
Economic Diplomacy for Competitiveness: Globalization and Turkey's New Foreign Policy

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Abstract

This article aims to fill the methodological gap in the conventional IR literature by assessing the recent trajectory of Turkish foreign policy from the prism of international political economy, in particular global competitiveness. A holistic and interdisciplinary approach is adopted that incorporates critical insights from the disciplines of political science, international relations, economics, and development studies. The major parameters of Turkey's structural transformation from an inward-looking, import-substituting economic and political system to a liberal export-promoting strategy are evaluated in line with the first- and second-generation neoliberal reforms in the 1980s and the 2000s, respectively. Meanwhile, the impact of economic globalization on the multifaceted processes of state transformation and the ascendancy of economic issues to the level of 'high-politics' in the post-Cold War era are emphasized, with special reference to the pursuit of economic diplomacy and 'neo-protectionist' science and technology policies by both industrialized and industrializing countries. The major caveats of accelerated global integration for Turkey's 'new foreign policy' and principal policy challenges in the realms of macroeconomic management and foreign policy making are also identified.

Key Words

Turkish foreign policy, economic diplomacy, neo-protectionism, competitiveness.

Introduction

There emerged a broad-based consensus in academic and policy-oriented circles that, when compared to its conventional character that crystallized in the second half of the 20th century, Turkish foreign policy has evolved into a more multidimensional, proactive and order-generating disposition in terms of its main priorities, theoretical underpinnings and discourse in the first decade of the new millennium. In recent analyses focusing on different aspects of Turkish foreign policy, the idea that Turkey's previous image as a 'Cold-War warrior,' characterized by strong military muscle, has been replaced by the use of 'soft' and 'smart' power sources was voiced with ever-increasing frequency. Similar to that, one needs to stress that the intellectual/academic depth of the mainstream international relations literature experienced a concomitant widening as a result of the mushrooming

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of studies that explored the ideational and practical foundations of Turkey's new foreign policy orientation, both as a country maintaining accession negotiations with the European Union and as a shining regional power which acquired increased visibility and credibility in regional and global fora.

Based on a broad categorization among the mainstream approaches proposed to explain the ongoing transformation in Turkish foreign policy, it is possible to identify the following perspectives: studies conducted in line with the "Europeanization" literature understandably inspired by the EU membership process;¹ analyses conducted with special reference to the redefinition of identity politics (constructivism) and dominant national security perceptions;² studies that concentrate on the transformative impact of developments in domestic politics and the main foreign policy actors;³ writings that focus on geopolitical and geostrategic dynamics;⁴ and studies that indicate various implications of Turkey's expanded soft power.⁵ It would obviously be unfair to disregard other studies that synthesize many perspectives or theoretical approaches concerned in order to produce unorthodox discourses or analytical framework in this generic categorization intended to give the reader a broad idea about the state of the academic field.

However, the crux of the matter concerns the clear absence of systematic

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studies in the mainstream international relations (IR) literature on the formation and implementation of Turkish foreign policy, as well as its practical implications on the ground, from the prism of international political economy (IPE). Such studies might look into classical IPE issues such as the interdependencies between political and economic factors in international affairs; the respective roles played in international economic institutions and global governance platforms, geo-economic relations with major global and regional powers, potential socio-political impacts of multinational corporations, and the link between economic performance and political legitimacy. Given the dominance of economic factors in shaping the post-Cold War parameters of global competition and Turkey's projected national aim to become one of the top ten economies of the world by 2023,⁶ it is a serious methodological pitfall that the burgeoning international relations discipline has so far neglected the role of economic factors in its explorations into Turkish foreign policy. At a time when the trend to closely coordinate the Ministries of Economy and Foreign Affairs acquired extra momentum,

especially in emerging markets, it is imperative that sensitive issues such as international trade, international financial flows, foreign direct investment, relations with multinational corporations and international economic institutions, and science and technology policy are evaluated in conjunction with their foreign policy implications.

Against this background, this article aims to fill the stated methodological gap in the conventional IR literature by assessing the recent transformation trajectory of Turkish foreign policy from the prism of international political economy and global competitiveness. To this end, an interdisciplinary approach that incorporates critical insights from the disciplines of political science, international relations, economics and development studies has been adopted. In this context, major parameters of Turkey's profound structural transformation from an inward-looking, import-substituting economy into a substantially liberalized export-promoting regime will be evaluated in line with the first- and second-generation neoliberal reforms that were completed over the course of the 1980s and the 2000s. This will be followed by a general analysis of the impact of economic globalization on the multifaceted processes of state transformation and the ascendancy of economic issues to the level of 'high-politics' in the post-Cold War era among both the industrialized and industrializing countries. Meanwhile, special attention will be attached to the

pursuit of strategic economic diplomacy in conjunction with 'neoprotectionist' science and technology policies by the OECD countries and some of the leading emerging markets. The following part will assess the development trajectory of Turkey's 'new foreign policy' under the Justice and Development Party (JDP) administration and its intellectual architect Ahmet Davutoğlu, parallel to comprehensive changes in Turkish political economy. Building upon the preceding discussion, the final part will indicate the major caveats of accelerated global integration in the age of economic globalization and identify major challenges for policy makers in the realms of macro/microeconomy and foreign policy in the medium term.

