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The Return of the State and Its *Alla Turca* Version

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ABSTRACT

Economic nationalism and state intervention recently gained attraction in many countries including Turkey. This paper questions whether Turkey has changed its economic policy framework towards a state-centric model and, if so, whether these changes are well thought-out and sustainable. The examination of key areas of state capitalism, that is the monetary, industrial, trade, financial, and state economic enterprise (SEE) policies put forward in the officially adopted five-year plans and annual programs, suggests that the changes in the economic policy framework began after the 2008 global crisis and accelerated after the transition to a presidential system. Upon examination, the policy framework does not reflect a definitive, coherent, and wholistic approach but rather a pragmatic attitude that swings back and forth, which exposes the country to swings in the global system.

Keywords: state-centric model, liberal international order, Turkey, globalization backlash, state capitalism

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Introduction

It is now commonplace to argue as even the World Economic Forum did that the financial crisis of 2008 spelled the end of the neoliberal paradigm's domination in shaping economic policy globally. The crisis also led to the questioning of the dominant paradigm of economic policy for the previous 30 years and exposed the fragilities of democratic politics in developed Western countries. As Hall and Soskice (2001: 1) argued, "We are living through an era of profound turbulence in modern capitalism and democratic politics".

The history of global capitalism, as vigorously laid out by Frieden (2006), is full of instances when the dominant economic paradigm fell short of providing solutions, and the search for alternative paradigms accelerated. The search for alternative approaches concentrated on two main issues: the relation between national and global economies, and the role and importance of the state in capital accumulation. The literature advanced on two interrelated fronts: a possible backlash on globalization (Held and McGrew 2003; Rodrik 2011; Colantone and Stanig 2019; Walter 2021) and the role of the state in the economy (Fareed 1997; Stephen 2014; Levitsky and Way 2002; 2020; Alami and Dixon 2020; Hall 2022).

Turkey is one of the countries under scrutiny within that context (McNally 2013; Öniş and Kutlay 2013; Kutlay 2020; Levitsky and Way 2020; Yagci 2021; Parlar Dal 2021; Kutlay and Öniş 2022). As one of the early adherents of neoliberal globalization in the 1980s, Turkey fully embraced the model after its crisis in 2001. After coming to power in 2002, the Justice and Development Party (*Adalet ve Kalkınma Partisi*, AKP) fully adhered to this market friendly approach to undermine the secular, strong-state Kemalist legacy (Türkeş 2016). A comparative analysis of Turkey's gross domestic product (GDP), exports, and foreign direct investment (FDI) flows shows that Turkey has benefitted from globalization and increased its share in the world economy significantly in this period.[1] However, that reform agenda as well as the European Union (EU) membership process slowed down after the 2008 global financial crisis, which impeded international capital flows. Since then, the new political elites of the country gradually moved away from neoliberal orthodoxy and moved increasingly towards state intervention. But apart from extraordinary conditions during the Covid pandemic, the economy stayed open. The intensification of state intervention led Öniş (2019) and Kutlay (2020) to name the new approach state capitalism,[2] when they noticed some elements of a neo-developmentalist turn (Öniş and Kutlay 2013). The increased role of the state also coincided with clientelist relations including both privileges to selected businesspeople (Esen and Gumuscu 2018b; Kutlay 2020; Öniş and Kutlay 2020; Buğra and Savaşkan 2021; Orhangazi and Yeldan 2021; Pamuk 2022; Apaydin and Çoban 2023) and favoritism among the voters (Dorlach and Savaşkan 2018; İzmen and Üçdoğruk Gürel 2023). The drastic shift in policy accelerated after the passage to the so-called presidential system of government in 2017, which created a "super presidency" that concentrated executive power in the hands of a "partisan" president. Thereafter, the intensity and institutionalization of patronage politics surged (Güven 2023). Although clientelism has deep historical roots (Sayarı 2014), the surge in patronage politics could not be achieved without a change in the economic policy approach, which is what we argue in this article. In particular, we analyze the changes in the political economy of Turkey in the post-2008 period in order to figure out whether the changes originated from a crisis in Turkey's capital accumulation model, present a response to the transformations in the global political economy, or simply reflect patronage politics. Here, we deviate from the mainstream line of analysis, which resorts to economics to formulate independent variables. On the contrary, we refer to politics in order to drive explanations for the changes in economic policy.

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1 Refer to the section "Turkish economy after 2008".

