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SNAPSHOT

Erdogan's Achilles' Heel

Why the Prime Minister Will Win the Election, but Lose the Economy

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Over the course of last year, Turkish Prime Minister Recep Tayyip Erdogan has surmounted some major obstacles. He crushed urban protests last summer. He cracked down on the followers of U.S.-based cleric Fethullah Gülen within the police and judiciary over the fall and winter. Electorally as well, Erdogan seems invincible: On Sunday, when Turkish voters head to the polls to elect a new president -- the first to be chosen by popular vote -- Erdogan is set to win in a landslide.

Erdogan has vowed to expand presidential power. He does not hide his ambition to become Turkey's second founding father; in fact, he seems to aspire to be the anti-Atatürk, that is, to remake the secular republic that Turkey's founder, Mustafa Kemal Atatürk, built. Erdogan has vowed to raise "pious generations," and frequently refers to a historic "mission" that he, "God willing," will soon fulfill. His words are not empty. For one, the ongoing changes to Turkey's secular education system are conspicuous; state-run secondary schools across Turkey are quickly becoming clerical institutions.

Still, it is not Islamist ideology that has sustained Erdogan's power. It is the economy. Voters have kept him and his party, the Justice and Development Party (AKP), in office because the economic benefits the party has brought have outweighed other considerations. For example, waves of international capital during the last decade have led to booms in public and private consumption and construction. These have kept the Turkish economy growing.

The material foundations of Erdogan's power, however, are not stable. Rahmi Koc, the honorary chairman of Koc Holding, Turkey's biggest industrial conglomerate, recently warned that "The most important structural problem Turkey faces is its excessive reliance on foreign capital inflows." Income levels have ceased to rise, and economic

growth based on consumption and construction is usually not sustainable in the long run. In short, Turkey has become stuck in the classic middle-income trap. And the way out is well known: increase productivity, which requires a better educated population; encourage innovation, which requires a free intellectual atmosphere; and increase female participation in the workforce. Turning out more clerics than scientists, muzzling free speech, and urging, as Erdogan recently did, young women not to postpone marriage because of studies, is not going to help the Turkish economy advance.

By undermining Turkey's economy in the long term, Erdogan's religious policies will eventually put him at odds with some of his most important backers: Istanbul-based big business and the religiously conservative business community in Turkey's heartland, Anatolia. In the short term, things don't look great either.

The relationship between Istanbul-based big business -- which is culturally Westernized -- and Erdogan has been uneasy for a long time. In 2008, Erdogan asked the public to stop reading the newspapers that belonged to business magnate Aydin Dogan's Dogan Media Group. In 2009, the government fined the group an unprecedented \$2.5 billion after a tax audit. Last year, tax auditors (accompanied by the police) raided three major companies belonging to Koc Holding, which is active in the energy, automotive, shipping, defense, and consumer durables sectors. What triggered the move was the fact that a hotel that belongs to Koc Holding had given refuge to people fleeing from police crackdown on peaceful protesters in Istanbul's Gezi Park.

What is new and more significant is the strain in the relationship between Erdogan and the Islamic-oriented business community in Anatolia. For one, the AKP government's Sunni sectarian impulse has cost the Anatolia business community its most important markets in the Middle East. For example, Turkey's support of the Sunni Islamist cause in Syria has not only aggravated the civil war there, but has also led to the emergence of jihadist groups such as the Islamic State of Iraq and al-Sham (ISIS) in Iraq. As a consequence, Turkey has lost what used to be its second-most important export market. (Turkey's exports to Iraq totaled \$11.9 billion in 2013, second only to its exports to Germany, which came in at \$13.3 billion.)

Turkey's adoption of the cause of the Muslim Brotherhood in Egypt and its ideologically driven enmity toward Israel have not made things easier. With the route through Iraq cut off after ISIS' advances, Turkish exporters need access to the Israeli and Egyptian ports of Ashdod and al-Arish to reach the Gulf markets through Jordan. Since they are no longer welcome there, though, they have had to start looking for emergency routes through Iran.

