

# Islamists, bourgeoisie and economic policies in Turkey

İsmail Doğa Karatepe

According to many observers, the relationship between state and bourgeoisie have changed drastically under more than 10 years of islamist/conservative Justice and Development Party (AKP) rule in Turkey. Since November 2002, when AKP swept the victory in Turkey's parliamentary elections with an overwhelming majority, the government-bourgeoisie relations became a controversial issue. It is mainly the allocation of the public resources that brought about the controversy: The claim is that the AKP governments distribute the resources (e.g. investment incentives) in favour of a particular capital fraction, which corresponds ideologically with the party, namely, Anatolian bourgeoisie.

Considering this controversy, this paper aims to explore the relationship between government and bourgeoisie during the years of AKP rule. *Theoretically*, I am assuming that exploring the state-bourgeoisie relations let us go beyond the conventional macroeconomic categories and shedding light on these relations delivers broader understanding of economic development strategies. In this paper, from this particular angle, I highlight a particular permanency: I claim that there has not been a drastic change in favour of Anatolian bourgeoisie as it has been so often pronounced. I discuss that the macroeconomic policies, which have been in practice since 1980s, have not been structurally changed in the era of AKP.

This concise paper is organised as follows: In the first section, I will briefly introduce the macroeconomic trends under which the mentioned relationship have been shaped. In the subsequent chapter, I will focus more on some relevant actors, who have relatively more power to shape the economic policies and macroeconomic trends, i.e., I will touch upon bourgeois fractions, prominent conglomerates with regard to their relations with AKP governments and vice versa. The last section of the paper is solely reserved for concluding remarks.

## Observing the Continuity: Capital Inflows Dependent Growth

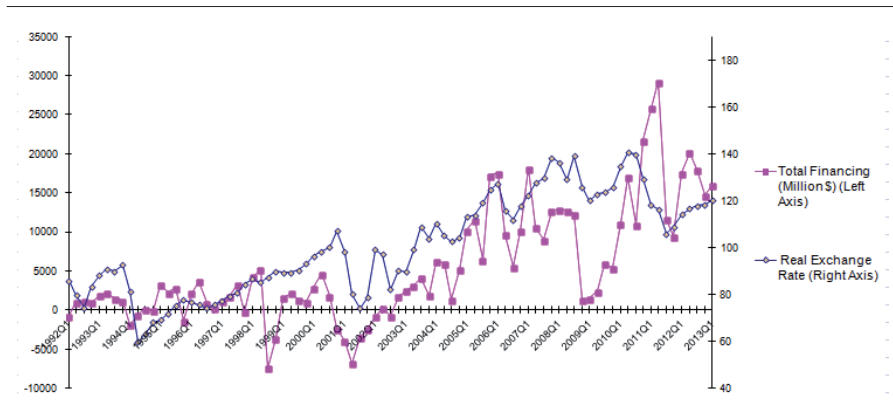
The year 1989 is a milestone in Turkey's economic history, especially for the neoliberal transition story. In August 1989, controls on capital account were lifted in parallel with the tendencies in the rest of the developing countries' financial liberalization policies. Since then, as radical economist literature<sup>1</sup> in Turkey convincingly discusses, the GDP growth of Turkey highly depends on financial capital inflows. To put in Marxian terminology, it is rather fictitious capital which has been driving force of the growth in the post-capital account liberalization period.

According to the literature, the liberalization of capital account accompanied by high interest rates in Turkey has been attracting the attention of financial capital. The net differential of the interest rates above the world average has been attracting large financial capital inflows which include, however, a high portion of short-term

arbitrage-seeking financial capital inflows, in other terms hot money. These capital inflows have been generating illusionary currency appreciation with the help of the flexible and crawling peg exchange rate regime. This process consequently has been causing loss of competitiveness not only because of the appreciation of the real exchange rate but also because of illusionary growth. Concomitantly, it has been expanding the current account deficit. In short, in Boratav's (2004) words, »causality relations realize along capital inflows → growth → current account deficit« (Boratav, 2004:234). Obviously, such settings have been paving the way for structural fragility that would lead into the economic crisis starts and causes loss of wealth as it has been the case in 1994, 2000, 2001 and to a certain degree 2008/9 in Turkey.

