

Economy as the ‘Practical Hand’ of ‘New Turkish Foreign Policy’: A Political Economy Explanation

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ABSTRACT

Turkish foreign policy activism during the last decade has attracted widespread international attention. As a result, scholarly literature on the issue has expanded noticeably. If one makes a general categorization, the literature on the new Turkish foreign policy has mainly concentrated on “security-based” and “identity-based” explanations. The role of the changing economic dynamics in Turkey and the transformation of Turkish financial and industrial capital, however, are not adequately addressed in the existing literature. This study aims to contribute to the recent debates from a political economy perspective with reference to the functionalist and interdependence approaches. It is argued in this paper that the bifurcation within the financial capital in Turkey in the post-2001 period and the internationalization of the ‘Anatolian tigers’ have turned out to be the ‘practical hand’ of Turkish foreign policy. In addition, this study argues that there are certain limits and constraints of employing political economy factors as a driving force in the Turkish foreign policy activism.

Turkish foreign policy activism during the last decade has attracted widespread international attention. Turkey’s declared “zero-problems-with-neighbors” policy and rising influence as a “regional power” in Middle Eastern and Central Asian countries under the auspices of the Justice and Development Party (Adalet ve Kalkınma Partisi, hereinafter, the AK Party) has turned out to be one of the most hotly debated issues among students of Turkish foreign policy. During the AK Party era Turkey has had a more independent and assertive foreign policy strategy in its region. In this new era, Turkey has fixed its problems with Syria, Iran and Iraq. It has become more active in mediating in the Israel-Syria talks, in bringing Balkan leaders together, and in dealing with newly emerging powers like China and Russia.¹ Accordingly, the underlying dynamics of new Turkish foreign policy activism and the sustainability of the existing multi-dimensional pro-active for-

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foreign policy have come to the fore in this discussion. Mainly due to the strained relations with the Israel-US nexus² and “low profile” negotiation process with the EU in the last couple of years, some commentators have labeled Turkey a country “drifting away from the West.”³ According to these views, Turkey has aligned itself with its Eastern neighbors and has turned its back on its traditional Western allies mainly for ideological reasons. If one puts the “axis shift” discussions aside, which is found as a crude categorization by many experts, there are two main conceptual approaches to understand the fundamentals of new Turkish foreign policy.⁴

The first approach regarding the Turkish foreign policy activism can be labeled as “security-based explanations.” According to this approach, the emergence of a multi-polar world after the decline of Soviet Union and the subsequent changes in the Middle East and Balkans over the last two decades has led to a power vacuum and a power shift in Turkey’s neighboring regions.⁵ As a result, Ankara has formulated a pro-active, multi-dimensional and constructive foreign policy to adapt itself to the changing security conjuncture of the new era, which is characterized by a power shift “as the inevitable outcome of the end of the Cold War and a fact of the new millennium.”⁶ Although these explanations do not exclude the changing balances in the world economy, particularly in the aftermath of global financial crisis, they nevertheless do not put enough emphasis on the ways in which economic interactions affect the new activism in Turkish foreign policy.⁷

The second approach mainly concentrates on “identity-based explanations.” Accordingly, it is argued that the Islamist roots of the ruling AK Party government have encouraged it to formulate an identity-based foreign policy toward Muslim countries. Thanks to the ‘Muslim identity’ of AK Party, the Muslim Arab nations welcomed this approach, as a result of which relations between Turkey and Middle Eastern countries have reached unprecedented levels in history. The identity-based explanations mainly emphasize the assertive role of Ankara in the region in which Turkey has historical claims with ‘imperial ambitions.’ This understanding, also named as ‘neo-Ottomanism,’ inherently prioritizes ‘Islamic solidarity.’ In a softer version of identity-based explanations, Turkey is regarded as a country which is now less obsessed in preserving its Western identity in articulating its relations with the rest of the world.⁸ While not being entirely wrong, this approach falls short of explaining Turkey’s recent foreign policy dynamism in non-Muslim countries such as Russia, Greece and Armenia.⁹