Historical Background: Transformation of Turkish Political Economy

In his seminal article on Turkey's economic growth and socio-economic development performance over the course of the 20th century, Şevket Pamuk adopted the fitting metaphor of a "half-full glass" to denote the discrepancy between economic growth figures and improvements in social standards.⁷ In fact, since the foundation of the Republic in 1923, Turkey has experienced a radical structural transformation towards a more urban and industrialized social formation.⁸ However, while noting these crucial historical developments,

it also needs to be emphasized from a developmental point of view that Turkey failed to produce a ‘miracle story’ reminiscent of the Asian tigers, and long-term improvements in the socio-economic standards of the population broadly followed averages in the developing world. Moreover, the fact that Turkey’s economic growth performance, which displayed periodic booms despite political and macroeconomic crises, did not trigger a parallel progressive momentum in terms of human development, created a sharp diversification between the overall size of the national economy and the social/human development level of the country. Therefore, historically it has been conventional wisdom to observe stunning differences between Turkey’s position in the global pecking order in terms of broader macroeconomic parameters, such as the GDP per capita, and measures that assess the average life standards of the ordinary population such as the UN’s human development index.⁹

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From a different angle, one needs to stress that interactions between macroeconomic strategy and foreign policy have been shaped in the light

of a predominantly protectionist/interventionist ideological background over the course of Republican history, whereby various periods of economic liberalism were frequently marred with returns to state tutelage. With the benefit of hindsight, it is possible to identify two crucial periods in the pre-1980 era during which the interventionist reflexes of the conventional state elite concerning macroeconomic management and social issues remained in the background. The first was the initial decade of the Republic, specifically the years between 1923 and 1931, which witnessed the imposition of a “reluctant liberalism” on the new state due to insufficient domestic capital accumulation and the restrictive conditions of the Lausanne Treaty on trade policy.¹⁰ This experiment was interrupted by the emergence of Turkish etatism in the early 1930s in the wake of the global economic recession which continued to determine the public policy discourse up until the transition to multiparty politics in the 1950s. The second liberal interlude, based upon the expansion of the domestic market with agriculture-led industrialization in the 1950s, in turn, triggered a form of unorthodox liberalism,¹¹ associated with the lack of fiscal discipline and populist expansion of the public sector, thereby leading to a major socioeconomic crisis and the country’s first-ever encounter with the IMF.

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instigated a strategic shift to import substitution-cum-planning as a form of neo-étatisme; this time in tune with the contemporaneous global development paradigm of structuralism. Following the liberal, étatist and second liberal interludes in the 1920s, 1930s and 1950s respectively, Turkey attempted to become a “competition state” on the basis of infant-industry protection, development planning and import substitution (ISI) under the watchful eyes of the international economic institutions, most notably the OECD,¹² while enjoying its delayed encounter with the Keynesian revolution. The ISI-cum-planning strategy, supported by an alliance of rising domestic industrialists and bureaucratic elite, proved quite effective throughout the 1960s and the first half of the 1970s in underpinning comprehensive structural change, relatively high rates of economic growth and industrial upgrading.¹³ Consequently, Turkey was able to outperform most of the Latin American countries with respect to its development performance, although it failed to record steady high rates of economic growth on a sustained basis that could match the East Asian experiences. On the contrary, excessive, indiscriminate and

long-term protectionism associated with the political economy of the Turkish ISI experiment became a crucial factor that led to endemic export pessimism, economic stagnation and balance of payments crisis of the late 1970s.¹⁴

The first period of neoliberal restructuring managed by Turgut Özal's Motherland Party in the early 1980s represented a radical departure from previous trends based on domestic market orientation and protectionism.¹⁵ In fact, the immediate aftermath of the general elections in 1983 signified a turning point in the historical transformation of the Turkish political economy, which witnessed the insertion of a completely different macroeconomic management and competitiveness rationality into public policy. Despite certain caveats related to frequent disregard for the rule of law and regulatory principles on the part of the ruling elite, the logic of an open, export-oriented and competitive economic framework was firmly established, in collaboration with international economic institutions, and the seeds of an embryonic ‘competition state’ were laid into the Turkish soil. Consequently, the chronic export pessimism of the Turkish economic agents began to be broken with the ratio of total exports to GDP increasing from 4.1% to 13.3% between 1980 and 1988.¹⁶ Furthermore, the quantitative increase in export figures was also accompanied by a qualitative change in the content of exported items, reflecting a trend

towards diversification and a striking rise in the share of manufacturing goods at the expense of agricultural goods and raw materials in Turkey's exports.

There is no doubt that the proactive and multidimensional foreign policy attitude of Özal and the MP governments, which pursued accelerated political and economic liberalization by effectively utilizing the gaps in the international system towards the end of the Cold War, played a facilitating role in promoting economic growth and structural transformation. However, reflective of mainstream trends in the development of the Turkish political economy, this growth episode, like many others before, was not sustainable and the interlude of successful export orientation in the early 1980s did not carry into the second half of the decade.¹⁷ The second phase of Turkish neoliberalism in the 1990s suffered from a number of structural and agency-driven drawbacks which had a profound impact on the deterioration of economic and overall development performance. For one thing, the relative weakening of the MP and its charismatic leader Turgut Özal prior to his transfer to the rather symbolic post of the Presidency and subsequent death in 1993, along with the return of pre-1980 political figures to active politics with a referendum in 1987, radically transformed the domestic political balances.

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prerogatives of the domestic political coalition constructed under Özal's leadership which largely internalized the *zeitgeist* of the contemporaneous neoliberal agenda, constituted one of the crucial underpinnings of the neoliberal transformation project in the 1980s. Without 'elite ownership' and the impetus derived from the synergy of domestic-international reform agendas, the age-old struggles between Turkey's populist political actors resurfaced and paved the way for acute macroeconomic and political instability over the course of the 1990s. Politically, the decade was characterized by versatile and short-lived coalition governments, in which participant political movements focused on satisfying the immediate distributional demands of their electoral clientele with complete disregard for a systematic macroeconomic or developmental strategy. At a time when secessionist violence in Southeast Anatolia was on the increase, along with intensifying political polarization and fragmentation, Turkey expectedly entered into a relatively stagnant period in foreign policy and economic transformation which diverted its energy on domestic struggles. Given the negative impact of major conflicts such as the Iran-Iraq War, the Gulf War and the Bosnian

War on regional stability, Özal's vision of improving Turkey's bilateral relations with neighboring countries through economic interdependence was only partially attained throughout the 1980s and the 1990s.