The macroeconomic data (1992–2013Q1)<sup>2</sup> derived from the Central Bank of Turkey support the arguments raised by the literature. As can be observed in Figure 1<sup>3</sup>, where an increase in the real exchange rate refers an appreciation of the value of the domestic currency and total financing<sup>4</sup> denotes net capital flows, there is a high correlation between the net capital flows and the value of the Turkish Lira (TL) since the controls on capital account were lifted.

**Figure 1: Total Financing and Real Exchange Rate**

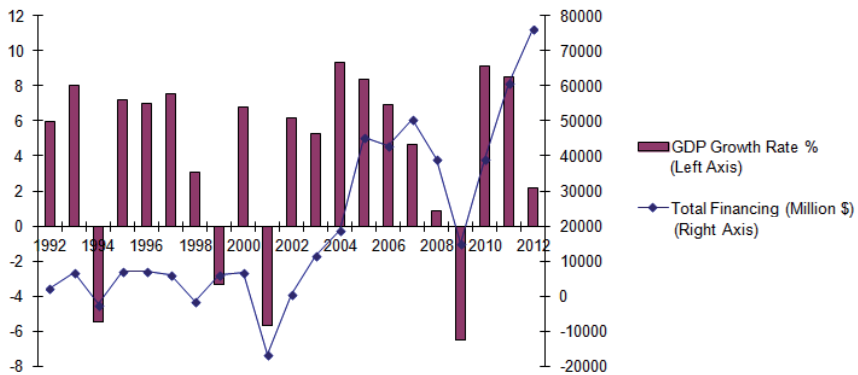


Source: CBRT Electronic Data Delivery System.

As elaborated in the literature, not only the real exchange rate but also the growth rates of Turkey's GDP became dependent on capital inflows. The Figure 2 below demonstrates us that short-term portfolio investments and credit inflows, through fuelling import, have played a crucial role in the »continuity« of the growth rate.

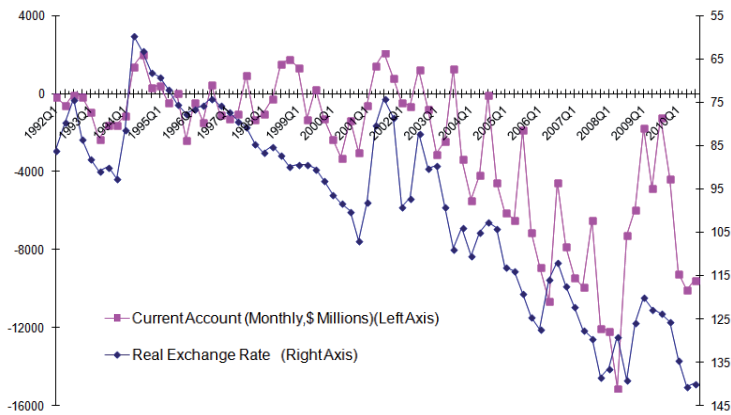
The appreciation of the TL and the illusionary growth, originated from capital inflows, have generated the current account deficit problematic. Figure 3 is portrayed in order to illustrate the relationship between the value of the TL and the current account deficit. The figure clearly demonstrates the co-movement between real exchange rate (drawn upside down on right axis) and current account balance (on left axis). Since the beginning of the post-capital account liberalization era, the appreciation of the real exchange rate has widened the current account deficit. The positive current account balance in the post-capital account liberalization era seems to be exceptional and occasional, and mostly emerges from a sharp depreciation of the domestic currency.