The approaches presented above have explanatory power to understand, to a significant extent, the basic dynamics and fundamentals of the new Turkish for-

eign policy. The multiple faces of Turkish foreign policy obviously deserve multi-causal explanations and these explanations are by no means mutually exclusive. The role of the changing economic dynamics in Turkey and the transformation of Turkish financial and industrial capital, however, are not adequately addressed in these studies. In other words, the political economy of the new Turkish foreign policy is an under-studied and under-theorized area in the literature.¹⁰ This study aims to contribute to the recent debates from a political economy perspective. The first part of the article draws upon the political economy framework with special reference to the functionalist and interdependence approaches. The second part depicts the transformation in Turkish financial and industrial capital over the last decade. The third part determines three specific mechanisms (material interests, multiple dialogue channels, and perceptions) through which the domestic political economy transformation underpins Turkish foreign policy activism. The final part examines the constraints and limits of utilizing economy as the 'practical hand' of new Turkish foreign policy.

A Political Economy Approach to Turkish Foreign Policy Activism: Functionalism and Interdependence

This part of the paper aims to put Turkey's recent foreign policy activism into a political economy framework. In doing so, this paper utilizes functionalist and interdependence approaches. Though Turkey's recent foreign policy dynamism has taken place in a very different political economy structure in terms of actors and means in comparison to when these theories were constructed, it is still possible to argue that the basic arguments of these approaches are quite illuminating in explaining the Turkish case. In this context, this part aims to define the fundamentals of integration and interdependence theories in order to put the Turkish case into an analytical context.

Among the regional integration theories, Neofunctionalism (hereafter, NF), as developed by Ernst Haas and others, is the first comprehensive approach. The focal point of NF is the interplay between *economic* and *political* integration. It is assumed in Neofunctionalist theory that integration in key economic sectors would create functional pressures, first in economic sectors, and this would then pave the way to a new political community via political integration. Haas defines integration as a process from low politics (economic integration) to high politics (political integration) at the end of which a new political community comes into existence. The mechanisms that enable the creation of a new political community via economic actors can be demonstrated in three steps.

In recent foreign policy initiatives, Turkey seems to be following the functionalist framework so as to exploit economic opportunities and interdependence in further *institutionalizing* its relations with neighboring

The first step is the sectoral integration in low politics. NF argues that the integration should be started from the areas of low politics (economic sectors) instead of sensitive fields that trigger sovereignty concerns of the member states. Yet, Neofunctionalists make a distinction between economic sectors and suggest integration in *key strategic economic sectors*. Accordingly, it would be possible for these sectors to create further func-

tional expansion than others since they are “both specific and economically important in the sense of containing the potential for spilling over from one vital area of welfare policy into others.”¹¹

The second step is the functional pressures and spill-over. Once integration is kicked-off in a key economic sector, it would yield positive results for interest groups that are taking part in integration. In a pluralist society, these interest groups would push the integration process forward in other economic sectors in order to benefit from decreasing transaction costs and increasing economies of scale. In other words, the integration of particular economic sectors/actors would create a *functional spill-over* in other sectors at the governmental level. Spill-over, in this regard, is defined as follows:

[Spill-over] refers to a situation in which a given action, related to a specific goal, creates a situation in which the original goal can be assured only by taking further actions, which in turn create a further condition and a need for more action, and so forth.¹²

The final step is the loyalty shift to high politics. The functional pressure from the integrated sectors into the other economic sectors paves the way for the integration of national economies. The integration of national economies would facilitate the liquidation of political problems and encourage the loyalty shifts of sub-national groups from a purely national orientation to the regional level.

