved, at least so far, a complete breakdown of the Turkish economy. The combination of slow growth, mounting external debt and rising inflation has influenced the fortunes of the government (see Figure 3), but not to the point of a massive failure and collapse of public finances. The punishment effect brought about by the perils of uncontrolled populism in the earlier crises has not materialized. In effect, the new presidential system has proved resilient in the face of the difficult economic situation. As in the case of many instances of the new wave of emerging market crises, the government has been able to muddle through, without a fundamental loss of popularity.

Figure 3. Rising inflation, slowing growth and mounting foreign debt



Source: Republic of Turkey, Ministry of Finance and Treasury; authors' figure.

We maintain that the policy space available to the Turkish government is the outcome of an international context that is radically different in the current era. In a post-liberal international order, the Turkish ruling elite do not feel firmly embedded in the Western alliance. The AKP government's foreign policy preferences have been shifting simultaneously to the East (the Russia-China axis) in economic-political terms and to the Middle East (the Islamic Arab world) in terms of collective identity and cultural affiliation. There exists mounting evidence that the new presidential regime is trying to capitalize on global transformations by shifting Turkey's orientation in the direction of the predominant models of authoritarian capitalism, in order to strengthen its grip on political power at home (see below). This approach does not mean totally turning away from the West. There still exists a desire to reconstitute mutual relations with the West on strictly *transactional* terms, stripped away from its normative foundations. Relations with the United States and the NATO continue to be important in security terms, while the EU remains a major economic partner. The key point is that the Turkish ruling elite no longer considers the West to be the key anchor or reference point.

Second, the way in which the 2018-19 crisis was managed also differs from previous crisis episodes. A highly nationalistic and populist counter-crisis narrative based on anti-Western sentiment has been employed to sustain domestic political support.[42] The perception of the government circles is that alternative means of finance are available from non-Western powers (such as Russia, China and Qatar), which would render Turkey "strategically autonomous" from the predominant Western actors and institutions. The Turkish President, Recep Tayyip Erdoğan, for instance, denounced the EU "as an actor blocking Turkey's progress,"[43] and his chief advisor addressed non-Western great powers such as Russia and China as an alternative to the European integration project.[44] On the other side of the coin, the Western decision-makers themselves may not be as forthcoming as in the past, in case the current economic difficulties evolve into a much more serious issue, given the transactionalist turn in bilateral relations and changed perceptions of Turkey in the eyes of the Western allies. This would obviously render economic recovery much more difficult, in the absence of the kind of assistance provided in 1980 and 2001. However, the emergent post-liberal international order is likely to provide some policy space that previously had not been available to the Turkish ruling elite wishing to pursue alternative policies, as we will explore below.

The politics of the new heterodox crisis: Attempts to consolidate the presidential regime

The central proposition that we advance here is the existence of much deeper political governance problems underlying Turkey's new heterodox economic crisis. The Turkish case exemplifies a tendency associated with the new wave of emerging market crises, which we have discussed earlier – namely, the pronounced global regression of liberal democracy and the attendant authoritarian state capitalist turn in a variety of cases. Turkey has been one of the countries influenced by the underlying global shifts. This was amplified by the fact that this transformation coincided with equally dramatic domestic political dislocations, when the ruling

AKP consolidated its hegemonic position in Turkish politics in a way never seen before, under the leadership of Recep Tayyip Erdoğan in his third term in office.[45]

The changing global context, intersecting with equally powerful domestic shifts, enabled Erdoğan to push for a highly centralized political system with weak checks-and-balances mechanisms, rather reminiscent of Russian-style hyper-presidentialism. The strong ties with Russia, which had already been established in the previous two decades, expanded on multiple fronts. The end of the 2010s increasingly saw Russia, with China in the immediate background, as Turkey's principal economic and security partner. The Turkish political economy also started to display certain features of state capitalism, although some key elements of the neoliberal agenda (such as the free flow of financial capital) remained mostly intact. The Turkish political economy was progressively transformed from regulatory neoliberalism to a new model of developmentalism – that is, top-down state capitalism, based on active state involvement in the economy through formal and informal mechanisms, a personalized network of capital accumulation strategies through public-private partnerships and public tenders, the suppression of dissident private actors through weaponized taxation policies and political disdain for independent regulatory institutions, including the central bank.[46] The new model of state capitalism is based on extensive privileges given to powerful business interests with strong ties to the hegemonic political party. As such, mega projects in housing, construction, the defense industry and the energy sector became central pillars of the new form of capital accumulation, the details of which will be highlighted in the subsequent section.

Turkey's incremental drift and Erdoğan's drive in search of a centralized presidential system was already evident from 2011 onwards. The popular demonstrations against the government in May and June 2013, known as the Gezi Park protests, created the first wave of illiberal backlash.[47] December 2013 constituted yet another critical turning point, when, following serious allegations of corruption, the rift within the religious conservative alliance involving the core AKP elite and the Gülen Movement created an even stronger reaction. The slide towards authoritarianism continued during the election of June 2015. The end of the peace process with the PKK and the re-emergence of violent conflict raised serious concerns. The AKP leadership effectively capitalized on these events by utilizing anxieties about security to mobilize its support base and consolidate political power.[48]

The wave of political crises affecting Turkey took a new turn following the notorious 15 July 2016 military coup attempt.[49] The fact that the coup attempt was averted by popular counter-resistance could, indeed, be interpreted as a major success for Turkish democracy. Yet, the failed coup also opened an unprecedented space for the further centralization of the regime, through the formal introduction of the presidential system. The AKP's previous allies, the Gülenists, were identified and from that point onwards classified as a terrorist organization, as being primarily responsible for the attempted coup. Under the state of emergency rule, the illiberal turn gathered full momentum; it targeted not only the followers of the Gülen movement, but all opposition openly critical of the government. By the time the formal state of emergency ended in July 2018, more than 130,000 civil servants had been dismissed, more than 78,000 persons detained on terrorism charges, more than 1,500 associations and civil society organizations closed down, around 150 journalists imprisoned and over 170 media outlets banned.[50] Progressive restrictions took place concerning the freedom of expression, the concentration of media outlets with strong ties to the governments and the demise of judicial autonomy. As a result, in 2018, Freedom House downgraded Turkey's status to "not free" in terms of political rights and civil liberties.