**Figure 2: Capital Inflows Dependent Growth in Turkey**



Source: CBRT Electronic Data Delivery System, IMF Word Economic Outlook Database.

**Figure 3: Current Account Deficit and Real Exchange Rate:**



Source: CBRT Electronic Data Delivery System

What of interest to this research is that the macroeconomic indicators exhibit a continuity: The capital inflows dependent growth pattern in Turkey appears to be dominant growth pattern in the all post-capital account liberalization era. From this particular angle, AKP period symbolizes continuity rather than a change: There is no clue for a structural change in the AKP era. Since the control on capital account is lifted, the volume and direction of the hot money flows appears to be the main determinant of macroeconomic performance.

Underlying the continuity, however, does not imply neglecting some important developments in the AKP era. I.e., rapidly mounting long-term external private debt or the increasing importance of finance-state-construction nexus in this era cannot be ignored. Moreover, this era can be distinguished in terms of household debts; the debts which have been rising like a rocket, do not seem to fall like a stick. Total

consumer loan, which has been skyrocketing the debts, drastically increased from around 4 billion US Dollar level in December 2002 to 155 billion US Dollar level in March 2013.

### **Bourgeoisie Fractions, AKP Governments and Distribution of Public Resources**

It is so often claimed that AKP governments favour Anatolian bourgeoisie, which corresponds ideologically with the party (cf. Kahraman, 2008). The term Anatolian bourgeoisie refers to the emergence of a new economic entrepreneurship witnessed in Turkey in recent years (Demir, et al., 2004: 167). The term ›Anatolian‹ refers to spatial fixes, including cities such as Konya, Kayseri and Denizli which are identified »as the traditional strongholds of Islamist politics in Turkey« (Öniş, 2009: 26). This new form of capital is also named ›Green Money‹, ›Islamic Capital‹ and ›Anatolian Tigers‹ (Demir, et al., 2004: 168, Beriş, 2008: 38). Respectively, the first two terms refer to the ideological identity of the Anatolian bourgeoisie. The third term, the Anatolian Tiger, is mostly used when the companies within this form of economic entrepreneurship introduce themselves (à la East Asian Tigers). Those companies are operating in Anatolian cities, most of which have economically displayed impressive growth. The companies in question are generally small and medium-sized enterprise (SME) or grew rapidly in the post 1980 period and rose from the status of SME.

Economic liberalization, most notably financial liberalization in the late 1980s contributed a lot to the take-off of SMEs in Turkey. Lifting control over capital accounts has been conducive to relatively abundant foreign currency. In Hoşgör's article (2011: 345), two channels, which allowed economic take-off of SMEs, are underlined in the context of economic liberalization. Firstly, Islamic banks (or other institutions providing bank-like services), in other words, the so-called interest-free banks (IFBs)<sup>5</sup> have emerged in Turkey's financial system in the post-capital account liberalization period. Secondly, lax regulations during this period have prompted the Anatolian bourgeoisie to channel remittances towards the companies across Anatolia.

The term Anatolian capital also refers to the political orientation of these firms. A significant segment of these companies is directly or indirectly connected with some Islamic brotherhood organizations (*sects*) and other similar religious networks. Especially, the Independent Businessmen and Industrialists Association (MÜSİAD), which was established as the ›business arm‹ of Islamist politics in Turkey in 1990, has been playing a crucial role to build the network: The close relation between the Islamist Party and the Anatolian bourgeoisie has been subject to irregularity claims. Since Welfare Party – the predecessor party of AKP – won the major seats in the two metropolitan areas of Ankara and Istanbul and came to power in other local administrations in the year 1994, sect followers and the party's constituency has been employed in ordinary as well as key positions of municipal governmental bureaucracy (cf. Hoşgör, 2011: 351). As noted in Demir et al. (2004), »this transfer of power not only brought differentiation in services provided, but also changed the composition of local companies awarded with contracts to provide local services« (Demir, et al., 2004: 171).

