Turkish economic policy under AKP government: an assessment for 2002-2007

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1. Introduction

The Justice and Development Party (Adalet ve Kalkinma Partisi – AKP) won the elections of November 2002 against a background of recurrent economic crises (in 1994, 1999, 2000 and 2001) and edgy relations with the European Union (EU). AKP's victory was impressive not only because of its scale, but also because it was underpinned by an election manifesto that committed the party to extensive policy reforms in the context of IMF and EU conditionality. Naturally, these commitments have lent credibility to arguments that AKP government's economic policies have been instrumental in achieving macroeconomic stability and high levels of economic growth in Turkey. The party's second election victory in the summer of 2007, coupled with increased level of support, has also been presented as further proof of this positive association.

This article agrees with the received wisdom that the AKP government has contributed to better macroeconomic outcomes in Turkey from 2002-2007. However, it also argues for a more nuanced assessment of the relationship between Turkey's economic performance and the quality of the AKP government's economic policy. To put it bluntly, the article argues that the relationship between the AKP government's economic policy and Turkey's economic performance from 2002-2007 is less straightforward and may be less significant than we are led to believe.

There are a number of reasons as to why the relationship between AKP government's economic policies and Turkey's macroeconomic performance should be qualified. First, AKP government's contribution to Turkey's economic performance from 2002-2007 was largely due to its consent to 'tie its hands' under the pre-existing

International Monetary Fund (IMF) conditionality rather than because of AKP-specific policy innovation. Secondly, the prospect of EU accession and AKP's commitment to satisfying the Copenhagen criteria were significant factors that increased the credibility of AKP's commitment to the IMF conditionality. After the elections, however, AKP's commitment to EU membership has been subject to oscillations and overall weakening – leading to mixed signals about the ability of the government to deliver better economic governance. Finally, there are a number of structural constraints and vulnerabilities that threaten the sustainability of Turkey's economic growth and its macroeconomic stability. Yet, it is not clear at all if the AKP government has a clear understanding of those perennial problems (e.g., low savings and investments rate, high levels of external vulnerabilities, persistently high unemployment rates, etc.) let alone a coherent economic policy framework to address them.

To substantiate these arguments, the article is organised as follows. Section 2 reviews Turkey's post-crisis performance as reflected in standard macroeconomic indicators. This section demonstrates that Turkey's economic performance under the AKP government was clearly impressive – especially compared to previous periods. Section 3 takes a closer look at the relationship between AKP government's economic policy and Turkey's economic performance. This section demonstrates that the positive effect of AKP government's economic policy on Turkey's economic performance tends to decline as the government tends to develop its own policy framework. This was related to the AKP government's credibility deficit rather than the novelty of the new economic policy initiatives. Section 4 examines some indicators of institutional/governance indicators that reflect the quality of the government's policy framework and the latter's effect on economic performance. The section demonstrates that the AKP government must demonstrate more commitment to institutional and policy reform – instead of claiming excessive credits for its achievements so far. Finally, the article will conclude by pointing out some structural vulnerabilities of the Turkish economy – which the first AKP government was able to overlook because of the post-crisis rebounding of the economy but the second AKP government will have to grapple with.

2. Growth and stability at last

Throughout the 1980s and 1990s, Turkish economic policy framework was driven by a symbiotic relationship between discretionary policies and rent-seeking behaviour. As a result, Turkey's macroeconomic performance has deteriorated overtime and the prospect of EU membership has become increasingly elusive (Ugur, 2004). As can be seen from Table 1, average growth rates have declined from 4.76% in the 1970s to 3.93% in the 1990s; whereas the coefficient of variation (i.e., volatility of the GDP growth) has increased from 51% to 137% over the same period.

Table 1: Declining Growth Rates and Increasing Volatility in Turkey: Decade Averages

Decade	1. Average growth (%)	2. Standard deviation	3. Coefficient of variation (2 / 1) x 100
1970-79	4.76	2.43	51%
1980-89	4.04	2.70	67%
1990-99	3.93	5.37	137%

(Calculated from GDP data at 1987 prices)

According to Hnatkovska and Loayza (2005), a one-standard-deviation increase in volatility can be conducive to lower average per-capita income growth by up to 2.2%. In addition, cross-country studies reported by the IMF demonstrate that macroeconomic instability (measured as the standard deviation of GDP growth rates) is inversely related to institutional quality. According to IMF (2003: 104-108), when a country's institutional quality deteriorates by one standard deviation, the volatility of GDP growth would tend to increase by approximately 25%.