The failed military coup was instrumental in accelerating Turkey's drift away from the West, a process already underway since the previous decade. The government promoted the view, largely shared by a broad segment of the public, that the Western powers, and the United States in particular, had assumed an active role in sponsoring the coup attempt.[51] The allegations against the United States and the EU may not necessarily rest on solid foundations, although admittedly neither the US government nor the EU institutions appeared sufficiently critical of the failed coup attempt. Important for the present context is that these allegations helped to promote a strong dose of nationalist discourse and anti-Western sentiment across the whole range of Turkish society. It also carved out additional space for the swift transition to a hyper-presidential system.

The attempts to consolidate political power took a new turn with the Presidential Referendum in April 2017, which constitutes a critical juncture in terms of understanding the political dynamics of the 2018-19 economic crisis. Although Erdoğan enjoyed enormous popularity in the aftermath of the coup attempt, he could only muster 52 per cent of the vote in the referendum, thus signaling a narrow mandate for transition to the new system. This narrow victory, in turn, generated a certain degree of anxiety, which played a critical role in reactivating the old-style populist cycle that had been conspicuously absent between 2002 and 2015. In retrospect, one of the main reasons why the AKP has proven to be so successful, when compared to previous right-wing governments in Turkey, is closely related to its ability to maintain fiscal discipline and macroeconomic stability, along with "a variety of formal and informal redistributive mechanisms."[52] Since 2016, however, the government seems to have changed course. The timing of the presidential elections was moved forward, and a significant expansion of public expenditures occurred, with the objective of securing strong popular support for the presidential system. As a result, inflation has come to pose a key problem once again after a successful fifteen-year period, during which it was consistently kept at single-digit levels within a robust growth environment (see Figure 3). It is quite ironic that giving up on fiscal conservatism and indulging in a strategy of pumping public money to buy votes failed to expand the support base of the government. In the first-ever election of the Presidential system in June 2018, Erdoğan managed to secure a narrow victory, again with 52 per cent, but only with the support of the Nationalist Movement Party. Erdoğan's own party, the AKP, could gather around 43 per cent of the vote, insufficient to pass the absolute majority necessary to win the elections. The new presidential system was eventually instituted but continued to rest on fragile foundations. It is against this political background that we need to locate and understand the nature of Turkey's new heterodox economic crisis.

A precarious strategy: The regime survives by drifting away from the West

The June 2018 elections did not provide firm support for the presidential regime, as had originally been anticipated. Also, the reaction of the "markets" was quite negative to the formation of the new Cabinet, which involved the appointment of the President's son-in-law as super-powerful Minister of Treasury and Finance, with sole responsibility for the management of the economy. The negative reaction signaled a clear disaffection on part of a large segment of economic actors on the domestic and foreign fronts. The Turkish Lira, for instance, lost 10 per cent of its value when the new minister launched a "New Economic Program" in September 2018, reflecting a "complete lack of confidence."[53]

The reaction of the market actors pointed towards a deep political governance crisis in Turkey. The role of political motives behind Turkey's recent economic turmoil is arguably most visible in the reversing fortunes of regulatory institutions – that hallmark of the regulatory neoliberal paradigm of the early AKP period. The institutional autonomy of the Central Bank was a key contributor to keeping inflation consistently low, which, in turn, laid the foundations of sustained economic growth.[54] Erdoğan and the AKP elite progressively challenged the autonomy of the Central Bank in the post-2011 era. There was a clear desire to end Central Bank autonomy and bring it under direct government control, in line with the changing logic of state capitalism. Erdoğan and his close circle were determined to keep interest rates low by means of direct political pressure, in order to stimulate consumption and investments, especially in the housing and construction sectors, which heavily relied on bank credits. The construction sector has become a key area of rent extraction, which helped enormously to create a new economic elite loyal to the government. The share of the construction sector in the overall economy increased from 4.5 per cent in 2003 to 8.6 per cent in 2017.[55] The floor area of building permits, which totaled 36.1 million m^2 in 2002, reached a spectacular 283.5 million m^2 in 2017.[56] The Central Bank's housing price index also rose by 132 per cent between 2010 and 2018, demonstrating the attractiveness of the construction sector as a site of rapid capital accumulation.[57]

The dominant mode of capital accumulation in the late AKP era signaled that the ruling elite would relentlessly push for a top-down, centralized model of development, the foundations of which had already been laid during the pre-presidential era. On that note, as part of a strong populist-nationalist discourse, growing criticisms about economic management were countered by shifting the blame to foreigners. The sanctions that the Trump administration placed in 2018 towards certain imported products from Turkey, as a reaction to the Turkish government's refusal to release an American citizen who had been "arrested on terrorism and espionage charges,"[58] created a perfect excuse for stoking nationalist sentiment and shifting the blame for the depreciation of the currency to "foreign conspirators" – meaning predominantly the Western powers.[59] Pointing to the attacks on the domestic currency in 2018, the Turkish President argued that "these are the missiles, the shots of the economic war opened on our country," blaming those who criticized the government's economic policies as "economic terrorists".[60]

The government's heterodox crisis management approach also involved elements of the new logic of state interventionism and strict control over market actors. For instance, in the wake of the 2018-19 crisis, many companies (including small enterprises) were urged to keep their prices low, and public officials implemented strict price control policies in privately owned stores.[61] The government also provided vegetables and other supplies via municipality-run stands in different cities, as a means of anti-inflationary counter-measure.[62] This was again framed with strong nationalist overtones of counteracting an "economic war" against "treasonous profiteering."[63] Despite mounting economic problems, the ruling elite appeared to be single-minded in their commitment to deepen and consolidate the new presidential regime. In effect, the Turkish leadership utilized the economic crisis to shift Turkey further away from the West, regardless of the obvious risks that such a precarious strategy entailed. The rejection of an IMF program at all costs constituted a hallmark of the government's approach to and disdain for Western-led institutions. Erdoğan claimed on several occasions that he would never again "put Turkey under the IMF yoke."[64] Given its political objective of avoiding the IMF at all costs, the government turned to non-Western sources for financial assistance with China, Russia and Qatar being the primary allies.