The economic implications of socio-political instability and polarization proved to be lower economic growth rates, chronic hyperinflation and the complete loss of fiscal discipline leading to abysmal budgetary performance. Speculative attacks in the presence of substantial budget deficits were among the main causes of successive financial crises that hit the Turkish economy in 1994, 2000 and 2001. Evaluated in the light of these prominent trends of instability, the post-2001 period represented a clear rupture in the historic transformation trajectory of the Turkish political economy, which witnessed both the restructuring of a 'regulatory state' through comprehensive institutional/regulatory reforms, and a positive macroeconomic environment characterized by high and sustained growth rates, lower inflation, fiscal discipline, unprecedented levels of FDI inflows and the completion of large-scale privatization programs. In the post-2002 period, it is also possible to discern mutually reinforcing dynamics between the galvanization of macroeconomic stability and strong growth momentum on the one hand, and sustainability of the renewed activism in foreign policy on the other, both coalescing to transform Turkey into a credible regional power.

Global Transformations and the Ascendancy of Economics in Foreign Policy Making

In the post-Cold War era of economic globalization and multipolarity, conventional welfare states in the industrialized world and developmental states in the developing world started to evolve into neoliberal competition states. The fact that issues related to international trade, competitiveness and industrial-technological advancement began to be seen as issues of 'high politics' in the new era triggered a profound transformation in global hegemonic struggles and attracted the attention of major global actors into the realm of the international political economy. To illustrate, tendencies to strategically support R&D activities by various means in the rising sectors of the knowledge economy were strengthened among the public agencies of OECD countries as a matter of "national interest."¹⁸ Likewise, the BRIC countries which carried the bulk of the developmental momentum in the world economy, with emerging markets striving to follow their lead, progressively prioritized policies of structural transformation and competitiveness in technology-intensive sectors.

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Likewise, within the global trade regime, practices of public procurement and international project advocacy increasingly became critical areas, whereby public and private actors merged their strengths for the purpose of increasing the national capacities for competitiveness vis-à-vis their chief global rivals. The practice of implementing non-tariff barriers (NTBs) to foreign investors during public procurement via the formulation of specific criteria that favor national investors and stimulate creation of local technological know-how is a widespread exercise in the majority of OECD countries, led by the US. Moreover, the new economic diplomacy performed through public-private partnerships proceeded through intensive attempts to look for early project development opportunities across the globe, the provision of attractive finance/aid packages for these projects, and the application of diplomatic pressure on foreign governments.¹⁹ It seems inevitable that the main actors of Turkish foreign policy will also be forced to deal with such micro-issues of international trade and economic diplomacy, once the initial stage of Turkey's new market openings are completed and bureaucratic obstacles hindering Turkey's global integration are lifted through a series of preferential

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trade agreements (PTAs) and visa-free travel arrangements.

As far as the historical transformation trajectory of Turkish foreign policy priorities are concerned, it is crystal clear that the inward-looking and securitization-oriented clichés in the foreign policy lexicon have been gradually replaced with elements of economic interdependence and global integration since the 1980s. In this context, increasing international trade, especially with neighboring countries; promoting the inflow of foreign direct investment; facilitating Turkey's incorporation into global and regional networks of trade, finance, transportation, communication and energy began to be seen as the foremost objectives of Turkish foreign policy. Numerous experts appreciated the new character of Turkish foreign policy in the 1990s, which increasingly emphasized economic factors as essential elements of long-term success. To illustrate, William Hale indicated the crucial structural change and the rise of economic rationality in Turkish foreign policymaking in the aftermath of the Cold War during which trade followed the flag and political relations between countries automatically determined economic and trade relations between them.²⁰ Mine Eder, on the other hand, mentioned the critical need for a multidimensional and proactive new foreign policy aimed at dynamically identifying new markets and trading partners, so as to make the structural transformation towards economic liberalization and export-

oriented growth sustainable.²¹ Finally, Mustafa Aydın stressed the apparent widening in the mission definitions of Turkish diplomats abroad which began to include economic objectives such as opening up new export markets, facilitating the flow of investment credits, preparing the groundwork for trade agreements and promoting the flow of investment from Turkey to their respective country of operation.²²

Starting from the MP governments under Turgut Özal in the 1980s, Turkey actively adopted the principle of economic interdependence, both as a functional tool for the resolution of regional conflicts and confidence building, as well as a rational choice to increase the national export potential required for the maintenance of neoliberal transformation.²³ Despite the unambiguous resistance of the state establishment due to national security concerns, Özal attempted to deepen Turkey's interdependence with countries in the Middle East, Balkans, Central Asia and Black Sea Basin through economic cooperation, water and energy pipelines, regional initiatives such as the Black Sea Economic Cooperation (BSEC) initiative and flexible visa arrangements.²⁴ There is no doubt that this preference to pursue economic interdependence and proactive foreign policy positively contributed to the ascendancy of Anatolian tigers, clusters of SMEs around Anatolia which emerged as rivals against the Istanbul-based industrial bourgeoisie, which longed for accelerated integration with the Western world. Despite the

unravelling of political instability under fragile coalition governments in the 1990s, there were strong elements of continuity with the multidimensional foreign policy attitude based on economic interdependence, especially under influential Foreign Ministers such as Ismail Cem. The left-leaning Ismail Cem instigated a process of rapprochement with Turkey's arch-enemy Greece and a broader good relations with neighbors policy in the late 1990s. However, both Özal's and Cem's initiatives proved short-lived and were severely interrupted by resurgent regional conflicts such as the First Gulf War and the Wars in Bosnia and Kosovo which kept endemic sources of instability active in Turkey's natural hinterland and the domestic tendencies towards securitization of socio-economic relations alive.