2 There have been challenging views. Akçay (2021; Akçay and Güngen 2022; 2023) pointed out the endurance of the neoliberal characteristics. Adaman and Akbulut (2021) draws attention that it is a neoliberal regime which articulates populism, authoritarianism, and developmentalism. Madra (2018) argued that the commitment to the neoliberal model was abandoned with an inclination towards pro-corporate economic nationalism which he called as neo-mercantilist dreams. Yilmaz and Bashirov (2018) preferred to call the new regime as Erdoganism which rests on electoral authoritarianism, neopatrimonialism, populism and Islamism.

Although on the surface, the changes in the political economy of Turkey after the 2008 crisis give support to the hypothesis that the country has moved away from the market-based globalization model and adopted a state-centric approach, a closer examination reveals that the policy choices are more an *ad hoc* mélange engineered for favorable electoral results. The four U-turns in monetary policy in just five years can be interpreted as going after temporary ease for the impoverishing effects of the most acute problems rather than presenting a coherent, stable, and long-term vision.

The article proceeds as follows. The next section discusses divergences from the liberal international political economy. After a brief review of the literature, we drove the question of whether the ultimate motive of the Turkish state in the post-2008 period is to be a developmentalist state or a state that intervenes in the economy with political considerations. Studying the common policies and tools of state capitalism exposes the three key areas of state capitalism, which we will consider in the following section and examine how far Turkey has diverged from the liberal model and embraced state capitalism. We look at the principles put forward in the officially adopted five-year plans and annual programs in the three key areas of state capitalism, that is monetary policy, international trade and finance policy, and industrial policy. An understanding of the changes in economic policy preferences will provide a systematic framework for patronage relations that have been observed in Turkey. Section four concludes by discussing political economy preferences for Turkey under two possible scenarios for the future of globalization.

Divergences from the Liberal International Political Economy

The role of the state in organizing economic activity and the openness of the economy to international trade and finance are interwoven. Conceptualization of the state in terms of its reach and scope for the constitutive attributes of capitalism goes back to the writings of early political economists such as Adam Smith and Karl Marx. As the dynamics of the global political economy have changed in the last three centuries, the prevalent approach for situating the state in the operation of the market economy and opening the economy to international trade and finance has swung back and forth between forms of market-based and state-centric approaches.

The State Strikes Back

The debate on state capitalism is an old one that dates to the troublesome days of the global political economy back at the end of the 19th century. Having been eclipsed by a market-centered neoliberal approach based on a minimal role for the state, deregulation, privatization, and liberalization that finally exhausted itself and lost its appeal (Altman 2009; Gilman 2018), the concept made a strong comeback after 2008. As the attractiveness of Western liberalism faded, the brighter performance of the emerging countries, notably China offered a model for development and prosperity based on expanding the role of the state (Öniş and Kutlay 2020), placed domestic concerns over the global ones and prompted a surge in populist politics. These trends overlapped with the last paradigm change in technology. The so-called Fourth Industrial Revolution (Schwab 2017) will have significant effects on business models, production and consumption preferences, social, political, technological, and cultural trends (Harari 2018). The ultimate result of these wide and interrelated changes on the role of the state and prospects for globalization is highly uncertain. That complexity and uncertainty call for a vast array of studies on the subject, one of them being state capitalism.

Studies on state capitalism proliferated since the pioneering works of Ian Bremmer (2011). The research strands of the Beijing consensus (Ramo 2005), state capitalism (Nölke et al. 2020), competitive authoritarianism (Levitsky and Way 2020), and varieties of capitalism (Hall and Soskice 2001) study different aspects of the swing away from neoliberal globalization.

In the growing literature since Bremmer, state capitalism was criticized as a concept since it "lacks a unified definition" and "refers to an extremely wide array of policy instruments, strategic objectives, institutional forms and networks, that involve the state to different degrees" (Alami and Dixon 2020: 71). Notwithstanding the criticisms concerning the analytical power of the concept of state capitalism (Sperber 2019), we will employ this concept in order to interpret the economic policy preferences of Turkey in the post-2008 period. We will pay attention to two different characterizations of state capitalism that Sperber identifies: "the state's ownership and operation of capitalist enterprises, which is 'state capital' and 'the state's control or influence over the activities of private economic actors, occasionally denoted as 'statism'".(Sperber 2019: 102). We will follow the second characterization and in the third section, when we analyze state capitalism in Turkey, we will focus on the state's control or influence over the markets as it is the relevant characterization not only recently but also historically (Pamuk 2018). In exercising influence, the state may have two distinct ultimate objectives: the state may act as a late-industrializing developmentalist state to maximize growth and welfare (Evans 1989), or it may intervene in the economy with political considerations (Bremmer 2011) and with the ultimate objective of maximizing the state's power and the leadership's chances of survival (Bremmer 2011).