Politics of the crisis in the context of the newly instituted presidential regime

The preceding sections maintained that the 2018-19 economic crisis in Turkey should be interpreted within the context of global and domestic political shifts. However, any attempt to implement a Russian-style strongman regime and version of state capitalism in the Turkish context is confronted with some fundamental challenges. First, Turkey has a history of multi-party democracy and organized political opposition, even if highly fragmented and reactive. Second, it lacks the kind of natural resource base in oil and gas reserves that Russia has and that can mitigate the negative effects of strongman regimes. The key resource in the Turkish context is "land."[65] However, the continuous commodification of public land to raise revenue and making it available for construction hardly constitutes an effective basis for sustainable growth. Third, Turkey has a long history of being embedded within a network of Western institutions. The security linkages with the transatlantic alliance through the NATO, as well as investment and trade linkages with Europe prove critical. For instance, the EU-US share in Turkeys' total trade is around 51 per cent, and their share in overall direct investment hovers around 68 per cent.[66]

There is also evidence of mounting opposition to the new presidential regime. This is partly because of the ongoing economic crisis with its negative effects on significant elements of the business community and the public at large. Beyond the economic factors, however, there appears to be a growing reaction to the over-centralization and personalistic nature of the new regime. The strength of the opposition became evident in a rather surprising fashion when the main opposition party, the Republican People's Party, with the help of the Kurdish votes, emerged victorious in several major metropolitan municipalities, including Istanbul and Ankara, building on its already strong traditional stronghold in Izmir. Before the March 2019 local elections, the share of the AKP-led municipalities in Turkey's economic production had been 74.5 per cent; this decreased to around 30 per cent after the elections – an enormous loss in terms of the government's populist distributional strategies at the local level.[67]

The recent municipal elections provide a sign of hope for Turkish democracy, in spite of the powerful drift in the direction of authoritarianism over the recent years. This is important in the sense that, up to that point, Erdoğan's legitimacy was based on his ability to appeal to the majority and win elections by comfortable margins. On this occasion, there was a clear unwillingness to hand over power in the case of an electoral defeat. The fact that there was such a backlash in the re-run elections of June 2019 shows the resilience of Turkish democracy in the face of a strong authoritarian challenge. The election of İmamoğlu to mayor of Istanbul is also significant for illustrating the emergence of a new generation of leaders with a more inclusive vision of Turkish society, a generation that can directly counteract the majoritarian logic based on intentional polarization and exclusionary identity politics. A parallel trend, also worth highlighting, concerns the growing opposition within the ruling party. Some of the key figures who had played critical roles in the AKP – such as Ali Babacan (a former Minister of the Economy and Foreign Affairs) and Ahmet Davutoğlu (a former Foreign Minister and Prime Minister) – have come out in active opposition. Both have formed their own, new political parties. These parties try to reach out to large segments of Turkish society, while at the same time attracting early AKP figures who have been marginalized from the political scene. There exists a significant fraction of liberal-conservative, right-of-center voters who tend to vote for the AKP, who are in favor of the protection of their religious identity and freedoms yet are increasingly unhappy with an over-centralized and personalistic political regime. All these developments suggest that the new presidential system is far from being consolidated and that there exist opportunities for re-democratization in the future.