The AKP's further electoral successes since it came to office – namely, local elections in 2004 and in 2009, and the parliamentary elections in 2007 and 2011 – and the debate on the rise of the Anatolian bourgeoisie have gone hand in hand. The

AKP's electoral success was not just confined to Anatolian cities wherein the so-called Anatolian bourgeoisie is relatively powerful. However, as Öniş (2009) discusses, »the AKP's lead over its principal rivals has been even more pronounced in such inner Anatolian strongholds« (Öniş, 2009: 26). As many scholars note, the Anatolian bourgeoisie and its major association MÜSİAD supported the AKP to win the elections through both supportive discourse and financial aids (Beriş, 2008: 42).

Many observers indicate a conflict between the Anatolian bourgeoisie and *Istanbul bourgeoisie*, origins of which could be found in the early days of the Republic (cf. Kahraman, 2008; Çarkoğlu, 2002: 30). The Istanbul bourgeoisie is defined here as the big conglomerates clustered around Istanbul in geographical terms. It is linked with Turkish Industrialist and Businessmen's Association (TÜSİAD), as Öniş notes comparing to MÜSİAD, »whose membership is far fewer, around 400, and heavily concentrated in geographical terms in Istanbul and the adjacent region« (Öniş, 2001: 17). Substantial part of the literature argues that until the rise of Islamist politics, the Istanbul bourgeoisie had been »moving hand-in-hand with the state elite – especially military and civilian bureaucracy – and media and the secular elite« (Demir, et al., 2004: 170). However, the relation between the Istanbul bourgeoisie and the so-called bureaucracy during the AKP rule is seen to be ambiguous in the literature. As many observers stress, AKP's cadres supported the Anatolian bourgeoisie at the discursive level in the context of mentioned conflict (Beriş, 2008: 42). However, the assessments concerning the AKP's attitude towards these two big bourgeois fractions beyond the level of discourse suffer from a lack of clarity. For instance, how does the AKP distribute the resources it controls? The investment incentives can be the key indicator at this point. It can unveil the obscurity concerning the purported relationship between the Anatolian bourgeoisie and the AKP beyond the level of discourse.

### **The Allocation of Investment Incentives**

Investment incentives are the grants, given by the governments, in the forms of direct monetary subsidies or tax/custom exemptions. They have been presented as an instrument aiming at increasing the employment rate and production in accordance with the long term development plans and international agreements to ensure sustainable development and international competitiveness as well as to reduce regional disparities in income and employment (Republic of Turkey-Official Gazette, 7 July 2002; 16 July 2009). Regardless of their form and complexity, such incentives are a wealth transfer from public funds to private ownership. To put in Marxian vocabulary, the investment incentives directly affect the surplus value extraction. It is a part of public funds directly thrown into well-known M-C-M' circulation. Both direct subsidies and tax/custom exemptions reduce the value of the elements consumed in the formation of that product for the owner of the means of production. Hence, the wealth transfer from public to private funds as such aims at inducing capital accumulation through increasing surplus value (Yılmaz and Tezcek, 2006: 360-9). The investment incentive as a categorization is not a pure economic measure. It is a political measure as well which makes particular relations visible. Obtaining investment incentives is subject to competition/collision among the bourgeois fractions. Besides, the bourgeois fractions and their associations try to be influential in shaping the decrees and laws regulating investment incentives.

The data<sup>6</sup> with regard to the investment incentives indicate that the investment incentives have not been distributed in favour of its political strongholds in Anatolia during the era of AKP governments. As in all other periods of the Republic, Istanbul and the adjacent region, wherein the conglomerates heavily concentrated in geographical terms, has been major recipient of such state benefits. Moreover, there is no evidence to support the claim that the AKP governments have distributed the investment incentives in favour of the Anatolian bourgeoisie. The share of ›Anatolia‹ has not been substantially increasing. The incentive regime seems at all not to be designed to change the capital fraction configuration in favour of Anatolian bourgeoisie. The allocation of investment incentives demonstrates us that the use of incentives has consolidated the existing class formations and the conglomerates such as Koç, which have been financially supported since the early days of the foundation of the Republic, have been also supported by the AKP governments.