Undoubtedly, one of the crucial aspects of the productive synergy between economic strategy and foreign policymaking in the post-2002 era concerned the adoption of a proactive and multidimensional foreign policy approach, as has been the case in numerous countries which experienced transitions from inward-looking import substitution regimes to outward-oriented export promotion strategies. In this context, despite the destabilizing impact of the American-led invasion of Iraq in 2003, the ensuing period constituted a window of opportunity during which relative peace and stability could be galvanized via pro-active diplomacy. Ahmet Davutoğlu was just the perfect match to reconstitute

Turkey's foreign policy discourse at this critical juncture. An academic by profession who focused on political and cultural history and philosophy as well as international relations, Davutoğlu outlined his vision for Turkey's proactive, multidimensional foreign policy perspective in his renowned book *Strategic Depth: Turkey's International Position*. Historical developments leading to the overhaul of the political space in Turkey's volatile democracy gave Davutoğlu an unprecedented opportunity to place his theory into practice in the first decade of the new millennium,

an opportunity which he brilliantly took. First, as the Chief Foreign Policy Advisor to the Prime Minister (2003-2009) and then as the Foreign Minister (2009-), he skillfully systematized what is called the zero

problems with neighbors and maximum cooperation policies in the context of which Turkey took the initiative to deepen economic interdependence and increase cross-border mobility with neighboring countries, while taking steps to solve frozen questions such as the Cyprus issue, the Aegean problem, the Armenian dispute, Kurdish separatism and conflicts with the administration in Northern Iraq.

The new foreign policy vision articulated by Davutoğlu departed

from a systematic re-evaluation of the ongoing tendencies in both Turkey and the world and argued for the adoption of a multidimensional and proactive foreign policy attitude. Davutoğlu placed Turkey's official foreign policy perspective into a more systematic and consistent conceptual framework, and stressed Turkey's need to get reacquainted with the history and geography of her region in order to maximize her strategic depth and emerge in world politics as a central state with potential influence areas in more than one region.²⁵ As the intellectual

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architect of Turkey's determined foreign policy approach, Davutoğlu promoted a novel geographic imagination based upon the destruction of perceptive Cold War barriers between Turkey and the surrounding

regions, reconstruction of political, economic and cultural relations with the Middle East, Balkans and Caucasus, and active intermediation in regional conflicts in the light of international norms. As Davutoğlu argues: "In the new era, Turkey's foreign relations will be structured on the basis of a holistic foreign policy approach from Chile to Indonesia, from Africa to Central Asia and from the EU to the Organization of the Islamic Conference in a way to contribute to Turkey's emergence as a global power by 2023."²⁶

Despite occasional criticisms originating from circles who found Davutoğlu's theses overly optimistic, the "zero problem with neighbors" policy became a blueprint for the official rejection of the isolationist, defensive foreign policy orthodoxy that was firmly established in the state establishment during the Cold War. The newly-inserted self-confidence and proactive foreign policy dynamism sent a strong message to Turkey's immediate and secondary neighborhood that the country was prepared to form a system of political, economic and socio-cultural alliances with all the regional actors on the basis of mutual interests and region-wide stability. As a result, Turkey's enmeshment in regional initiatives of economic and political cooperation in the Middle East, Balkans and Caucasus, as well as her respective standing as a neutral arbiter in regional disputes and conflicts, increased tremendously over the course of a decade, simultaneously raising Turkey's global prestige and credibility.

In retrospect, one of the critical points raised by Davutoğlu in *Strategic Depth* concerned the need for a proactive and multidimensional foreign policy in countries experiencing transitions from protectionism and import-substitution to economic liberalization and export-promotion.²⁷ In this vein, a careful observer needs to appreciate Turkey's synchronized and stubborn attempts to improve and deepen traditional trade relations with Western Europe, Balkans,

Middle East and Central Asia, while embarking on the formation of new trade links with emerging markets in North and sub-Saharan Africa, Latin America and Southeast Asia. The positive impact of these politico-economic attempts, galvanized through visa-elimination arrangements and PTAs, was clearly noticed when Turkey's export figures hovered around \$101.6 billion in 2009, despite the considerable contraction of demand in Western markets due to the global crisis.

When the intertemporal export figures covering the period between 2003 and 2009 under the reign of the JDP government are studied in detail, it is clear that Turkey's export performance displayed a consistent improvement from \$47.2 billion in 2003 to \$63 billion in 2004, \$73 billion in 2005, \$85 billion in 2006, \$107 billion in 2007 and \$132 billion in 2008, representing a record in republican history. Despite the sharp drop in 2009 to \$101.6 billion, the post-crisis recovery proved quite robust and estimated export figures around \$110 billion firmly placed Turkey as the 22nd largest exporter in the world. It is an undeniable fact that the commercial channels opened by foreign policy actors to neighboring countries, such as Iraq and Syria, as well as new markets in Africa and the developing world, were skilfully utilized by the new generation of Turkey's adventurous entrepreneurs which contributed to the maintenance of the initial momentum in export growth.²⁸ It needs to be emphasized in passing that

both Turkey's accession process for EU membership and her multidimensional international economic relations triggered the formation of a politically-influential business lobby advocating Turkey's full membership in the EU and the improvement of international economic relations with her neighbors and developing countries.