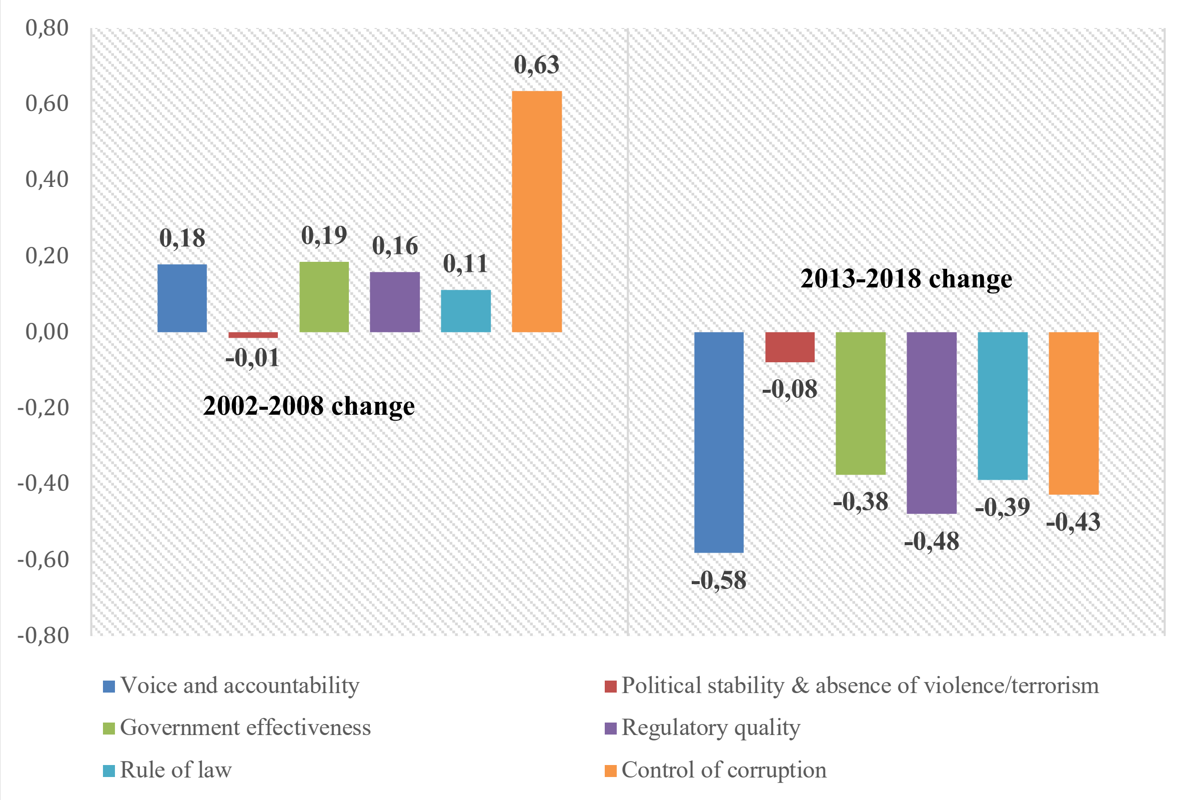
At the same time, however, growing opposition does not seem to have diverted the presidential leadership from its constant push in line with its original ambitions to deepen executive aggrandizement. In terms of political governance, the decision-making process has been increasingly centralized as the Parliament has been effectively marginalized. In the economic realm, parallel to the increasing concentration of executive power, the constant trend towards the deepening of Turkish-style state capitalism has remained in full swing. A dramatic step in this direction involved the virtual end of the Central Bank's autonomy following the dismissal of the former Central Bank Governor in July 2019. President Erdoğan declared that he sacked the Governor of the Central Bank because he did not "follow instructions […] He was always defending those who want high [interest] rates."[68] This decision hammered the final nail into the coffin of central bank independence in Turkey. On a larger scale, however, Turkey's drift away from regulatory neoliberalism started in the post-GFC era. The independence of nine regulatory institutions, for instance, was curtailed, and executive power over these institutions was reinstated after 2011. The discretionary political interventions in the functioning of the markets particularly became more frequent after 2009, leading to growing uncertainty. The World Bank Report documents the increasing number of state interventions "through discretionary legal instruments" – that is, not requiring formal consultation – as follows:

> The number of changes [in business environment] increased from an average of 360 per year between 2000 and 2009 to an average of 2,100 per year between 2010 and 2018. The analysis also shows that changes to rules and regulations were increasingly introduced using more discretionary instruments. Between 2003 and 2008, most changes were instituted through primary Laws, but after 2009, most changes came through communiques and regulations; the latter accounted for around 90 percent of changes relating to business rules and regulations between 2016 and 2018.[69]

In the domain of the real economy, public-private partnerships were expanded with the introduction of additional Treasury guarantees to projects mostly carried out by politically connected companies. Since 1986, almost 90 per cent of all public-private partnerships have been carried out during the AKP period, which constitutes $130 out of a total of $145 billion. Public-private partnerships, as a highly non-transparent capital accumulation and wealth creation mechanism along state capitalist lines, have become particularly popular in the late AKP era, with a total value of $114 billion between 2009 and 2019 – that is, 78 per cent of all contracts since 1986.[70] The World Bank documents that Turkey has become the fourth-largest investor in public-private partnership projects, following China, Brazil and India. It is also striking that five of the world's top ten private companies participating in public infrastructure projects are Turkish companies,[71] known for their strong political ties to the government. In addition, public enterprises are located under the umbrella of the newly established Turkey Wealth Fund (*Türkiye Varlık Fonu*, TWF), with the aim of utilizing the TWF as a financial vehicle to raise additional funds for mega projects and to pursue strategic investments.[72] The fund holds public assets worth $200 billion and has an equity value of $33 billion. One of these striking mega projects that the TWF is likely to finance is the Canal Istanbul project. The project itself has generated significant public controversy and resentment from opposition circles, given its exorbitant cost and negative environmental repercussions. The operations of the TWF generate significant question marks in terms of transparency and accountability, as President

Erdoğan appointed himself as the fund's chairman and his son-of-law as deputy-chairman in 2018.[73] Finally, legal changes in 2019 provided further scope for the Treasury to partner with private firms, which in fact gives the government an active role in the rescue operations of bankrupted private corporations by using taxpayers' money.[74] We maintain that the steps taken by the government in the late AKP era have expanded state capitalism in such a way that it presents a stark contrast to a genuine model of developmentalism based on strong institutions and enhanced state capacity to implement sound industrial policy. This is because frequent political interventions lack a coherent developmentalist logic and proper instruments, such as bureaucratic meritocracy, performance-based assessment criteria and rule-based institutional interdependence mechanisms with economic interest groups to address the technological gap in the Turkish economy and improve domestic high-value-added production capacity. According to World Bank calculations, high-technology exports over total manufactured exports have remained stagnant (less than 3 per cent) and well below world averages (around 20 per cent) over the last decade.[75] Instead, de-institutionalization, deterioration of property rights and regression in rule of law appear to be the hallmarks of the new system, which has undermined state capacity and efficient allocation of resources. Figure 4 shows the dramatic decline in the Turkish state's political governance capacity in the late AKP era, in comparison to the early 2000s. An incremental but pronounced regression in state capacity indicators has gradually undermined a rule-based market economy.

Figure 4. Main state capacity indicators in Turkey – 2002-8 vs. 2013-18 (overall changes)



Source: World Bank Worldwide Governance Indicators database; authors' figure. The governance indicators take a value between +2.5 (highest) and -2.5 for each parameter. The cumulative increase and decrease in governance indicators take a value between +5.0 and -5.0. Positive changes (between 2002 and 2008) refer to the increase in state governance capacity; negative changes (between 2013 and 2018) refer to the decline in state governance capacity. Data suggest incremental deterioration in four governance parameters between 2008 and 2013. The changes in this period (2008-13) are as follows: control of corruption: -0.02; rule of law: -0.01; regulatory quality: 0.17; government effectiveness: -0.11; political stability and absence of violence/terrorism: -0.43; voice and accountability: -0.21.