Even though the incentives regime implemented by AKP governments reproduces the capital fraction configuration, Anatolian bourgeoisie have consented to the allocation. Not only TÜSİAD but also MÜSİAD has welcomed the investment incentives packages drafted by the successive AKP governments. The investment packages prepared by the AKP governments responded to some extent positively to the demands of the Anatolian bourgeoisie. In this context, AKP governments have been quite successful in keeping ›equilibria‹ between the interests of the fundamental bourgeoisie fraction and Anatolian bourgeoisie thus far.

Along with the regional allocation, the sectoral allocation of investment incentives appears to be unchanged when compared with previous periods. However, it should be noted that there is a drastic change in terms of the »official« aim of investment incentives. While investment incentives in the 1980s and 90s were presented as a prerequisite to promote export, the incentives schemes devised under AKP rule have been also introduced as an instrument to reduce the dependency of domestic production on the import – especially of intermediate goods that constitutes chief part of import bill. Such a shift partially reflecting industrial development strategy has become more prominent particularly after the crisis when the hope that the current account deficit could be shrunk through increasing export has been gradually fading away. Nevertheless, it should be mentioned that such a political orientation, which promotes a kind of import substitution of intermediate goods, has been applauded by both Istanbul and Anatolian Bourgeoisie.

### **Winners in the Era of AKP**

During the AKP period, the big conglomerates clustered around Istanbul have drastically raised their total assets through lucrative investments and favourable macroeconomic settings<sup>7</sup>. It has been the conglomerates such as OYAK (Turkish Armed Forces Assistance and Pension Fund), Koç etc. which have benefited from the privatization process successfully undertaken by the AKP governments. The profitable state owned enterprises were disposed of – the enterprises, theoretically owned by the public, were transferred – to the Istanbul bourgeoisie<sup>8</sup>. During the recent global crisis, the AKP government implemented several policies favouring the Istanbul bourgeoisie. As Öztürk discusses (2011: 186), through decreasing the special consumption tax and value added tax for the particular goods such as motor vehicles and white goods, the

government accorded advantages for the automotive and white goods monopolies affiliated to Istanbul Bourgeoisie (Öztürk, 2011: 186). The automotive and white goods industry dominated by Koç, Zorlu, OYAK highly benefited from such policy action as their export market shrunk drastically. As the author argues, the AKP government also changed the import regime for flat steel. Through increasing its tariff, the state provided a favourable environment for the OYAK group which is an important actor in steel production (cf. Öztürk, 2011: 275, 280).

The arguments demonstrating that AKP governments have provided a favourable economic environment for the Istanbul bourgeoisie can be multiplied and further developed. Nonetheless, it should be also mentioned that successive AKP governments have not attempted to change the finance-led growth model restraining Anatolian bourgeoisie. The growth model based on overvalued domestic currency has been undermining the capacity of the SMEs which are regarded as export-oriented enterprises. MÜSİAD has been so many times raising the issue of more favourable exchange rate in the complexion of controlling current account deficit. It should be one more time highlighted that most of MÜSİAD members are the owners or share holders of export-oriented enterprises and ironically constituencies of AKP. In contrast, TÜSİAD appears to be satisfied with the value of the exchange rate. Because, firstly, as elaborated in Tuna (2011: 2206), most of its members have become more integrated to the financial capital. The conglomerates have been consolidated by banks and/or other financial institutions and benefited from hot money inflows. Secondly, large scale industries, affiliated to the Istanbul bourgeoisie and TÜSİAD, have been enjoying importing relatively cheap intermediate goods – which are purchased for durable consumption good production largely to satisfy domestic demand (Ibid.: 2204). Therefore, these industries do not lean to procure intermediate goods from domestic sources<sup>9</sup>.