As far as the relative distribution of Turkey's trade with the EU, Middle Eastern and North African (MENA) countries are concerned, the regional shares for the EU and MENA, which were \$27.3 billion/\$7 billion in the year 2003, respectively, became \$36 billion/\$10 billion in 2004; \$41 billion/\$15 billion in 2005; \$48 billion/\$14 billion in 2006; \$60 billion/\$20 billion in 2007; and \$63.3 billion/\$31 billion in 2008. As can be clearly seen from the stated figures, Turkey's export performance to both the EU and MENA regions displayed a consistent expansion between 2003 and 2008. Yet it should also be noted that the relative share of the MENA countries among the main destinations of Turkish exports increased from a mere 5 per cent to 9 per cent despite a four-fold increase in the export volume.²⁹ When the impact of the global crisis triggered a 25 per cent drop in the exports to the EU countries from \$63.3 billion in 2008 to \$46.9 billion in 2009, the relatively slow drop in the export performance to the MENA markets provided Turkey with the leeway to withstand the worst effects of the crisis in terms of economic growth and unemployment. The strong dynamics

of regional integration between Turkey and the MENA region also facilitated a robust recovery in international trade after 2009, confirming the long-term sustainability of regional interdependence despite unexpected external shocks.

Political Economy of Turkey's "New Foreign Policy" and Nuanced Neoliberalism

On the basis of the historical and theoretical analysis presented so far on the mainstream trends of state transformation in the global political economy and Turkey's peculiar route to politico-economic change, it is worth evaluating the main opportunities and challenges facing the country's quest for international competitiveness and her new foreign policy approach. Such an analysis will allow both a general assessment of the two waves of neoliberal transformation experienced since the 1980s and the profound alteration in the basic priorities and strategies of Turkish foreign policy in the era of global economic integration. To start with, it must be emphasized as a general political comment that the incumbent JDP has consistently attempted to maintain the image of a market-friendly, center-right political movement with a carefully balanced dose of sensitivity in social welfare, since its foundation in 2001. Therefore, it conceived both the promotion of private sector activity, accelerated integration with the global

markets, and realization of visible improvements in the socioeconomic realm through substantial investments in public services in key areas such as education, health, and transportation, as existential elements of its political legitimacy.

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Moreover, Prime Minister Recep Tayyip Erdoğan and the JDP elite were also perfectly aware that their long-term strength in Turkey's volatile political arena depended on the accomplishment of sustained macroeconomic stability, as well as efficiency and fiscal discipline in public administration. As a result, following a long interlude in the post-2002 era, there emerged a strong synergy between the prerogatives of the external creditors pressing for the institution of a 'post-Washington' model regulatory state, the JDP government conceiving administrative reforms and rationalization of state institutions as the basis of its political future, and the Anatolian entrepreneurs hoping for accelerated integration into global markets under the watchful eyes of a 'favorable' government. This productive synergy could be identified as the fundamental factor which motivated

Turkey's success in instituting political and macroeconomic stability on the basis of the Economic Program for Transition to a Strong Economy.³⁰

As far as international economic relations are concerned, Turkey's international trade with especially its Middle Eastern neighbours, i.e., Syria and Iraq, displayed an eye-catching increase which contributed considerably to the maintenance of economic growth and stability up until the onset of the global economic crisis. Moreover, institutional initiatives ranging from the conferences of "Countries Neighboring Iraq" before the 2003 US-led invasion to the "High Level Strategic Cooperation Council" meetings with several neighbors; from PTAs to visa-free travel arrangements; from historical openings to previously unknown territories in Africa to long-term economic and political engagement with Latin America and East Asia, facilitated Turkey's fast-track rise as a respected regional actor. Furthermore, Turkish Airlines became the sixth largest airline carrier in the world in a short period of time. Turkey's proactive international development and technical support agency, TIKA, systematic education and health assistance facilities established abroad by Turkish NGOs; and coordinated regional and international commercial activities of business associations such as The Union of Chambers and Commodity Exchanges of Turkey- TOBB, The Confederation of Businessmen and Industrialists of Turkey- TUSKON and Independent

Industrialists and Businessmen's Association- MÜSİAD, including major trade fairs and multilateral road shows contributed to the geometric increase in Turkey's soft power potential.

However, from a political point of view, there is a critical issue that needs to be emphasized regarding Turkey's ascendancy as a regional power, which concerns the comparatively marginal role played in all these developments by the large-scale industrial bourgeoisie organized around the Turkish Industry and Business Association- TÜSİAD. Unlike similar experiences in East Asia and Latin America whereby an 'emerging market' attempts to merge its politico-military might with socio-economic penetration capacity in order to establish itself as a regional power, Turkey's post-2003 initiatives in proactive diplomacy and the formation of new commercial partnerships within and outside its respective region seemed to receive negligible support from the leading 'captains of industry' which had traditionally controlled the pulse of the Turkish economy. Although the largest Istanbul-based and family-owned business conglomerates under TÜSİAD membership traditionally supported Turkey's Western-oriented foreign policy and her accession to the EU as a full member, they proved reluctant to lend support to the multidimensional and rhythmic foreign policy which was confirmed by the declining numbers of TÜSİAD-affiliated businessmen joining the President/Prime Minister in their

foreign visits, as well as the marginal contribution of TÜSİAD members to major investments in new markets. The underlying reasons of the apparent schism between the incumbent JDP and TÜSİAD are rather complex and include not only deep-rooted ideological differences as to Turkey's preferred national identity and future orientation, but also the comparatively higher adaptation capacity of the small- and medium-sized entrepreneurs based in the Anatolian heartland to the JDP's strategy of opening to new markets outside the US and the EU.³¹

The galvanization of the regulatory architecture in the post-2002 era facilitated the maintenance of the momentum for growth and the resilience of the financial sector.