In the light of such findings, it would not be an off-the-mark statement to describe the 1990s as a 'lost decade' for economic development in Turkey. That is why, by the end of the 1990s, the Turkish public opinion was beginning to question the sustainability of populist policies and rent-seeking attitudes they have motivated among a plethora of organised and often shadowy interests. The onset of the financial crises in February 2001 and the 9.5% fall in real GDP by the end of the year not only confirmed the relevance of the pessimistic sentiments among Turkish voters but also induced the latter to vote the newly-formed AKP into government. The electorate's preference in favour of breaking with the past was so strong that none of the coalition parties were able to surpass the 10% threshold for representation in the National Assembly and the main opposition party's performance was less than expected.

The victor of the 2002 elections – the AKP – was formed in the second half of 2001 after the Constitutional Court dissolved its predecessor – the Islamist *Virtue Party*. The AKP campaigned on the basis of a pro-EU, pro-reform and pro-stability platform. Its economic policy was essentially in congruence with the existing IMF-sponsored stabilisation programme, which consisted of fiscal discipline, central bank independence, implicit inflation targeting, flexible exchange rates, and extensive structural reforms ranging from banking through corporate governance to public administration. In addition, the party leader, Mr Erdogan, engaged in face-to-face diplomacy with European leaders in order to assure them of his personal commitment as well as AKP's determination to maintain the 'EU perspective' (*Radikal*, 28.09.2001).

Given this dramatic 'regime shift' in the policy framework and the rebounding that usually follows a deep recession, recovery was swift and stability indicators began to improve significantly – as can be seen in sections I and II of Table 1 below.

Table 2: Basic Economic Indicators: Turkey 2001 – 2007

Section I	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007***
Real GNP growth rate (%)	-9.5	7.9	5.9	9.9	7.6	5.9	5.0
CPI inflation (%)	68.5	29.7	18.4	9.4	7.7	9.7	8.4
Unemployment rate (%)	10.4	11.0	10.3	10.3	10.2	9.9	9.5
Average real interest rate (%)	35.5	30.5	33.9	15.3	6.0	11.6	7.0
Section II							
Public sector primary balance (% of GNP)	5.5	5.1	6.2	7.2	6.8	6.6	6.7
Interest payments (% of GNP)	22.6	17.6	15.4	11.7	7.9	7.4	7.6
Public sector balance (% of GNP)	-17.1	-12.5	-9.1	-4.6	-1.2	-0.8	-0.9
Net debt of public sector (%of GNP)	90.4	78.4	70.3	64.0	55.3	44.8	41.0
Section III							
Current account balance (% of GNP)	2.4	-0.8	-3.4	-5.2	-6.3	-7.9	-7.3
National saving rate (% of GDP)	19.0	21.0	20.0	22.0	18.0	16.0	n.a.

* = Estimate

Source: IMF (2007a) and http://www.hazine.gov.tr/stat/e-gosterge.htm

During the term of the first AKP government, the national income grew at an average annual rate of approximately 7%, inflation fell from about 30% in 2002 to 7.7% in 2005 before increasing again to 9.7% in 2006. The government delivered on its commitment to maintain a primary public-sector surplus (public sector balance excluding interest payments) of approximately 6.5% - as envisaged under IMF conditionality. Thanks to sustained fiscal discipline, high growth rates and appreciation of the Turkish Lira, the ratio of public debt to national income has fallen from around 78% in 2002 to 41% in 2007. Finally, as growth resumed and stability set in, the cost of disinflation (in terms of high real interest rates) began to fall.