In addition to the old Middle Eastern trading partners, Turkish businesses also need new markets, foreign know-how, and foreign investment. In July, the Chairman of the Turkish Chambers of Commerce, Rifat Hisarciklioglu, a pro-AKP conservative, visited the United States. He pleaded with U.S. authorities to include Turkey in the free trade agreement that the United States and the European Union are negotiating.

His U.S. interlocutors gave him the cold shoulder and advised him to try to convince the Europeans first. Hisarciklioglu told accompanying Turkish journalists that the only thing people in Washington wanted to talk about was the rise of militant Islam in the Middle East and Turkey's role in it. That message is bound to worry conservative business community in Turkey.

In fact, concerns about Erdogan's direction have led these very people to rally around Abdullah Gul, the outgoing president. Gul was given an enthusiastic welcome at a Ramadan dinner reception hosted by the Turkish Chambers of Commerce last month. The standing ovation was reported to have lasted half an hour. During his tenure, Gul took care to not openly break ranks with Erdogan. On several occasions, though, he let it be known that he would have favored more moderate policies in line with the interests of the business community, which has a stake in good relations with the West.

Conservative businessmen and others within the ranks of the AKP have started to push for Gul to become party leader and prime minister after Erdogan takes over the presidency. And for his part, Gul has dropped several hints that he aspires to continue to play a central role in politics. "I am going to continue to serve my people after this as well. Let's see how I'm going to do it," he told a gathering of businessmen. But the general assumption in Turkish political circles is that Erdogan, sensing competition, wants Gul to stay as far away from the AKP as possible. Erdogan has said that he is going to be a "sweating" president who will make full use of his prerogatives, which was seen as a thinly veiled criticism of Gul's presidential record of restraint.

If there is a struggle for the control of the AKP after Erdogan leaves the prime minister job to become president, Erdogan is certain to prevail. If he wins in the first round of voting with more than 50 percent, he will have such a strong popular mandate that no one will be able to contest his continued hold over the AKP and the government. In the longer run, however, things are bound to work out differently.

Gul cannot match Erdogan's popular mandate, but he speaks for interest groups that have historically been decisive in politics. In the speech at the reception hosted by the Turkish Chambers of Commerce, Gul observed that "the expectations of the private sector" and the "demands that originate from Anatolia are going to decide the course of politics." These remarks are somewhat self-serving: After all, the "demands from Anatolia" evidently include him taking over the AKP. But Gul is correct when he notes that the expectations of the private sector have a way of changing Turkey's course.

The first time they did so was in 1980. After staging a coup, the military implemented a comprehensive program of economic liberalization. The business community had been demanding these reforms for years, but the civilian government had been unable to implement them because of opposition by the left and the trade unions. As the Turkish economy suffocated, social tensions and violence escalated. The military stepped in, and the economic liberalization it pushed forward laid the groundwork for Turkey's economic ascent.

The second occasion came at the beginning of the 2000s. In those days, the Turkish business community and international lenders demanded further economic liberalization and political democratization. Runaway inflation and enormous budget deficits had brought Turkey to the brink of financial collapse at the end of the 1990s. The ruling leftist–rightist coalition launched a new set of policies designed to meet these expectations, but then crumbled politically. The AKP subsequently came to power, backed by the United States, the EU, and the business community, which hoped that the party would provide political stability and fix Turkey’s economic mess. And, when the time came, the AKP successfully and quickly implemented the reforms.

In Turkey, the relationship between the state -- the military and the bureaucracy -- and the business community has been symbiotic. Business interests have been paramount; the state has looked after them since the founding of the republic. Moreover, Turkey’s integration in the global economy since the 1980s has made the state even more sensitive to the dynamics of capitalism. Over time, however, the relationship between economic political freedoms has changed. In 1980, business interests were served by an authoritarian regime. Two decades later, however, business had come to have a vested interest in democratization. Economic necessities forced the Turkish government to introduce political liberalization, in order to gain the confidence and support of the European Union.

The fact that the Turkish economy has continued to grow while the country has relapsed into authoritarianism has created an illusion that business can continue to thrive in an illiberal environment. But that illusion has already started to crack. In Turkey, state authoritarianism and capitalism no longer go together. In this light, Erdogan’s victory is destined to be a pyrrhic one.

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[Home](#) > Snapshot > Erdogan's Achilles' Heel

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