In terms of domestic macroeconomic parameters, it needs to be reiterated that the period between 2003 and 2008 displayed strong characteristics of a virtuous political economy, including political stability under the single-party JDP administration, rapid economic growth and structural transformation, low inflation, increasing inflows of foreign direct investment and fiscal discipline.³² Especially, the galvanization of the regulatory architecture in the post-2002 era facilitated the maintenance of the momentum for growth and the resilience of the financial sector to external shocks during the height of the global economic crisis between 2008

and 2010. Seen from the perspective of coordination between foreign policy and macroeconomic governance, it could safely be argued that the “Davutoğlu-branded” pro-active foreign policy attitude closely followed, and sometimes even precipitated, new openings in international trade strategy and foreign economic relations. To illustrate, visa-free travel arrangements and PTAs, which were applied to neighboring countries and spread to Africa, Latin America and East Asia, substantially contributed to the increase in the cross-border mobility of goods, services and people to support Turkey's international trade dynamism. Furthermore, the natural corollary of the ‘zero problems with neighbors’ policy in Turkey's backyard has been the formation of novel networks of ‘rule-based trade.’

As the majority of the countries which signed PTAs with Turkey were not members of the World Trade Organization (WTO), Turkey's new initiatives to deepen economic interdependence and institutionalize cooperation through “High-Level Strategic Cooperation Councils” inserted a degree of international regulation and rule of law into the way in which regional trade has been conducted. Moreover, new openings in the relatively unexplored Middle Eastern markets facilitated the maintenance of the economic growth momentum during the global crisis, when overall demand in developed markets was at historically low levels. In terms of the transport of strategically-important energy resources,

new projects such as the Nabucco pipeline presented long-term geostrategic and politico-economic opportunities, while the well-coordinated initiatives by Turkish Airlines, TİKA and the Foreign Affairs bureaucracy laid the foundations for institutionalized and enduring relationships with crucial regions such as Latin America and Africa.

Yet, one important caveat which needs to be emphasized at this point concerns the fact that the new market openings stimulated by unprecedented activism in Turkish foreign policy seem to advance through the creation of operational spaces to mostly small- and medium-sized entrepreneurs (SMEs) situated in various sectors of the Turkish economy. At this point in time, there is no systematic industrial/technological policy which could indicate ‘global niche markets,’ or trigger some form of strategic orientation in the structuring of international trade links. There is also still no clear picture as to the broad sectoral priorities that will determine the fundamental areas of Turkey's international competitiveness and the potential markets that could be targeted by bourgeoining Turkish entrepreneurs. This issue is obviously more economic than foreign policy-related, and needs to be addressed by the key decision makers who shape macroeconomic management in cooperation with large-scale entrepreneurial groups and the representatives of SMEs across Anatolia.

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Despite her impressive economic performance in recent years, Turkey is not sufficiently experienced in comparison to the BRIC³³ countries or East Asian tigers to formulate coordinated social, economic and foreign policy approaches designed to promote specific structural transformation and development strategies. To start with, in terms of their respective areas of power and responsibility, there seem to be clear divisions between the economic, financial and foreign policy-related elements of the bureaucratic apparatus in the contemporary Turkish state, with insufficient doses of communication and policy coordination.³⁴ Even within the economic policymaking network, it is hardly possible to observe a broad-based consensus regarding the main parameters of the monetary, fiscal, employment, health-education and competition policies which could underline Turkey's international competitiveness in the medium-term.³⁵ This has a lot to do with the traditional bureaucratic reflexes of the state establishment which tries to keep its specific operational area as isolated as possible from the operational areas of other institutions, as well as the lack of a holistic developmental vision on the part of the political elite in the JDP,

which requires dynamic and synergical contributions of politico-economic actors.

As a result of the apparent absence of this 'strategic developmental orientation,' positive initiatives of certain ministries, bureaucratic agencies, NGOs and market actors have failed to create the optimum transformative impact. Traditionally, in certain economic sectors, there is excess capacity due to aggressive competition among local entrepreneurs and overinvestment, while in some others large-scale investments are not completed due to the scarcity of investment resources or lack of public attention. As a lasting effect of the country's long-term association with IMF programs and the destructive legacy of successive financial crises, the predominant goal of Turkish macroeconomic policy has been the maintenance of economic stability in a low-inflation environment. A repercussion of this, though crucial, obsession with macroeconomic stability is inefficient attention being given to industrial/technological upgrades as a result of which publicly-stated goals, such as 'being world-leader in new technologies' are destined to remain as unrealistic rhetoric.

Even in the realm of domestic subsidies, sectoral and regional preferences were expressed in a very frail manner, which made it impossible to determine the boundaries of a science and technology policy complete with sectoral/regional priorities of a comprehensive

transformation project. Therefore, the weakest link in the second-generation neoliberalism of the post-Washington consensus, followed by the JDP administration, concerned its relative inability, unlike the BRICs and East Asian tigers, to anchor a competition-oriented industrial/technology policy as the lynchpin of ongoing structural transformation. Since the national policy framework of a comprehensive strategic transformation is incomplete, it is practically impossible to expect to see the reflection of this framework in the design and implementation of foreign policy initiatives. Therefore, despite the unrelenting dynamism of the foreign policy apparatus under the leadership of Ahmet Davutoğlu, economic reflections of the new international openings were attained in a rather ad hoc and strategically-unregulated manner. The natural corollary of this state of affairs was a tendency to categorically increase Turkey's international trade relations with as many countries as possible, rather than specifying certain sectoral or regional priorities through which the accumulated value-added could be maximized. In the meantime, the traditional bureaucratic resistance of the civil-military establishment on the basis of a statist/protectionist mentality began to soften in view of the relative

The structural reasons for Turkey's underdevelopment in terms of the key sectors of the new economy are quite varied.

material advantages created by increased global integration. However, entrenched scepticism and unease with direct investments in the Turkish soil continued to re-emerge on occasional instances of bureaucratic confrontation with foreign capital, which became visible especially during large-scale privatization initiatives.