Although the indicators of improved performance are significant and impressive, there are indicators of structural vulnerabilities that have featured less prominently in the assessment of AKP's policy effectiveness. Two such indicators are increasing current account deficits and declining saving rates (Section III in Table 1 above). While the ratio of current account deficit to GNP has increased from less than 1% in 2002 to 7.3% in 2007, the national saving rate as a proportion of GDP has declined from 21% in 2002 to 16.0 in 2006. Both of these trends point to increased reliance on external finance. Therefore, they suggest that Turkey is highly vulnerable to adverse shifts in external financing conditions (IMF, 2007b).

Of course, deterioration in the current account and declining savings rate are related to structural factors such as high import content of Turkish manufacturing, inherited levels of income inequality, and level of GDP per capita. However, government policy also has had an effect. The success in reducing inflation has been obtained at the cost of high real interest rates, which led to overvaluation of the Turkish currency and deterioration of the current account. In addition, as the AKP government began to stamp its own vision on economic policy, Turkey had to maintain even higher real interest rates. The increase in real interest rates, coupled with a rebounding in the inflation rates, suggests that the costs of both investment and disinflation are increasing.

Despite this caveat, however, it must be acknowledged that one of the positive contributions of the AKP government has been its embracing of the pre-established stabilisation policy framework and structural reform agenda supported by the IMF and the World Bank. By doing this, the AKP lent crucial support to the fledgling stabilisation process, which was instituted after the February 2001 crisis. This programme was put in place upon IMF advice by technocrats such as Mr Kemal Dervis (transferred from the World Bank to become the Minister of Economic Affairs from May 2001 to August 2002) and a number of key economic policy actors such as the new Central Bank Governor and senior Treasury staff. Without AKP ownership, however, this newly-instituted stabilisation programme and the reform process would have been derailed and a situation similar to the aftermath of the Argentine crisis could have developed in Turkey.

Another contribution that the AKP government should be credited for was the priority it accorded to democratisation reform in the context of EU-Turkey relations. Before the elections in November 2002, AKP had campaigned on a pro-EU membership platform. Its campaign was crucial in lending legitimacy to and fostering domestic ownership of the democratisation reforms required under the Copenhagen criteria. In addition, its reform efforts from 2002–2004 went a significant way towards satisfying the conditions for the start of accession negotiations in 2005. Because of expectations linking the growth and stability in Turkey with the latter's prospect for EU membership, AKP government's *commitment* to the EU perspective acted as an additional source of credibility for the economic policy framework.

Although these contributions of the AKP government are essentially uncontroversial, there are a number of factors that complicate the relationship between AKP government's economic policy and Turkey's macroeconomic performance. First of all, there is the issue of whether or not one can speak of an AKP-specific economic policy from 2002-2007. Subscribing to a pre-existing policy framework (as the AKP did) may not disqualify the AKP from claiming the 'ownership' of that framework, but it does lead to questioning of the extent to which this ownership implies AKP-specific 'policy innovation'. Irrespective of this ambiguity, and in more practical terms relevant to the purpose of this article, what the AKP did was actually to deliver the targets that had been set by the 'original architects' of the programme and to carry out the structural reforms that the same actors had identified as necessary for delivering the quantitative targets.

Secondly, there is significant evidence suggesting that Turkey's economic performance began either to be less impressive or to reflect significant vulnerabilities as the AKP has tried to stamp its own image on the policy design and implementation. In other words, policy developments that are relatively more AKP-specific began to deliver lower 'rates of return'. This was not necessarily due to any significant difference between the AKP-specific policy choices and the IMF-sponsored policy recommendations. On the contrary, falling rates of success have been due to a credibility deficit that haunted the AKP government whenever it tried to signal to its support base that it wanted to escape the 'straight jacket' that had been set by the IMF and World Bank before it came to power.

Thirdly, there is some evidence that also suggests that the AKP government has begun to commit two types of 'sins' in its economic policy design and implementation: (i) hiding behind the relatively good economic performance indicators to cover up for its failure to improve economic governance quality in general; and (ii) overlooking the significance of the EU perspective for the level as well as success of the economic policy reform in the future.