However, in the related literature there is a strong agreement that there is a conflict between Istanbul and Anatolian bourgeoisie, and that AKP governments have favoured Anatolian bourgeoisie in this conflict. For instance, Beriş (2008) argues that MÜSİAD – unlike TÜSİAD<sup>10</sup> – has continually supported AKP and in return some pious businessmen have gained power due to the good connections with the party in power (Beriş, 2008: 42). In a recent paper Hoşgör argues that »despite their persisting disadvantages vis-à-vis large conglomerates, the religiously conservative Anatolian businesses found great opportunities under the shelter of AKP governments« (Hoşgör, 2011: 354). Indeed, capital groups, such as Albayraklar Boydak, Çalık, Sanko, which are ideologically close to Islamist politics and operating in different sectors varying from energy to transportation, have rapidly grown. For instance, the value of total assets of Çalık Group increased from 1 billion US dollar in 2002 to 4.4 billion dollar in 2007<sup>11</sup> (Öztürk, 2011: 420). Another Islamic Holding, Ülker has grown drastically in the AKP period as well. As Öztürk (2011) demonstrates, the group grew by 51% during 2006–2007. This indicator was 24% in the period 2000–2007, 13% in 1990–1999, 8% in 1944–1989.

The Anatolian bourgeoisie has tight ties with the AKP governments. MÜSİAD and AKP support each other to a certain extent. However, in the light of the arguments concerning the relation between the AKP governments and Istanbul bourgeoisie, one cannot translate these linkages into the conclusion that AKP governments have privileged the Anatolian bourgeoisie vis-à-vis large conglomerates. As

in the case of investment incentives, it is Istanbul bourgeoisie which found great opportunities under the shelter of AKP governments. The assessment arguing that AKP's preferential treatment of Anatolian bourgeoisie altered the distribution of the total surplus value seems to be not convincing considering macroeconomic settings disfavoured Anatolian bourgeoisie and the increment in total assets of those enterprises associated with Istanbul bourgeoisie in the recent years.

### Concluding Remarks

Islamist politics has attained a position of authority in the significant parts of Middle East and North Africa in recent years. The shift in power has captured the social scientists' attention. Such a shift, however, had been already completed in Turkey more than 10 years ago. AKP came to the power at end of the year 2002. Since then, Turkey has changed considerably according to several observers. More importantly, such a change has been regarded as a role model of Islamist politics in Middle East.

From the perspective of economic policies, however, AKP period symbolizes continuity rather than a change: The macroeconomic policies, which have been in practice since 1980s, have been also carried out by the successive AKP governments. Albeit capital inflows dependent growth model substantially comes into conflict with the interest of the Anatolian bourgeoisie, successive AKP governments have not endeavoured to change it structurally. Lucrative economic environment has been created for the Istanbul bourgeoisie and the total assets of those enterprises associated with this bourgeois fraction have increased swiftly in recent years under AKP rule. Nonetheless, the distinguished features developed in the AKP era should be borne in the mind while speaking about the continuity.

The rapid rise of some capital groups, which are ideologically close to Islamist AKP, has been often interpreted as a drastic alteration in the structure of bourgeois fractions. The alleged configuration in favour of Anatolian bourgeoisie has been tightly correlated with the allocation of public resources, most often, of investment incentives. However, there is no indication that AKP governments have designed the investment incentive policy to disturb the economic dominance of the Istanbul bourgeoisie. There is no drastic change in the relation between state and bourgeois fractions in the AKP era from this particular angle. Nonetheless, AKP governments seem to be successful to find equilibria between the interests of different bourgeois fractions.