Caveats of Accelerated Global Integration and Main Policy Challenges

It is an undeniable fact that the proactive, consistent and order-creating character of the new Turkish foreign policy effectively formulated and implemented during the Davutoğlu era contributed to a considerable upgrade of Turkey's global profile and justified her visibility in international platforms such as the United Nations, NATO, EU, G-20, and the Organization of Islamic Conference as a credible and principled actor. However, it is also an undeniable fact that in order to support this political/diplomatic credibility with concrete economic-technological superiority, a state of Turkey's size should substantially improve her competitiveness in the flourishing sectors of the knowledge economy such as software, micro-electronics, nanotechnology, biotechnology and information and communication technologies. Despite positive trends in the overall export performance over the course of the

last decade, the relative share of high-technology manufactures remained at extremely low levels compared to countries such as Korea, Malaysia and Brazil which share Turkey's ambitions of being established as regional and global 'play makers'.³⁶ The structural reasons for Turkey's underdevelopment in terms of the key sectors of the new economy are quite varied, but they include the long-term export pessimism of public agencies and reluctance of large-scale bourgeoisie to independently monitor the latest technological developments since the ISI period; the absence of a systematic science and technology policy since the initial years of the first-generation neoliberalism; insufficient public and private attention given to R&D investments; and the lack of a comprehensive industrial/technology policy to coordinate the strategic selection of incoming FDI, induce processes of technological learning, promote mergers and acquisitions aimed at global market share and organize high-quality training for the local human potential. In order to alleviate Turkey's 'technology deficit' and improve her competitive advantage in high value-added sectors in a relatively short time-frame, coordinated policies in the realms of macroeconomic management, higher education, international trade and foreign policy need to be urgently designed and swiftly implemented. This will constitute another key area in which the 'new economic diplomacy' ought to be very effective in the future.

Furthermore, it is quite unfortunate that the entrepreneurial groups around

TÜSİAD, which control the largest firms in the industrial and technology-intensive sectors, have experienced an ideological and interest-based alienation from the JDP administration, because the bulk of the R&D activities are conducted, and patents are obtained, by TÜSİAD members.³⁷ In the first instance, the conventional habits of the large-scale industrialists to accumulate lucrative profits from financial speculation and relationships of domestic patronage since the late 1990s were severely interrupted by the JDP leadership, which tried to direct their commercial activities towards new markets in line with their foreign policy beliefs. However, the reservations of the TÜSİAD leadership concerning the JDP's conservative identity and political polarization between the civil-military state establishment and the JDP, encouraged the 'captains of Turkish industry' to remain in the background during Turkey's proactive openings to Africa, Middle East, Latin America and East Asia.

Although some analysts interpreted this state of affairs as a natural corollary of the JDP leadership's desire to create a 'politically-correct bourgeoisie,' a more balanced view should suggest that the strong commercial relations of the majority of TÜSİAD members on the Euro-Atlantic axis were too dear to be placed at risk, for the sake of adventures in the relatively underdeveloped markets of the 'Third World.' Whatever the respective viewpoint adopted on this issue, the fact remains that a country the size of

Turkey, which aims to establish herself as a major regional and global power, needs to achieve a close coordination between the ideals and priorities of the state elite with those of the key market actors and civil society in order to create a productive synergy so that it become a global actor. Especially the massive public investments required for the construction of new infrastructure for knowledge-intensive sectors and public-private partnerships in key areas, such as R&D investments, necessitate a rapprochement between the strategic goals and priorities of the state elite and those of the leading entrepreneurial groups. In the absence of such a rapprochement, it would be practically impossible to pursue a strategic industrial/technology policy in cooperation with a collection of SMEs scattered around different sectors and economic activities across Anatolia. As shown by historical experience, the bulk of the substantial investments required for the transition from an industrial to a post-industrial society require the involvement of the large-scale industrial bourgeoisie and its strategic partnership with the public sector.³⁸

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It was already stated that the tendency to dynamically monitor developments and windows of opportunity in global markets in order to develop coordinated

national responses is in its embryonic stages in Turkey. The conventional state elite in the civil-military bureaucracy maintained their adherence to a rigid and defensive understanding of 'national interest' inherited from the late-Ottoman and early-Republican experiments with foreign domination.³⁹ Based upon the preservation of political and economic sovereignty at any cost, this conception of national interest does not leave any room for strategic integration with the global political economy; in other words, it categorically opposes any form of integration. One variant of this defensive nationalism developed during the Cold War involved the inclination to attain attempts at Turkey's political, economic and military integration under the protective wings of a global power, namely the US. But this approach was also historically discredited as a result of various international crises during which the peculiar national interests calculations of the US dominated its protective promises to Turkey.