We therefore maintain that the ruling elite's quest for power maximization has led to *market capture* in the late AKP era. This exacerbated the already existing structural problems of the Turkish political economy, such as chronic current account deficits, dependence on external capital inflows and increase in foreign-currency debts of non-financial corporations. It is true that modest economic recovery took place from the initial period of the exchange rate fluctuations in the late 2018. However, the recovery appears to be fragile and largely driven by credits extended by public banks, which directives from the government put under growing pressure to lend. The Central Bank reserves were also utilized to cover the budget deficit and stabilize the exchange rate. This, in turn, causes a depletion of the official reserves, along with a depletion of its credibility. According to the IMF report in June 2020, Turkey counts among the countries with a relatively low reserve adequacy ratio and high external financing requirements.[76] Although there are indications of a recent upward turn, this does not seem to be the kind of robust economic growth mitigating key governance problems, which is likely to have significant political repercussions in a creeping crisis equilibrium.

The political governance crisis has been reinforced by shifts in Turkish foreign policy, with an unwarranted burden on the Turkish economy. Immediately after the (for the government so traumatic) municipal elections of 2019, attention was diverted away from the domestic political sphere with an explicit focus on the purchase of a S-400 surface-to-air missile system from Russia, which was conceived as a step to ensure Turkey's "strategic autonomy" from the NATO alliance and the drift away from the West. The strong American reaction to the $2.5 billion acquisition was effectively used to stir up nationalist-populist sentiment at home, as a crisis-management discourse. Turkey also became more active in expanding economic relations with China, with an almost twofold increase in the bilateral trade volume over the last decade, as well as growing Chinese investments. It is striking that Turkey, for the first time in many years, failed to emphasize the maltreatment of the Muslim Uighurs in China's Xingjian province. The assertive anti-Westernism in the early phase of the presidential regime suggests a pronounced shift away from the West and towards the Russia-China axis, as a means of overcoming the current crisis and consolidating the new presidential system. There is a clear danger, however, that the desire to maintain "strategic autonomy" with respect to the West and along the lines of a transactional logic may lead to new forms of asymmetric dependence relationship with the East. For instance, recent developments in the context of the Syrian civil war amply illustrate the fragile nature of the Turkey-Russia alliance, which suggests that the relationship falls considerably short of a strategic partnership.[77] Turkey's attempts to balance its relations with the West, while at the same time shifting its direction to the non-Western great powers, may lead to a new era of isolation with costly political-economic consequences. These developments deserve a separate analysis in their own right. There is no doubt that in the recent years Turkey's new assertive foreign policy stance, often motivated by domestic political concerns, has undermined the confidence of key economic actors and restricted the flow of investments into the Turkish economy.

Conclusion

This paper argued that the Turkish case constitutes a striking example of how shifts in the international order provide alternative forms of leverage and open up new policy space for the ruling elite in emerging powers to manage their crises through heterodox ways, while also maintaining a hegemonic position in their domestic political systems. Hence, the present paper offers an alternative causal interpretation, by focusing on the political origins of Turkey's new heterodox crisis at the external-domestic nexus. We do recognize that the Turkish economy has structural problems such as low savings, a dependence of non-financial corporations on foreign debt and the failure to develop high technology exports, the origins of which lie in earlier periods. Yet, we argue that the ongoing economic challenges cannot merely be interpreted as a crisis of regulatory neoliberalism that emerged as outcome of Turkey's suboptimal integration into neoliberal globalization. Instead, we propose that the recent turmoil is related to a combination of state capitalism with certain neoliberal features in an increasingly de-institutionalized domestic political governance framework. Turkey is one of those cases where the recent political-economic trajectory has been deeply influenced by the global shifts in the post-GFC era and its associated domestic political dislocations.

From a comparative-historical perspective, Turkey's new heterodox crisis is illuminating for three main reasons. First, it shows how a weakening of democracy can become the basis of a new political-economic development regime – the combination of a top-down presidential system and alternative form of state-market relations, which brings together elements of state capitalism and certain neo-liberal features. Second, the new policy path is clearly not successful in economic terms, leading to a combination of slow growth, high inflation, rising unemployment, and greater income and wealth inequality. Third, there is no obvious presumption that, given the nature of the economic challenges, significant reform would be implemented to improve the performance of the domestic economy. As indicated at the outset and as the recent Turkish case testifies, one of the key characteristics of the new generation of "crises" is that governments can muddle through, without necessarily experiencing a complete collapse. As long as they are able to survive and ensure some element of continuous economic growth, they will be able to maintain their popular legitimacy and hold on to power. If growth of some form is sustained and the legitimacy of the regime can be maintained, this leads to the worrying prospect that the new-style economic crises may not necessarily undermine authoritarian regimes; rather, they may contribute even further to their institutionalization.

In terms of potential future scenarios, it is not our intention to suggest that a return to regulatory neoliberalism constitutes a real alternative to the illiberal-statist path of development that has emerged in the late AKP era. What we propose is a combination of enhanced state capacity and democratic developmentalism, along with a balanced foreign policy compatible with the constraints and capabilities of a significant middle power in its respective region. Democratic developmentalism, in turn, necessitates selective state interventionism to guide the market and sound industrial policy, but within a framework of rule of law and strong bureaucratic institutions in terms of policy autonomy and meritocracy. On a final note, we should point out that the global Covid-19 crisis has brought about an entirely new dimension to Turkey's heterodox crisis of recent years. As documented in the present paper, Turkey has been struggling, but managing to hobble through a crisis without experiencing a complete collapse. The extent and longevity of this exogenous shock, injected by the new public health issue, may render the process of "managing" the creeping crisis far more difficult. This is clearly an important factor, and its full implications will have to be explored at a later stage and in a different context. Yet another currency crisis was experienced during the summer of 2020, rather reminiscent of the original crisis in 2018-9. This aptly illustrates that Turkey still finds itself in the midst of an ongoing crisis. The fact that Turkey has been able to "manage" its economic difficulties so far may not necessarily mean that it will be able to evade a deep-seated crisis on a continuous basis in the foreseeable future.