3. The Emperor's clothes: Low returns on AKP-specific policy initiatives

Until early 2005, the AKP government remained essentially tied to the pre-existing, IMF-sponsored stabilisation programme. For example, in a Letter of Intent dated 5 April 2003, the Prime Minister's office stated that the new government was committed to implement the *existing programme* with strengthened resolve. It also stated that targets specified under the Stand-By agreement were *appropriate* and *achievable*. Similar statements were made in the Letter of Intent dated 2 April 2004.[1]

From 2005 onwards, however, AKP-specific policy initiatives began to take shape. Encouraged by the performance during 2003 and 2004, AKP government began to signal that it has eventually come of age and that it could begin to cash in the rewards of well-deserved credibility gains. The Letter of Intent dated 26 April 2005 is an interesting document that reflected this change of mood. By requesting a new Stand-

[1] For the 2003 Letter of Intent, see http://www.tcmb.gov.tr/yeni/duyuru/2003/4gg_nm_tr.pdf (accessed, January 2008). For the 2004 letter, see http://www.tcmb.gov.tr/yeni/duyuru/2004/niyet020404/loi.pdf (accessed, January 2008).

By agreement, the government acknowledged that it was still in need of the IMF anchor. By proposing a 3-year economic policy programme of its own, however, it also wanted to signal that the government's economic policy would be informed by the government's own assessment of the economic conditions and not by the IMF's diagnosis only.

The 3-year programme, titled the 'Economic and Fiscal Policies of the Turkish Government', was designed to increase the chance of re-election in 2007 by signalling that the government has proved its economic policy competence and that the economic policies of the preceding two years had led to sustainable improvement in economic performance. The government wanted to consolidate this achievement and to accelerate the convergence towards EU norms in the next 3 years. Given these aims, the government indicated that explicit inflation targeting would be introduced in 2006, that reliance on *ad hoc* revenue measures would be reduced, that the tax base would be widened, and that the social security system would be reformed.[2] Although these policy choices have also been recommended by the IMF in the past, they have been discussed and agreed upon within the government. They also reflected government confidence in its ability to strengthen the 'domestic ownership' of the otherwise standard IMF-sponsored structural reforms.

Nevertheless, the evidence so far on the outcomes of these policy initiatives is not encouraging. For example, the IMF is impressed with continued success in meeting the primary surplus target of 6.5% of GDP, but its concerns about the heavy reliance on *ad hoc* revenue measures for achieving the target have become more visible. In a recent proposal for discussion, the IMF recommends a move away from the primary surplus rule towards an expenditure-ceiling rule with a view to encourage fiscal reform aimed at widening the tax base and reducing excessive reliance on employment- and income-related tax rates. (IMF, 2007b: 17-25). Similarly, there have been some attempts to reform the social security system (for example, extension of the retirement age, amalgamation of public insurance schemes, and some reforms aimed at rationalizing health care expenditures), early evidence points to partial nature of these reforms and the absence of a significant impact on the level of expenditures.

[2] See, http://www.tcmb.gov.tr/yeni/duyuru/2005/niyet260405/IMFniyetTRnisan05.pdf (accessed, January 2008).

Explicit inflation targeting did begin in 2006 as stated in the Letter of Intent, but its introduction was accompanied with evident failure to hit the target in the first two years of its life. The targeted and actual inflation rates as well as indicators of inflation expectations are given in Table 3 below.

Table 3: Inflation and Real Interest Rates: Turkey 2002-2007

	2002	**2003**	**2004**	**2005**	**2006**	**2007**
Inflation Target (%)	35	20	12	8	5	4
Inflation Turn-out (%)	29.7	18.4	9.3	7.7	9.6	8.4
Expected Inflation (% at start of year)	48.3	24.9	13.1	8.4	6.5	6.8
Real interest rates (%)	30.5	33.9	15.3	6.0	11.6	7.0

Source: http://www.tcmb.gov.tr/ and http://www.treasury.gov.tr/stat/e-gostergeeng.htm

The central bank's failure to hit the inflation target in 2006 (the first year of explicit inflation targeting) was related to two sets of developments. This first set consisted of increased oil and food prices, adverse capital movements, and depreciation of the Turkish currency that occurred in the summer of 2006. The second set was related to the loss of credibility suffered by the government as a result of its unjustified decision not to extend the mandate of the incumbent central bank governor. The combined effect of these developments was clearly disappointing for the AKP. Inflation targets were missed in 2006 for the first time after the 2001 crisis and the error margin remained wide the next year. Secondly, the credibility gap (the gap between actual and expected inflation) has widened, reversing the previous trend of a narrowing credibility gap. Finally, real interest rates have increased – leading to higher cost of controlling inflation.