Policies and Tools Available to State Capitalism

Although the theories and concepts are diversified, the studies on state capitalism identify a common set of policies and tools. McNally (2013: 39) summarizes the aspects that practitioners of state capitalism share in common, such as: "industrial policy tools, including the strategic use of foreign investment, measures to foster technology transfers, various trade tools, government-guided mergers and acquisitions, competition policy, preferential access to credit, and the setting up of designated zones with preferential policies to develop new industrial sectors and technologies" and fostering of national champions. The domestic financial system, state-controlled banks, and sovereign wealth funds play an important role in financing their industrial policy. Bremmer (2011: 51-69) also provides a similar list consisting of "state-owned enterprises (SOEs), privately owned national champions, and sovereign wealth funds (SWFs)". On a comparable ground, Nölke et. al. (2020: 175) identify the pillars of the economically successful state-capitalist models in China, India, Brazil and South Africa as a set of "institutions for corporate governance, investment finance, industrial relations, education and training as well as innovation". From these empirical studies, we can isolate the common set of policies and tools for our analysis of state capitalism in Turkey: monetary policy, industrial policy, international trade and finance policy and governance of state-owned enterprises.

Turkish Political Economy After 2008: Wobbling between the Liberal and Economic Nationalistic Models

A short historical review of Turkey's economic policy framework reveals that the country has followed the trends in the capitalist world economy since the late Ottoman period (Rüma 2023).[3] After a long period of import substituting industrialization (ISI) followed by neoliberal reforms in the 1980s and speedy integration with world markets, the mismanaged economy crashed in 2001. An International Monetary Fund (IMF)-backed reform program for restructuring the economy was adopted as the country sought EU membership. A comparative analysis of Turkey's GDP, exports, and foreign direct investment flows shows that Turkey has benefitted from globalization and increased its share in the world economy significantly in this period. However, that reform agenda slowed down after the 2008 global financial crisis. The gradual waning of the EU membership process, which blocked recourse to practices of state capitalism and the termination of the last IMF agreement in 2008, enabled the government to implement policy choices outside the Washington Consensus framework. Since then, the political elites of the country have gradually shifted their policy preferences and implemented these in an intensifying illiberal political trajectory.

Turkish Economy After 2008

The Turkish economy was not facing insurmountable problems in 2017. The growth rate averaged 7.7% from 2002-2007 and 6.8% from 2010-2017 period. Per capita income rose to $28,000 in 2017 from $20,000 in 2007 and $15,000 in 2002 (PPP; 2017 international dollars). The share of Turkey in world GDP (in PPP terms) rose to 1.9 % in 2017 up from 1.5% in 2007 and 1.3% in 2001. Consumer price inflation was 45% in 2002 but that was reduced to 8.8% in 2007 and 11.1 % in 2017. Fiscal discipline was preserved after 2001 with a budget deficit below 2.0% of GDP and a public debt below 30% of GDP in the years before 2017. The share of Turkey in world exports of goods and services increased from 0.7 % in 2001 to 0.9 % in 2007 and further to 1.0% in 2017. The one worrisome indicator was the current account deficit, which worsened from 3.6% from 2002-2007 to 4.8 % in 2017. Furthermore, annual FDI inflows, which had reached about $20 billion after 2001, decelerated to below $12 billion in 2017 (IMF 2022). Besides, there were some serious structural problems (Orhangazi and Yeldan 2021), such as high informality, high inequality, low productivity, low competitiveness, low technology, and low quality of growth. Although these structural problems were a cause of concern for the longer term, by 2017, Turkey was

3 Öniş and Şenses (2007) argues that changing global dynamics constitutes the central pillar for major policy shifts and they call it as a reactive state model. Öniş (2019) considers that the reactive state framework is also relevant for analyzing and interpreting the post-2011 AKP era of 'developmentalism' with authoritarian features

not on the brink of collapse in its capital accumulation model. These structural problems had to be addressed by improving the quality of its economic and political institutions (Acemoğlu and Üçer 2020). Instead, institutions deteriorated further, and economic indicators stagnated or worsened after 2017.