Notes

[1] For more on the relationship between performance legitimacy and regime type see, Foa, "Modernization."
[2] Babb and Chorev, "International Organizations," 88-91.
[3] Babb and Chorev also underline that "the set of policy practices imposed by the Washington Consensus was linked to a powerful and coherent set of policy ideas, legitimated through the expert authority of economists." Babb and Chorev, "International Organizations," 89.
[4] Acharya, *The End of American*; Ikenberry, "The End of Liberal"; Layne, "The US-Chinese Power."
[5] Woods, *The Globalizers*.
[6] Wade, "Emerging World Order."
[7] Güven, "The World Bank."
[8] Cherif and Hasanov, "The Return"; Harding, "IMF Gives Ground."
[9] Dolfsma and Grosman, "State Capitalism Revisited", 582, 583.
[10] For a recent analysis, Alami and Dixon, "State Capitalisms."
[11] McNally, "Sino-Capitalism"; "Domestic Structures."
[12] Kutlay, "The Politics"; Öniş, "Turkey under."
[13] Kutlay, "The Politics," 688.
[14] For an analysis of developmental states, see Wade, "The Developmental State."
[15] Kutlay, "The Politics," 688.
[16] Öniş and Aysan, "Neoliberal Globalisation"; Reinhart and Reinhart, "The Crisis Next Time"; Stiglitz, *Globalization.*
[17] On the relationship between economic globalisation and populism, see Rodrik, "Populism."
[18] For a recent review on "authoritarian learning," see Hall and Ambrosio, "Authoritarian Learning."
[19] Wade, "The Developmental State."
[20] Öniş and Kutlay, "Global Shifts."
[21] Foa, "Modernization"; Mounk and Foa, "The End."
[22] For an analysis of increasing income and wealth inequalities in the global economy, see Milanovic, *Capitalism, Alone.*
[23] Hopkin and Blyth, "The Global Economics," 195.
[24] On potentials and limits of democratic BRICS, see Öniş and Gençer, "Democratic BRICS."
[25] Calvo, "Capital Flows."
[26] Argentina, at least so far, seems to be an exceptional case. The Argentinian government has opted for an "orthodox" path and negotiated a deal with the IMF, involving a loan of $50 billion to stabilize the economy and generate recovery from a major debt crisis.
[27] Hunter and Power, "Bolsonaro."
[28] The Economist, "A decade."
[29] On the political economy of crises in Turkey, see Öniş, *States and Markets*.
[30] Öniş and Şenses, "Global Dynamics," 267–68.
[31] Rodrik 1990, "Premature Liberalization"; Yeldan, "Neoliberal Global."
[32] Bakır and Öniş, "The Regulatory State."

[33] Kutlay, *The Political Economies*, 71-99; Öniş and Şenses, *Turkey and the Global Economy*.
[34] Öniş and Keyman, "A New Path."
[35] Öniş, "Turgut Özal and his Economic."
[36] Akcay and Güngen, "The making," 15.
[37] Bloomberg HT, "TBB/Aydın."
[38] Egilmez, "Türkiye."
[39] Öniş and Senses, "Global Dynamics," 267.
[40] Kirkpatrick and Öniş, "Turkey."
[41] Öniş, "Varieties and Crises," 253.
[42] Balta, "The AKP's Foreign Policy," 14-18.
[43] Hurriyet, "Cumhurbaşkanı."
[44] Bulut, "2023 Türkiye."
[45] Somer, "Understanding Turkey's."
[46] For further discussion of state capitalism in the Turkish context, see Öniş, "Turkey under." See also Kutlay, "The Politics."
[47] Öniş, "Turkey's Two Elections."
[48] Ibid.
[49] For an analysis of the coup attempt from an ontological security perspective, see Adisonmez and Onursal, "Growing Anxiety."
[50] Amnesty International, "The State of Emergency."
[51] Yeni Safak, "Darbe Girişiminin."
[52] Öniş, "The Triumph."
[53] Hodson, "Complete Lack."
[54] Demiralp and Demiralp, "Erosion of Central Bank."
[55] Oyvat, "The End of Boom", 5.
[56] Data retrieved from Turkish Statistical Institute.
[57] Data retrieved from the Central Bank of the Republic of Turkey.
[58] Yackley, "Grocery Stores."
[59] See also Zengin and Ongur, "How sovereign", 583.
[60] Bianet, "Erdoğan."
[61] Yeni Safak, "81 Ilde Fiyat."
[62] Yackley, "Grocery Stores."
[63] Ibid.
[64] Daily Sabah, "President Erdoğan."
[65] Öniş, "Turkey under the Challenge."
[66] Authors' calculation based on data retrieved from the Turkish Statistical Institute.
[67] Kaplica, "Ekonomik Payı."
[68] Pitel, "Erdoğan Orders."
[69] World Bank, "Turkey Economic," 55-56.
[70] Authors' own calculations based on data from the Presidency of the Republic of Turkey.
[71] Data retrieved from the World Bank PPI Database, available at https://ppi.worldbank.org/snapshots/rankings.
[72] The Law No. 6741 on Establishment of Turkish Wealth Fund Management Company and Amendments in Certain Laws Official Gazette, 26 August 2016.
[73] Ant, "Erdoğan names."
[74] Cumhurbaşkanlığı Kararnamesi, Resmi Gazete, no. 30083, 7 August 2019.
[75] Data retrieved from the World Bank, World Development Indicators database.
[76] IMF, "Global Financial Stability," 6.
[77] Köstem, "Russian-Turkish."