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## Notes

- 1 To be more explicit, I am referring to the following publications: Adelman and Yeldan (2000), Boratav (2003), Onaran (2006, 2007) and Yeldan (2001, 2006a, 2006b, 2009).
- 2 The data is only available from the year 1992 onwards.
- 3 CPI based real effective exchange rate index, which is utilized in this chart, is calculated by the CB of Turkey using the IMF weights for 19 countries including Germany, USA, Italy,

France, United Kingdom, Japan, Netherlands, Belgium, Switzerland, Austria, Spain, Canada, Korea, Sweden, Taiwan, Iran, Brazil, China and Greece.

- 4 Total financing on the left axis can be calculated as the sum of the financial account and of the net error and emission, which mainly represents unrecorded net capital flows from Turkey's balance of payment data.
- 5 The IFBs have claimed that they are operating consistent with the principles of Islamic law (Sharia). The interest-based return was billed as a form of usury; therefore conventional banking was declared incompatible with Islamic law. IFBs have introduced themselves as participation banks and allegedly offered religiously-sensitive financial products such as participation or current accounts.
- 6 For a data set see Karatepe, 2012.
- 7 According to the data provided by Özgür Öztürk (2011: 185), the total assets of Koç Holding, which was 7.3 billion dollar in 2002, increased to 51.2 billion dollar in 2007. Koç group operated since the beginning of the foundation of the Republic and became Turkey's largest industrial group. Other leading figure, Sabancı Holding has also experienced remarkable growth: its assets increased from 21 billion dollar to 43.9 billion dollar. For OYAK and its subsidiaries, the data reveal an impressive growth. Their assets increased almost 4 times; the value of total assets grew from 4.6 to 19 billion dollar during the same period.
- 8 For instance, in the year 2005, Koç Holding bought Turkish Petroleum Refineries Co. (Tüpraş), which is Turkey's largest industrial enterprise. A consortium in which Koç Holding was the major partner acquired the Refineries with a bid of 4.1 billion US dollar. It should be noted that when Koç bid over 4 billion dollar for Tüpraş, the company had an annual turnover of 16 billion dollar which was more than all Koç group and its subsidiaries' turnover. In the privatization process, Ereğli Iron and Steel Factories (Erdemir) which is the largest iron and steel company in Turkey was also privatized. OYAK group succeeded to acquire the majority stake in February 2006 with a bid over 2.5 billion US Dollar. Erdemir is not only one of the major players in Turkey but also it has important investments in Romania. It should be noted that the group owns 80% of iron ore reserves in Turkey and the factory located in Ereğli is the largest flat steel manufacturer.
- 9 In order to strengthen the weak supply chain linkages between Istanbul and Anatolian Bourgeoisie, »Input Supply Strategy«, which is officially supposed to support production of intermediate goods with high import dependence, has been launched in the beginning of 2013. This scheme aims to encourage Istanbul Bourgeoisie to satisfy its needs domestically through reducing the production cost of these goods with the help of state aid. Nevertheless, it is still too early to talk about its outcomes.
- 10 While MÜSİAD has continuously supported AKP governments, TÜSİAD have been at odds with the AKP governments from time to time due to some »minor« political issues. These issues are rather related to democratization, constitutional rights, electoral threshold, internet freedom and in some cases the appointment of bureaucrats for key positions of economic management. Nevertheless, in »more crucial« issues such as accession to the EU, macroeconomic settings etc. one can observe close correspondence between the policies suggested by TÜSİAD and AKP's operations.
- 11 The Prime Minister Tayyip Erdogan's son-in-law Berat Albayrak was appointed CEO of Çalık Group in 2007. In the same year, Çalık Group purchased Sabah-ATV Media Group, which belonged to Savings Deposit Insurance Fund, thanks to the loans taken from two public banks. The state-owned enterprise was thus purchased with the help of loans provided by public banks. Some newspapers as well as some state institutions accused Çalık and AKP of irregularities in its banking operations through pointing out their close relation (cf. Today's Zaman, 7 April 2009).