In order to understand the scope of the economic policy design, we will examine the four policy areas that we have identified based on the empirical studies on state capitalism, namely, monetary policy, industrial policy, international trade and finance policy and governance of state-owned enterprises. Other important tools of state capitalism, such as SWFs and national champions are out of consideration in the case of Turkey, as the country is not a natural resource abundant economy. To determine the economic policy framework, we will examine the relevant official documents, namely the five-year development plans and annual programs.

The AKP government prepared three five-year development plans after 2007, each of which was prepared under a different institutional setting. The 2007-2013 plan was prepared by Turkish Prime Ministry State Planning Organization (SPO). The plan for 2014-2018 was prepared by the Ministry of Development after the SPO was abolished, and the Ministry of Development was established. The 2019-2023 plan was prepared after Turkey went through a constitutional change and transformed its 95-year-old parliamentary system into a presidential one. That plan differs from the previous ones in important aspects starting with the vision of the plan (Table 1). While the ninth Development Plan targeted to complete the harmonization with the European Union, the tenth and the eleventh ones reflected the increasingly nationalistic direction of economic policy discourse. The nationalistic tone then intensified in the twelfth development plan. It opened with a reference to the 2053 vision, with 2053 being the 600th anniversary of the conquest of Istanbul by the Ottoman Empire. The plan envisioned to achieve the development targets by incorporating the basic values of the nation in the "century of Türkiye".

Table 1. Vision of the Five-Year Development Plan

Twelfth Development Plan (2024-2028)	"stable, strong, prosperous, environmentally friendly and disaster resistant Türkiye which produces high added value based on advanced technology and sustains fair income distribution in the Century of Türkiye."
Eleventh Development Plan (2019-2023)	"stronger and more prosperous Turkey that produces more value added and shares more fairly"
Tenth Development Plan (2014-2018)	Based on national values and expectations, to increase the global positioning of the country and increase the public's wellfare
Ninth Development Plan (2007-2013)	"Turkey, a country of information society, growing in stability, sharing more equitably, globally competitive and fully completed her coherence with the European Union"

Source: Prepared from (DPT 2006; Kalkınma Bakanlığı 2013b; Strateji ve Bütçe Başkanlığı 2019b; 2023b)

The main policy areas also showed significant changes (Table 2). The plan for 2014-2018 reflected the spirit of the neo-liberal economic model, while the Tenth Plan signaled key departures from the previous one: monetary policy paid attention to financial stability, financial policy paid attention to the financing needs of the real sector, and foreign trade policy explicitly targeted a reduction in import dependency. The Eleventh Plan added financial stability beside price stability; the goal of low-cost financing for the real sector was explicit; reducing import-dependency and promoting export orientation were the main elements of the trade policy, with emphasis on technology transfer surfacing in FDI policy and industrial policy defining priority sectors to accelerate industrialization. The Twelfth Plan, which was adopted just after the Kahramanmaraş earthquakes, the most severe in the history of the country, embodied a strong emphasis on disaster resistance. Another important difference of the Twelfth Plan was the added focus on green and digital transformations. But the Twelfth Plan also resembled the return of orthodox economic policies. Main aim is said to reduce inflation to single digits and ensure price stability. While the Eleventh Plan foresaw inflation targets to be determined and announced by the Government and the Central Bank, that clause disappeared in the Twelfth Plan as the Central Bank presumably gained back its autonomy.

Table 2. Main Policy Areas in the Development Plans

	Twelfth Development Plan (2024-2028)	Eleventh Development Plan (2019-2023)	Tenth Development Plan (2014-2018)	Nineth Development Plan (2007-2013)
monetary policy	Main aim is to reduce inflation to single digits and ensure price stability. Effective use of monetary and fiscal policy tools within a holistic approach.	Main aim is price stability and financial stability. Aim of low cost financing for the real sector	Main aim is price stability. Inflation targetting will pay regard to financial stability.	Implementation of tight monetary and fiscal policies without any concessions
financial policy	Highly competitive financial sector which is compatible with global markets in all areas of finance, in particular in sustainable and digital finance	Satisfing financing needs of the real sector at a lower cost	Satisfing financing needs of the real sector and financing growth	Accounting and supervision standards will be improved according to the EU and OECD norms
SOEs	Principles of efficiency, productivity and corporate governance. An efficient market mechanism to be targeted in privatisation	Principles of profitability, efficiency and corporate governance. Productivity increase and public balances to be targeted in privatisation	Without creating any burden for the public	The share of the SEE system in the economy will considerably decline with privatization.
foreign trade	Attaining sustainable improvement in current account balances by increasing value added in exports by considering the green and digital transformation, reducing import dependency and diversifying service revenues.	Export-oriented, innovative and less import-dependent production structure. Increasing the share in world trade	Reducing the current account deficit with an innovative structure and reducing import dependency.	high increase in exports through increasing competitiveness and shifting to a high value-added production structure
international finance	To be a safe haven for international capital. accelerate international capital, especially FDI	Improving the quality of current account financing through FDI that provides technology transfer	Financing the current account deficit with FDI, non-debt instruments and other long term financial inflow	Structural reforms for a sustainable current account deficit to be financed by sound resources
industrial policy	Increasing competitiveness and productivity in the economy by green and digital transformation in production, especially in priority sectors and development areas.	Accelerating industrialization particularly in priority sectors and priority fields of development	Accelerating capital accumulation and industrialization, increasing factor productivities, increasing innovative capacity	Raising competitiveness and increasing the share from world exports by high value-added goods