References

Acharya, Amitav. 2018. *The End of American World Order*. Cambridge: Polity Press.

Adisonmez, Umut and Recep Onursal. 2020, "Governing Anxiety, Trauma and Crisis: The Political Discourse on Ontological (In)Security after the July 15 Coup Attempt in Turkey," *Middle East Critique* 29(3): 291-306

Akcay, Ümit and Ali Rıza Gungen. 2019. "The Making of Turkey's 2018-2019 Economic Crisis." Institute for International Political Economy Berlin, Working Paper, No.120/2019.

Alami, Ilias and Adam Dixon. 2020. "State Capitalism(s) Redux? Theories, Tensions, Controversies," *Competition & Change* 24(1): 70-94

Amnesty International. 2018. "The State of Emergency has ended but urgent measures are now needed to reverse the roll back of human rights," 18 July.

Ant, Onur. 2018. "Erdoğan names himself Turkey Wealth Fund Chairman in shakeup," September 12.

Babb, Sarah, and Nitsan Chorev. 2016. "International Organizations: Loose and Tight Coupling in the Development Regime." *Studies in Comparative International Development* 51(1): 81–102.

Bakır, Caner, and Ziya Öniş. 2010. "The Regulatory State and Turkish Banking Reforms in the Age of Post-Washington Consensus." *Development and Change* 41(1): 77–106.

Balta, Evren. 2018. "The AKP's Foreign Policy as Populist Governance," *Middle East Report* 288 (Fall), pp. 14-18.

Bianet. 2018. "Erdoğan: Sosyal medyada ekonomik terör kişilikleri var," August 13.

BloombergHT.2019. "TBB/Aydın: Kasım 2018 itibariyle yeniden yapılandırılan kredi miktarı 118 milyar TL," https://www.bloomberght.com/haberler/haber/2187826 https://www.bloomberght.com/haberler/haber/2187826-tbbaydin-kasim-2018-itibariyle-yeniden-yapilandirilan-kredi-miktari-118-milyar-tl, 10 January.

Bulut, Yigit. 2014. "2023 Türkiye Büyük Doktrini Yazilmaya Başlandı," *Star*, August 11.

Cherif, Reda and Fuad Hasanov. 2019. "The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy," IMF Working Paper, no. 19/74.

Daily Sabah. 2018. "President Erdoğan: Turkey has closed IMF chapter for good," October 7.

Demiralp Seda and Selva Demiralp. 2018. "Erosion of Central Bank Independence in Turkey." *Turkish Studies* 20(1): 49-68.

Egilmez, Mahfi. 2019. "Türkiye Slumflasyona Girdi," http://www.mahfiegilmez.com/2019/03/turkiyeslumpflasyona-girdi.html, March 11.

Foa, Stefan R. 2018. "Modernization and Authoritarianism." *Journal of Democracy* 29(3): 129–40.

Fukuyama, Francis. 1992. *The End of History and the Last Man*. New York: Free Press.

Güven, Ali Burak. 2017. “The World Bank and Emerging Powers: Beyond the Multipolarity–Multilateralism Conundrum,” *New Political Economy* 22(5): 496-520.

Hall, Stephen G. F., and Thomas Ambrosio. 2017. “Authoritarian Learning: A Conceptual Overview.” *East European Politics* 33 (2):143–161.

Harding, Robin. 2011. “IMF gives ground on capital controls,” Financial Times, April 5.

Hodgson, Camilla. 2018. “‘Complete lack of confidence’: Analysts react to Turkish lira slump,” *Financial Times*, August 10.

Hopkin, Jonathan, and Mark Blyth. 2019. “The Global Economics of European Populism: Growth Regimes and Party System Change in Europe.” *Government and Opposition* 54(2): 193–225.

Hurriyet. 2019. “Cumhurbaskani Erdogan’dan Onemli Aciklamalar,” April 27.

Hunter, Wendy, and Timothy Power. 2019. “Bolsonaro and Brazil’s Illiberal Backlash.” *Journal of Democracy* 30(1): 68–82.

IMF. 2020. "Global Financial Stability Report Update", https://www.imf.org/en/Publications/GFSR/Issues/2020/06/25/global-financial-stability-report-june-2020-update, June.

Ikenberry, G. John. 2018. “The End of Liberal International Order?” *International Affairs* 94(1): 7–23.

Kaplica, Koray. 2019. “Ekonomik Payı Yüksek İller CHP'ye Geçiyor,” https://www.dogrulukpayi.com/bulten/ekonomideki-payi-en-yuksek-illeri-kim-yonetecek, April 3.

Kirkpatrick, Colin and Ziya Öniş.1991. "Turkey," in *Aid and Power: The World Bank and Policy-based Lending*, editors Paul Mosley, Jane Harrigan and John Toye, London: Routledge, 1991, Vol. 2, 9-38.

Köstem, Seckin. 2020. “Russian-Turkish Cooperation in Syria: Geopolitical Alignment with Limits,” *Cambridge Review of International Affairs*, online first: https://doi.org/10.1080/09557571.2020.1719040.

Kutlay, Mustafa. 2019. *The Political Economies of Turkey and Greece: Crisis and Change*, Basingstoke: Palgrave.

Kutlay, Mustafa. 2020. "The Politics of State Capitalism in a Post-Liberal International Order: The Case of Turkey." *Third World Quarterly*, 41(4): 683-706.

Layne, Christopher. 2018. “The US–Chinese Power Shift and the End of the Pax Americana.” *International Affairs* 94(1): 89–111.

McNally, Christopher A. 2012. “Sino-Capitalism: China’s Reemergence and the International Political Economy.” *World Politics* 64(4): 741–76.