Finally, the period after 2005 turned out to be disappointing with respect to the pace of reform under EU conditionality. AKP's commitment to reform and EU membership began to falter under mixed signals form the EU and the pressure from AKP's conservative/religious core supporters. That is why the cooperative relationship between AKP and TUSIAD (the peak organisation of the large business conglomerates in Turkey) began to disintegrate from late 2004 onwards. Although mixed signals from some EU member states (especially Germany, France and Austria) proved to be a convenient excuse for the change of direction in AKP policy, a retrospective analysis suggests that the essential reason lay somewhere else. When AKP government's commitment to democratisation reforms began to falter in 2004, public opinion support for EU membership was at its highest level (74%) and AKP's share of votes increased from 34.3% in the general elections of November 2002 to 41.7% in the local elections of April 2004. Besides, the Commission and a number of EU member states (including the UK, Spain, Sweden, Italy, etc.) were explicit and vocal in their support for Turkish membership. Under these conditions, mixed signals emanating from the EU could not explain the sudden change in AKP's commitment to reform and EU membership.

The sudden change of direction was due to AKP's short time horizons, which was determined by two sets of political calculations. The first was the local election victory of April 2004. Following an increase in AKP's share of votes, the government has moved towards catering for the demands of the party's religious core support base. This choice meant that the AKP government began to crowd its policy agenda with policy issues envisaging a more prominent role for religious values in Turkish polity. The second set of political calculation was related to the rise of radicalised nationalism as a backlash against perceived 'AKP concessions' over the Cyprus issue and the rights of ethnic/religious minorities, especially the Kurdish minority. Given this backlash, AKP leadership began to tone down its support for EU membership and adopted a state-centric and security-oriented discourse against democratisation demands and minority rights. AKP's change of direction was in contrast to TUSIAD, whose time horizon concerning the commitment to reform was not constrained by electoral calculations. (Ugur and Yankaya, 2008).

4. Governance quality under AKP: Limited improvement

There is now an extensive literature pointing to a positive association between governance/institutional quality and economic performance (See, for example, Kaufmann et all, 2002; Rodrik et al, 2004). Therefore, it is appropriate to examine the extent to which Turkey's economic performance from 2002-2007 has been associated with perceived improvement in Turkey's governance/institutional quality in the same period. One source of information on governance/institutional institutional quality is the risk rating of the International Country Risk Guide (ICRG). According to this measure, Turkey has graduated from a 'high risk' (a rating of 50-59.5) to a 'moderate risk' (a rating of 60-69.5) status under the AKP government. This is a significant improvement overall, but its significance is dampened by continuously low rating with respect to corruption and bureaucratic quality. The government has direct control on these indicators, but both have remained below their levels immediately before the crisis of 2001. (ICRG, 2006)

Another source of information is the Global Competitiveness Index of the World Economic Forum. Turkey's score on this index has improved slightly – from 3.86 in 2001 to 4.25 in 2007. However, this improvement in the score was not associated with a significant improvement in the rank, which improved only by 1 point from the rank of 54th country in 2001 to that of 53rd country in 2007. Still another source of information is the World Bank governance indicators. According to these indicators, Turkey has recorded a modest improvement in government effectiveness, but suffered a modest deterioration in regulatory quality. The absence of a clear cut and significant move upward in these rankings was due to the fact that a large number of the determinants of competitiveness in Turkey are still very weak in key areas where the government has a significant role to play. This can be in Table 4 below, where Turkey's ranking for *individual* determinants of competitiveness is compared with its *overall* competitiveness ranking.

The first column of Table 4 includes individual determinants for which Turkey's ranking is above its overall ranking of 53rd. The second column, however, includes the indicators for which Turkey's 2007 ranking are lower than its overall ranking in 2007. The evidence in Table 4 enables us to derive a number of conclusions about the quality of government policy and its effect on Turkey's economic performance.