Source: Prepared from (DPT 2006; Kalkınma Bakanlığı 2013b; Strateji ve Bütçe Başkanlığı 2019b; 2023b)

The annual programs, which expand on the five-year development plans by identifying the implementation tools (Ateş 1999), also provide more detail on the changes in the main policy areas (Table 3).

Table 3. Main Policy Areas in the Annual Programs (2008-2022)

		2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
monetary policy	achieving price stability by looking after financial stability		x	x	x	x												
	main target of monetary policy: price stability	x					x	x	x	x	x	x	x	x				
	supporting growth and employment without contradicting with the purpose of price stability							x	x									
	inflation target determined jointly by Government and CB.			x	x	x	x	x	x	x	x	x	x	x	x	x		
	Monetary policy implemented by the Central Bank.															x	x	x
	main policy tool: short time interest rates						x	x	x	x	x	x	x	x		x	x	x
	strong implementation of monetary policy tools	x																
	inflation targeting	x	x	x	x	x	x	x	x	x	x	x		x	x	x	x	x
	coordination of monetary and fiscal policies	x	x	x	x	x	x	x										
	accomodating fiscal and incomes policy	x	x	x	x	x												
FX regime	Floating exchange rate regime		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
	intervention in the fx market losely defined		x	x	x	x		x										
	intervention in the fx market well defined						x		x	x	x	x	x	x	x	x	x	x
financial policy	low cost financial instruments for the real economy		x	x	x	x												
	strong institutional structure	x	x	x	x	x												
	Istanbul to be an international financial center.		x	x	x	x	x	x	x	x	x	x	x	x	x	x		
	domestic savings	x					x	x	x	x	x							
	no exchange rate target													x	x	x	x	x
support for private investments	improving the investment environment to increase private investments for high growth					x	x	x	x	x	x	x						
	improving the business environment	x	x	x	x	x	x	x	x	x	x	x						
	improving the regulatory framework	x																
foreign trade policy	creating a robust and flexible structure for global supply chains	x																
	exports of high value added products	x	x				x	x	x	x	x	x	x	x	x	x	x	x
	decreasing import dependency	x			x	x	x	x	x	x	x							
	services exports	x	x	x	x	x	x	x	..									
capital liberalization	FDI for technological transfer			x	x	x	..	..										
	attracting FDI to help technological transformation		x	x	x	x												
	attracting FDI								x	x	x	x						
	improving the investment environment to attract FDI	x											x	x	x		x	x
industrial policy	supporting green and digital transformation	x																
	supporting domestic production structure		x															
	increasing high value added production and exports	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x		
	increasing the share from world exports						x	x	x	x	x	x	x	x	x			
	increasing the share of mid-high technology industries																x	x
SEE policy	principles of profitability and efficiency to support fiscal sustainability	x																
	principles of profitability and efficiency+social aim		x	x	x	x												
	principles of profitability and efficiency			x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
	privatization of SEEs												x	x	x	x	x	x

Source: Prepared from annual programs (2023a; 2022; 2021; 2020; 2019a; 2018; 2017; 2016; 2015; 2014; 2013a; 2012; 2011; 2010; 2009; 2008; 2007)

The concepts such as emphasis on international standards, treating domestic and foreign companies on equal footing, the importance of regulatory bodies in shaping economic policy, and adherence to the EU membership process that appeared in the annual programs during 2008-2013 were abandoned in the following years. After the shift to the presidential system, all policy areas contained at least some elements of the state capitalist framework. Some objectives such as increasing high value-added production and exports, increasing competitiveness, reducing the current account deficit, healthy and long-term financing of foreign deficit, achieving price stability, operating SEEs on principles of profitability and efficiency, and making Istanbul an international financial center appeared almost in each program but did not bring much success. The 2024 program, like the Twelfth Plan, signaled a deviation from the previous years with a clearly articulated neoliberal stance.