Milanovic, Blanko. 2019. *Capitalism, Alone*, Cambridge: Harvard University Press.

Mounk, Yascha, and Stefan R. Foa. 2018. “The End of the Democratic Century.” *Foreign Affairs* 97(3): 29–36.

Nölke, Andreas, Tobias ten Brink, Simone Claar, and Christian May. 2015. “Domestic Structures, Foreign Economic Policies and Global Economic Order: Implications from the Rise of Large Emerging Economies.” *European Journal of International Relations* 21(3): 538–67.

Oyvat, Cem. 2018. "The End of Boom and the Political Economy of Turkey’s Crisis." GPERC Policy Brief, No. PB24-2018.

Öniş, Ziya. 1998. *State and Market: The Political Economy of Turkey in a Comparative Perspective*, Istanbul: Boğaziçi University Press.

Öniş, Ziya. 2004. "Turgut Özal and his Economic Legacy: Turkish Neo-Liberalism in Critical Perspective." *Middle Eastern Studies* 40(4): 113-134.

Öniş, Ziya. 2006. “Varieties and Crises of Neoliberal Globalisation: Argentina, Turkey and the IMF.” *Third World Quarterly* 27(2): 239–63.

Öniş, Ziya. 2011. "The Triumph of Conservative Globalism: The Political Economy of the AKP Era," *Turkish Studies* 13(2): 135-152.

Öniş, Ziya. 2016. “Turkey’s Two Elections: The AKP Comes Back” *Journal of Democracy* 27:2, pp. 141-154.

Öniş, Ziya. 2019. "Turkey under the Challenge of State Capitalism. The Political Economy of the AKP Era," *Southeast European and Black Sea Studies* 19(2): 201-225.

Öniş, Ziya, and Ahmet Faruk Aysan. 2000. “Neoliberal Globalisation, the Nation-State and Financial Crises in the Semi-Periphery: A Comparative Analysis.” *Third World Quarterly* 21(1): 119–39.

Öniş Ziya, and Keyman, Fuat. 2003. “Turkey at the Polls: A New Path Emerges,” *Journal of Democracy* 14:2*,* pp. 95-107.

Öniş, Ziya, and Fikret Şenses. 2007. “Global Dynamics, Domestic Coalitions and a Reactive State: Major Policy Shifts in Post-War Turkish Economic Development.” *METU Studies in Development* 34: 251–86.

Öniş, Ziya, and Fikret Şenses. eds. 2009. *Turkey and the Global Economy: Neo-liberal Restructuring and Integration in the Post-crisis Era,* Oxon: Routledge.

Öniş, Ziya, and Alper Şükrü Gençer. 2018. “Democratic BRICS as Role Models in a Shifting Global Order: Inherent Dilemmas and the Challenges Ahead.” *Third World Quarterly* 39(9): 1791–1811.

Öniş, Ziya, and Mustafa Kutlay. 2019. “Global Shifts and the Limits of the EU’s Transformative Power in the European Periphery: Comparative Perspectives from Hungary and Turkey.” *Government and Opposition* 54(2): 226–53.

Pitel, Laura. 2019. “Erdoğan Orders Central Bank to Support Economy,” *Financial Times*, July 10.

Reinhart, Carmen, and Vincent Reinhart. 2018. “The Crisis Next Time: What We Should Have Learned From 2008.” *Foreign Affairs* 97(6): 84–96.

Rodrik, Dani. 1990. “Premature Liberalization, Incomplete Stabilization: The Özal Decade in Turkey,” *NBER Working Paper Series*, Working Paper no. 3300.

Rodrik, Dani. 2018. “Populism and the Economics of Globalization.” *Journal of International Business Policy* 1(1): 12–33.

Somer, Murat. 2016. “Understanding Turkey’s Democratic Breakdown: Old vs. New and Indigenous vs. Global Authoritarianism.” *Southeast European and Black Sea Studies* 16(4): 481–503.

Stiglitz, Joseph. 2003. *Globalization and Its Discontents*. New Ed edition. London: Penguin.

Taylor, Lance. 1990. “The Turkish Experience: Summary and Comparative Notes,” in Tosun Aricanli and Dani Rodrik, *The Political Economy of Turkey: Debt, Adjustment, and Sustainability*, London: Macmillan.

The Economist. 2019. “A decade of ‘state capture’ has damaged South Africa’s institutions,” April 25.

Wade, Robert. 2018. “The Developmental State: Dead or Alive?” *Development and Change* 49(2): 518–46.

Wade, Robert H. 2011. “Emerging World Order? From Multipolarity to Multilateralism in the G20, the World Bank, and the IMF.” *Politics & Society* 39(3): 347–78.

Woods, Ngaire. 2007. *The Globalizers: The IMF, the World Bank, and Their Borrowers*. Ithaca, NY: Cornell University Press.

World Bank. 2019. "Turkey Economic Monitor, October 2019: Charting a New Course," http://documents1.worldbank.org/curated/en/429091572623015810/pdf/Turkey-Economic-Monitor-Charting-a-New-Course.pdf, October.

Yackley, Ayla Jean. 2018. "Turkey warns US it will seek 'new friends and allies'," *Financial Times*, August 11.

Yackley, Ayla Jean. 2019. "Grocery stores are at the front line of Turkey's latest political battle," *The Atlantic*, March 25.

Yeldan, Erinç. 2006. "Neoliberal Global Remedies: From Speculative-Led Growth to IMF-Led Crisis in Turkey." *Review of Radical Political Economics* 38(2): 193-213.

Yeni Şafak. 2016. "Darbe Girişiminin Arkasında ABD var," July 17.

Yeni Şafak. 2018. "81 İlde Fiyat Denetimi," September 2.

Zengin, Hüseyin and Hakan Övünç Ongur. 2020. "How sovereign is a populist? The nexus between populism and political economy of the AKP," *Turkish Studies* 21(4): 578-95.