Table 4: Indicators of Competitiveness: Turkey's Ranks in 2007

A. Notable Advantages
(Relative to overall ranking of 53rd)

	Rank
Macroeconomic stability indicators	
Government surplus/deficit (hard data):	41
Goods market efficiency indicators	
Time required to start business (hard data):	11
Intensity of local competition:	31
Effectiveness of anti-monopoly policy:	34
Trade-weighted tariff rate (hard data):	40
Prevalence of trade barriers:	42
Financial market sophistication indicators	
Restriction on capital flows:	14
Financing through local equity market:	29
Regulation of securities exchanges:	39
Strength of investor protection (hard data):	45
Technological readiness indicators	
Firm-level technology absorption:	29
Availability of latest technologies:	47
Laws relating to ICT:	50
Innovation indicators	
Availability of scientists and engineers:	41
Capacity for innovation:	47
University-industry research collaboration:	49
Quality of scientific research institutions:	50

B. Notable Disadvantages
(Relative to overall ranking of 53rd)

	Rank
Macroeconomic stability indicators	
Inflation (hard data):	111
Government debt (hard data):	90
Interest rate spread (hard data):	76
Goods market efficiency indicators	
Agricultural policy costs:	108
Extent and effect of taxation:	103
Total tax rate (hard data):	66
Financial market sophistication indicators	
Legal rights index (hard data):	94
Soundness of banks:	92
Technological readiness indicators	
Personal computers (hard data):	76
FDI and technology transfer:	73
Internet users (hard data):	62
Innovation indicators	
Government procurement of advanced technology products:	73
Utility patents (hard data):	67
Company spending on R&D:	62
Institutional quality indicators	
Burden of government regulation:	80
Organized crime:	76
Wastefulness of government spending:	70
Intellectual property protection:	69
Efficiency of legal framework:	63
Transparency of government policymaking:	59
Public trust of politicians:	56

Note:

Turkey's overall rank in the Global Competitiveness Index: 53
Number of countries in the survey: 131

Source: http://www.gcr.weforum.org/

The first conclusion concerns the determinants of competitiveness for which Turkey's specific ranking is *above* its overall ranking (rank < 50) in column 1. A large majority of these determinants had been affected by policies of previous governments – especially under the IMF conditionality and the customs union established with the

EU. Whereas financial markets reforms were introduced in 2001 and 2002 under IMF conditionality, reforms affecting goods market efficiency (for example competition policy, trade barriers, tariffs, etc.) were introduced in the second half of the 1990s under the customs union agreement. A similar point needs to be made about the macroeconomic stability indicator – namely the government surplus. As indicated above, this has been a commitment under IMF conditionality and preceded the AKP government. Other determinants in column 1 (e.g., technology and innovation indicators) are not likely to be affected significantly by the short-to-medium run government policy. Therefore, it is very difficult to relate Turkey's strengths in these indicators to AKP policy on the ground.

The second conclusion concerns the number and nature of indicators in column 2, for which Turkey's specific ranking is below its overall ranking (rank > 50). There are 3 clusters of indicators here: macroeconomic stability indicators; microeconomic efficiency indicators, and institutional quality indicators.

Turkey's lower than 'own average ranking' in macroeconomic stability indicators confirms what we have indicated in section 3 above: as the AKP began to play an active role in designing Turkey's macroeconomic policy framework, Turkey's macroeconomic performance tended to deteriorate. The failure to achieve the inflation targets over two years, the inadequate reduction in the risk-adjusted public debt (see Gurcihan and Yilmaz, 2007), and high levels of real interest rates push Turkey down the competitiveness ranking from an overall rank of 53 to ranks of 111, 90 and 76 respectively.

Microeconomic efficiency indicators for which Turkey's ranking is below average tell a similar story: the government has not been able to deliver microeconomic policy reforms that would improve the micro-level determinants of Turkey's competitiveness. This is evident with respect to agriculture, taxation, innovation, and the technology content of the foreign direct investment's (FDI) in Turkey. Finally, institutional quality indicators indicates that the AKP government has still a long way to in terms of effective/efficient governance before it can make legitimate and uncontroversial claims concerning its positive contribution to improved economic performance in Turkey.