Turkey's Unconventional Monetary Policy Experiment

The most significant change in the economic policy framework took place in monetary and financial policies.[4] After July 2019, these have drifted away from an orthodox policy stance, and political pressure mounted to lower interest rates. The first period of lowering interest rates lasted until Nowember 2020. The resulting instability caused an increase in interest rates and dismissals in economic management to be replaced with names known as advocates of liberal policies. That period lasted until March 2021, when low interest rate policy made a comeback with new names assigned in economic management. This period lasted until June 2023. The shifts in monetary policy together with frequent dismissals and appointments in key posts such as the central bank governor, head of the state institute of statistics, and the ministry of the economy[5] eliminated these institutions' autonomy in economic policy making along with their credibility (Malsin and Hirtenstein 2021). Monetary policy turned into a powerful tool for creating a loyal business group over the conventional methods identified by Esen and Gümüşçü (2018b) such as public procurement, privatization, and tax audits.

The emphasis in monetary policy has shifted away from lowering inflation towards supporting growth. The prominence of the Central Bank in implementing monetary policy disappeared from the programs after 2011. Since then, the programs stated that inflation targets should be determined jointly by the government and the CBT. In the annual programs starting with the one for 2019, achieving price stability target was made conditional for creating financial stability.

As arbitrary reductions in interest rates gained ground from 2019 onwards (Financial Times 2021), providing low-cost financial instruments for the real economy topped the policy objectives of policy,[6] while increasing domestic savings disappeared from among the main monetary policy objectives. "Supporting growth and employment without jeopardizing the goal of price stability" started to appear in annual programs starting in 2017. Despite soaring inflation, the Central Bank cut interest rates in 2021, resulting in a negative real interest rate of almost 60% in the summer of 2022 (Financial Times 2022a). Besides interest rate cuts, Turkey used state banks and other mechanisms such as Credit Guarantee Fund (KGF) to provide credit to private businesses and especially to small and medium-size enterprises (SMEs). At the end of 2023, banking sector credits increased by 4.4 times and credits to SMEs rose by 5.2 times when compared with the end of 2019 (BDDK 2024). KGF-provided guarantees to SMEs nearly doubled in just one year after 2019. (Hazine ve Maliye Bakanlığı 2024). These credits,

4 Apaydin and Çoban (2023) highlight the taper tantrum after 2013 as the driving force for the change in monetary policy.

5 There have been six central bank governors six presidents of the Turkish Statistical Institute in the eight-year period after 2016.

6 Akçay (2021; 2023) provides an account of the political economy dynamics of the low interest rate policy.

rather than being a blanket support for all SMEs, served the purpose of political patronage. Not only were state-owned banks used to serve political interests but private banks also (Bircan and Saka 2019) faced pressures to lower their interest rates, restructure troubled loans, and provide access to credit for partisan supporters.[7]

Similarly, Turkey has changed its foreign exchange policy. The annual programs before 2013 explicitly stated that the Central Bank will have no exchange rate target. Although in every program but in 2024 that we analyzed, the exchange rate regime is defined as a floating one; the conditions for intervention in the foreign exchange markets were strictly defined in the previous programs but were relaxed in later years to allow a broader framework for intervention. As expected, interest rate cuts resulted in a sharp devaluation of the Turkish lira. This new policy framework was introduced in December 2021 as a new economic model "supposedly" based on the Chinese model of embracing globalization, attracting FDI, and increasing exports with an assertion of improving the economic outlook in four to five months (Hürriyet Daily News 2021). However, the economic outlook continued to deteriorate. The result of this unconventional monetary policy was a very steep rise in inflation and a dubious ranking as the worst performing currency among the emerging markets (Bloomberg 2022), resulting in rapid impoverishment (The Economist 2021). The GINI coefficient worsened and reached its historical record since the start of the data set in 2006 (TUİK 2024a). In just a few months' time, the Chinese model was forgotten. In order to ease down the pressure on the TL without raising interest rates, the administration resorted to unorthodox measures such as forcing exporters to convert 40 per cent of their foreign currency revenues into lira and banning banks from extending new credits to companies having foreign exchange holdings exceeding 10 percent of their total assets or annual revenues (Financial Times 2022b)