Another caveat about Turkey's strategic/controlled global integration in both the sociopolitical and economic realms concerns the continued dominance of the state in the economic realm in terms of both the central government and local administrations. As both the central and local political elite control major channels of rent-distribution through public contracts, employment opportunities and the like, the redistributive logic embedded in these circles and the competitive

logic of the global economy based upon rationality and effectiveness are in constant conflict. Therefore, regardless of their political orientation, the Turkish political elite seem to be adamant to preserve a substantial public sector under their governing despite unrelenting international pressures for privatization and deregulation. Finally, despite a three decades-long experimentation with economic liberalization and the Customs Union with the EU, neither the Istanbul-based large-scale industrial bourgeoisie around TÜSİAD, nor the SME groups around Anatolia loosely organized around TOBB, TUSKON, and MÜSİAD, have totally given up their primordial habits of looking for particularistic political favors and protectionist privileges to realize excess profits in a no-risk environment.

Conclusion

There is absolutely no doubt that the intensification of global economic integration and the shift from macroeconomic governance to microeconomic forms of interventionism through science and technology policy, neo-protectionism, international project advocacy and the like will increase pressures on foreign policymakers to get more actively involved in competitive economic processes. In this context, members of the Turkish diplomatic community as well will be expected to play a major role in promoting international trade and economic relations, discovering

new areas for investment and partnership opportunities for Turkish investors, channelling promising foreign investors to Turkey, and facilitating the socio-economic mobility of highly-qualified academics, researchers, scientists, artists and entrepreneurs into Turkey.

Restructuring of Turkey's Foreign Ministry should also be conducted in such a way to increase the number of diplomatic experts with an interdisciplinary focus.

This transformation will obviously require a profound shift in the underlying policy rationale of public actors, as well as the main priorities and tools of foreign policymaking, from their focus on political, ideological, geostrategic and military security towards a more pragmatic and economic efficiency-oriented new rationale constructed around the principles of competitiveness and technological superiority. The initial phase of this critical transformation has already been kickstarted in terms of the style of leadership and policy discourse during the Davutoğlu era; however it is clear that the constitution of a firm public-private infrastructure, in cooperation with globally-oriented entrepreneurs as well as the absorption of the new approach by the wider diplomatic community, civil-military bureaucracy and their counterparts in relevant international circles, is a time-consuming process. Recent

initiatives to expand Turkey's horizons in international economic relations with PTAs with some of the major Latin American and East Asian countries and cooperation agreements with crucial regional organisations such as Southern Common Market- MERCOSUR and Association of Southeast Asian Nations-ASEAN are extremely important as concrete manifestations of Turkey's firm commitment to institutionalize and deepen her relations with emerging markets. Yet, it should also be remembered that such initiatives will only be meaningful and sustainable if their socio-economic infrastructure is strategically and swiftly prepared by macroeconomic decisionmakers and the entrepreneurial community to accomplish productive synergies for international competitiveness.

Furthermore, Turkey's recent diplomatic activism in global fora such as the UN, NATO and the G-20 should also be carried into the institutional platforms that determine the basic parameters of global economic governance such as the Bank for International Settlement (BIS), the IMF and the World Bank in a way to facilitate the ventures of Turkish entrepreneurs across the world. To illustrate, key countries from the developing world such as Brazil, Egypt and Indonesia have a history of playing critical roles in international economic negotiations at different historical conjunctures such as the global oil crises in the 1970s or the Uruguay Round negotiations in

Turkey's excessively liberal attitude towards issues of technological progress and R&D is particularly surprising.

the 1980s and the 1990s.⁴⁰ But Turkey, unfortunately, does not have a historical tradition of economic diplomacy and a comprehensive diplomatic apparatus, including numerous experts who specialize in issues of international trade, finance, intellectual property rights, etc. Therefore, the restructuring of Turkey's Foreign Ministry should also be conducted in such a way to increase the number of diplomatic experts with an interdisciplinary focus in order to assess the sociopolitical repercussions of economic developments, and vice-versa.

A crucial issue that needs to be emphasized in conclusion concerns the intensification of practices among the industrialized states, BRICs and particularly the emerging markets in East Asia to transcend restrictions on the employment of protectionism in the global trading regime through a myriad of 'non-tariff barriers' (NTBs).⁴¹ At a time when both the industrialized and industrializing economies are engaged in competition to discover ways of neoprotectionism to promote the swift development of strategically important sectors, especially in the knowledge-intensive areas,⁴² Turkey's excessively liberal attitude towards issues of technological progress and R&D is particularly surprising. On their part,

conventional state elites and the left-wing political movements have so far adhered to an undifferentiated form of protectionism as a result of their political/ideological standing and were alienated from the logic of new global competition, while center-right political movements have distanced themselves from strategic regulation of domestic and international activity as a form of statist interventionism. Therefore, they avoided, for instance, the design and implementation of monetary, fiscal and international trade policies in the light of industrial/technological

advancement. As a result, Turkey's relative level of development in terms of R&D investments, high-technology manufacturing and diversification of exports remained quite disappointing compared to various countries located at similar positions of the global division of labor.⁴³ Therefore, in the near future, technological development and modernization of industrial sectors would be one of the central issues that the key actors of macroeconomic governance, major entrepreneurial groups and foreign policy makers will have to address together in close collaboration.

Endnotes

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 - 34 For instance, despite frequent collaboration between the Ministry of Foreign Affairs and the Undersecretariat of Treasury on the level of leadership and basic principles, there is still a need for an institutionalized framework and pilot organizations focused on the governance of international economic issues, coordination of main economic and foreign policy decisions and promotion of Turkey's high-technology/high-value added sectors in international platforms such as the METI in Japan or the Economic Planning Board in Korea.
 - 35 To illustrate, the main policy priority of the Central Bank has been macroeconomic stability and non-inflationary growth, while institutions dealing with the real economy such as the State Planning Organization or Ministry of Trade and Industry tend to focus on issues such as production capacity, employment creation and export potential. There is also a need to formulate policies for local-regional socio-economic development and international trade/competitiveness in a complementary manner.
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