Table 5 below reinforces the conclusions derived above. All of the first four factors described as the 'most problematic factors' for doing business in Turkey are directly related to government policy. Overall, 51% of the respondents to the survey classify these factors as the most problematic. An additional 10% of the respondents identify inflation and corruption as the most problematic factors. Therefore, overall 61% of the respondents tend to hold the government's economic policy framework as responsible for the difficulty of doing business in Turkey. This is hardly a vote of confidence that would support arguments crediting the AKP government with more than what it deserves.

Table 5: Most Problematic Factors for Doing Business in Turkey:
(% of respondents identifying the factor as most problematic in 2007)

Inefficient government bureaucracy	14.00 %
Tax regulations	13.60 %
Policy instability	12.90 %
Tax rates	12.30 %
Access to financing	9.10 %
Inadequate supply of infrastructure	7.30 %
Inadequately educated workforce	5.50 %
Corruption	5.10 %
Inflation	4.90 %
Other 5 factors	15.20 %

Source: http://www.gcr.weforum.org/

Finally, Table 6 blow compares Turkey with some other emerging market economies in Europe and beyond – with respect to perceived problems concerning the government's policy instability. Five years after the crisis of 2001, policy instability is still perceived to be as the 'most problematic factor' by 12.90 of the respondents in Turkey. Of the comparator countries below, only Argentina (23.90) tends to be associated with a more negative verdict. More significantly, Turkey is associated with similarly negative verdicts as Poland and Hungary despite the fact Turkey has been enjoying the benefits of having a single-party government with substantial majority whereas Poland and Hungary have been affected by unstable coalitions.

Table 6: % of Respondents Identifying Policy Instability as the Most Problematic Factor for Doing Business in Turkey and Comparator Groups

Country	% of Respondents
Turkey	**12.90**
Mediterranean EU	
Italy	4.90
Portugal	7.20
Spain	6.60
Central and Eastern EU	
Czech Republic	6.10
Hungary	12.30
Poland	11.10
Emerging Markets in:	
Asia	
India	4.80
Malaysia	7.70
China	11.60
Latin America	
Brazil	5.00
Mexico	7.60
Argentina	**23.90**

Source: http://www.gcr.weforum.org/

5. Conclusions

As the World Bank (2006) has indicated, Turkey's economic performance since the 2000/2001 crisis has been 'very strong' and the performance has been associated with extensive policy reform. The AKP government, having been elected to office towards the end of 2002, has contributed to this performance by subscribing to the IMF-sponsored stabilisation programme and by undertaking a range of reforms required under the EU's Copenhagen criteria. Therefore, the AKP should be credited for lending credibility to the stabilisation programme, anchoring democratisation reforms to the EU perspective, and thereby contributing to Turkey's economic performance in terms of growth and stability.

However, the extent of AKP government's contribution to Turkey's economic performance is far from being a non-controversial issue for two reasons. First, the

AKP government, at least in the first two years of its reign, has followed a policy line that had been already set by the existing IMF conditionality and the requirements under the EU's Copenhagen criteria. In other words, it is impossible to know what kind of economic policies the AKP would have introduced had there been no IMF conditionality and EU perspective to tie its hands with. Secondly, there is some evidence suggesting that the economic policy initiatives that the AKP has taken from 2005 onwards have been: (i) unimpressive in terms of improving the quality of Turkey's economic governance regime; (ii) associated with 'lower rates of return' in terms of growth and disinflation; and (iii) tended to overlook the structural vulnerabilities (such as high levels of current account balance and falling savings rates) that require more detailed and long-term microeconomic policy reforms.

That is why TUSIAD, the umbrella organisation of large business in Turkey, is depicting a less than optimistic picture of the economic conditions in Turkey in 2008 and thereafter. According to TUSIAD (2007), the Turkish economy is heading towards lower rates of growth, more difficulty in lowering inflation, uncertainty in international markets, high levels of interest rates, and inadequate employment creation. In other words, it appears as if the AKP government has exhausted the advantages of the economic rebounding after the 2001 crisis and will now have to demonstrate better competence in tackling the issues that require a long-term and structural approach.

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