However, Turkey's unconventional monetary policy experiment did not last long. As foreign exchange reserves depleted, inflation spiraled and micro management in financial markets led to a credit squeeze, a new economic team was appointed after the 2023 elections with a clear mandate to fight inflation by returning back to orthodox economic policies (US News & World Report 2023). The new finance minister Mehmet Şimşek, who had been in charge of economy in the AKP cabinets from 2007 to 2018, declared that Turkey "has no other choice than to return to a rational ground" and "[t]ransparency, consistency, predictability and compliance with international norms will be our basic principles"(Uras 2023). This new attitude shaped the Twelfth Plan and the 2024 program. The Twelfth Plan strongly emphasized reducing inflation, committing to using all available policy tools to attain single digit inflation. Many new policy measures were also introduced (Strateji ve Bütçe Başkanlığı 2023b). Indeed, the new team hiked rates rapidly and continued to do so even just days before the local elections of 2024 (Samson 2024).

Because of these swings in monetary and financial policies, it is difficult to talk about a decisive economic policy framework. We can conclude that Turkey followed the steps of other state capitalist economies of the time, used the financial sector to provide cheap loans and undervalued its exchange rate with the hope of promoting exports. But monetary and financial

7 Apaydin and Çoban (2023) provide an excellent account of various types of politically motivated interventions in financial and foreign exchange markets after 2013.

policies have a short-term perspective. They must be coupled with trade and industrial policy to achieve structural change. As shown in the following section, as trade and industrial policy failed to achieve a structural transformation of the economy, the existing monetary framework has been altered frequently in order to accommodate political concerns for securing electoral outcomes.

Turkey's Unstable and Unconventional Industrial Policy

The biggest change in industrial policy came with the introduction of the priority sectors in the Eleventh Plan. Increasing international competitiveness and Turkey's share in world exports has been a common theme in most of the annual programs. In the years following the transition to the presidential system, increasing high value-added production and exports was added to the objectives of industrial policy. The Eleventh Plan identified the priority sectors as chemical industry, pharmaceuticals and medical devices, electronics, machinery and electrical equipment, automotive and rail system vehicles. These changes are yet to prove their efficacy in fostering international competitiveness and exports.

A rhetoric of "native and national" accompanied the new industrial policy. Since the concept lacks any clear and precise definition, it only served as a catch phrase for economically nationalist rhetoric (Tiryakioğlu 2021). In everyday language, the term reminds one of anti-globalization, economic nationalism, and inward-looking policies. It was one of the building blocks of blame shifting to international actors (Söylemez Karakoç and Angın 2023). Paradoxically, the official rhetoric does not necessarily challenge globalization. To the contrary, it claims to seek greater integration with global markets (İzmen 2021).

Despite the fact that almost every annual program had put forward the policy objectives of increasing competitiveness, improving Turkey's share in world exports and the share of high technology products in exports, the industrial policy fell short of delivering these objectives. The share of high technology products in total exports went from 2.0% in 2007 to 3.0% in 2013 and stayed at around that level. The corresponding figure for BRICS countries was 14%. The share in world exports of goods and services, which was 0.9% in 2010, rose slightly to 1.1% in 2022 (World Bank 2024). The industrial policy and especially the research and development policy did not help to make any change in this picture as the funds financed not the best projects but those of the favored business groups (Karaoğuz and Kutlay 2023).

For the time being the most outstanding outcome of the new industrial policy is an initiative to produce the first Turkish automobile brand. The domestic automobile project TOGG was launched in 2018 and started mass production on the eve of the 2023 elections. But the outstanding success of the "native and national" rhetoric is the defense industry. Efforts to decrease import dependency and achieve self-sufficiency intensified after Turkey was excluded from US F35 program. The defense industry was redesigned and an ecosystem was created (Bastian 2024), which resulted in transforming Turkey from one of the biggest arms importer of the world into the twelfth biggest exporter in 2018-22 (Wezeman et al. 2024). Notwithstanding these achievements, foreign dependence on crucial hardware and software continues, and the country faces obstacles in creating a self-sufficient industry (Bastian 2024). Furthermore, these two cases are singular, and neither of them can create spillover effects for other sectors.

To conclude, the new industrial policy did not succeed in raising the share of high-tech production and had only a partial impact on increasing the share of the manufacturing industry in GDP (the share rose to 22% in 2021 and 2022 from 18.3% in 2019 but fell back to 19.4 % in 2023 (TUİK 2024b). It was the construction sector that surged thanks to negative real interest rates and many other support prioritizing the sector.[8] Amendments in public procurement law, mega infrastructure projects for airports, highways, bridges, ports, energy mills and mega hospitals built through public–private partnerships and TOKI's (the state construction agency) projects for constructing affordable housing to low- and middle-income households enabled construction companies both big and small to get their share from this lucrative business.[9]

Conclusion

Historically, state intervention had been an important contributor to the economic development of Turkey (Pamuk 2018). The policies adopted after the 2001 crisis had defined a limited role for the state. But the state made a comeback after the global crisis of 2008.[10] The review we presented of economic policies after the 2001 crisis suggests a change in the political economy preferences away from the liberal model towards a state-centric approach.

The changes in Turkey's economic policy framework resulted from both domestic and global conditions. On the global side, the IMF agreement was terminated, the EU process lost steam, and the state-centric approaches became admissible globally after the 2008 crisis, allowing a legitimate ground for the political center to move away from the liberal agenda. On the domestic side, the change did not come because of a crisis in its capital accumulation model, but in the intensification of patronage politics. The shift towards an *alla Turca* presidential system created the institutional foundations for a state-centric model.

However, the "return" of the state in the Turkish context did not parallel those in developmentalist state capitalist countries. The defining features of those countries as well as more market friendly Asian success stories is their high level of institutionalization and institutional autonomy. The critical problem with this version of a state capitalist model is that it does not replicate, imitate, or follow on the paths of any developmentalist understanding of state interventionism, guidance, and governance. The Turkish trajectory since 2008 and particularly since the advent of the presidential system has gone in the opposite direction. In the developmental trajectory of Turkey both in the more introverted ISI period and the globalizing period, institutional integrity, competence and reliance on a seasoned and well-trained bureaucracy/technocracy was of paramount importance.

8 According to Adaman and Akbulut (2021) the extractive sectors such as energy, mining and construction flourished under the state's explicit and visible role and this adds a future of developmentalism to AKP's policies.

9 In absolute terms, Brazil, China, Turkey, India, and Vietnam received the largest PPI investments in 2021. (World Bank 2021), see also: (Yagci 2021) and (Kutlay 2020).

10 Turkey is classified as some sort of a state capitalist economy in: (Öniş 2019; Kutlay 2020; Yagci 2021)

In this recent episode of the "return of the state," the economic institutions have been deeply politicized and rule of law was impaired (Esen and Gumuscu 2018b). De-institutionalization has been thorough, with nearly 200 years of bureaucratic governance tradition being set aside. Meanwhile, ad-hocism has ascended under the guise of unorthodox economic policies and the already weak developmentalist attributes of the Turkish state have been discarded. The SPO was closed, the independence of main decision-making bodies such as the Central Bank was undermined, merit-based appointments to key positions became rare, public procurement law was changed over a hundred times. Indeed, Öniş and Kutlay (2013; 2021) as well as Karaoğuz and Kutlay (2023) point out these weaknesses in the developmental capacity of the state, which contradicts the trajectories of well-known capitalist developmental practices.

Analysis of the officially adopted five-year plans and annual programs in the three key areas of state capitalism, that is monetary policy, international trade and finance policy and industrial policy, revealed that the Turkish experiment lacked a developmentalist perspective that is critical for state-centered political economy preferences. The changes in the economic policy framework cannot be interpreted as reflecting a reveled preference for neither a state capitalist model nor a neo-liberal one. Rather the changes created the conditions for the escalation of patronage politics.

The state economy model created by the AKP was not able to produce and distribute rents and economic benefits to allied business groups and the general public on a sustainable basis. Turkey lacks the advantages that most of the state capitalist economies enjoy, such as natural resources (Brazil, Russia and Saudi Arabia), a large state sector (Russia and China), and the scale advantage (India and China). The so-called "native and national economy" rhetoric, the shift away from conventional monetary policy, and the model declared at the end of 2021 for increasing exports through an undervalued exchange rate, presumably imitating a long-outdated Chinese experience, turned out to be short-lived, as these policies fell short of creating the conditions for a change in the production structure. Turkey exhausted its range of rent-creating activities such as the privatization of SEEs, mega projects, and urban renewal activities, so that the size of support to favored business groups has contracted. Furthermore, unconventional monetary policy caused a deep impoverishment and a rapidly worsening income distribution. As the policy mix lacked the elements of capitalist developmental state model to create the conditions for providing benefits for the government, the pro-government businesses, and the voter base on a sustainable basis, the orthodox market economy framework made a comeback after the 2023 elections.

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