The insights of the Neofunctionalist theory in the 1970s were “transferred to the growing and broader dimensions of international economic interdependence”.¹³ One of the leading theories, in this regard, was the interdependence theory.¹⁴ In their study, Keohane and Nye argued that it was not possible anymore to understand world politics just by relying on the security-based realist

understanding of inter-state relations and claimed that "states are by no means the only actors in world politics."¹⁵ They put special emphasis on non-state actors (especially business groups) and developed the idea of a 'world politics paradigm' that aimed to fulfill the lack of a state-centric framework. Accordingly, "world politics paradigm, the approach that puts emphasis on the increasing role of transnational relations other than nation-states, is necessary if scholars and statesmen are to understand the current [complex interdependent] problems in world affairs."¹⁶ While trying to develop the instruments in dealing with existing multilateralism, the interdependence paradigm puts a special importance into three channels, which are highly relevant in Turkey's recent foreign policy activism: *multiple channels of communications, an absence of hierarchy among the issues* (the rejection of high politics vs. low politics dichotomy), and the *diminished role for military power*.

The restructuring of domestic business actors and the emergence of a new competitive capitalist class underpinned the economic arm of Turkish foreign policy

In recent foreign policy initiatives, Turkey seems to be following the functionalist framework so as to exploit economic opportunities and interdependence in further *institutionalizing* its relations with neighboring countries by downgrading military power in favor of economic interactions. From the political economy perspective of this paper, the transformation of Turkish industrial and financial capital in the post-2001 period enables the functionalist and interdependence theories to become relevant in the recent context. The next part of the paper investigates the transformation of industrial and financial capital and aims to determine the political economy fundamentals of Turkish foreign policy.

Transformation of Industrial and Financial Capital after the 2001 Crisis

The establishment of the economic fundamentals of the new Turkish foreign policy goes back to the 2001 economic crisis.¹⁷ The 2001 crisis was the severest economic disaster in Turkish history, in terms of many indicators. Yet, from another perspective, it created a 'window of opportunity' for the transformation of the political economy structure and state-business relations in Turkey. In fact, the destructive consequences of the crisis influenced almost all classes of society. The intensity of the shock helped in the creation of a broad and strong consensus among different parts of society: People understood very well that the problem regarding the economy was not a simple liquidity shortage or an improper crisis-

management strategy; instead, there were very deep-seated structural problems in the financial and real pillars of the economy.¹⁸ This clear and broad understanding, in turn, paved the way for radical reforms in the post-crisis episode. In these suitable circumstances, reformist ‘policy entrepreneurs’ found large room for maneuver and they were backed by influential business associations like TÜSİAD and MÜSİAD as well as by other associations named SİADs. The progressive/dynamic fractions of Turkish finance capital also supported a new model of capital accumulation strategy in Turkish economy. The government’s determination to implement the economic restructuring reforms was underpinned by its pro-European stance in the political and foreign policy arena. The pro-EU reforms in this period, and the improved relations with the EU, enabled the government to create a broad-based interclass alliance. Hence, the macroeconomic environment and institutional framework in the country was further consolidated with the help of the Europeanization process. As a result:

For the first time in many years, Turkey found itself in the midst of a virtuous cycle with economic and political reforms as well as key foreign policy initiatives feeding into one another, helping to produce a favorable environment for economic growth.¹⁹

During this period, Turkish finance capital and the state’s role in the economy were subjected to significant changes at least in terms of two qualifications. First, the restructuring of domestic business actors and the emergence of a new competitive capitalist class underpinned the economic arm of Turkish foreign policy. Second, the rise of the ‘Anatolian tigers’ as new game-setters in Turkey’s economic policies and foreign relations has changed the political economy structure.

Bifurcation and Restructuring in Finance Capital

The first pillar of the transformation in Turkish finance capital was the developments in the financial system, mainly the banking sector, the area in which pro-active state policies played a crucial role. After the 2001 crisis, the structure of the Turkish financial system changed dramatically. Political intervention and the dominance of the public sector within the banking sector had increased throughout the 1990s; this in turn triggered the increase in banking licenses. As a result, the number of banks increased, from 66 in 1990 to 81 in 1999. These banks were not ‘doing banking’ in any real sense because they were heavily investing in treasury bills and bonds instead of disbursing credit to the industrial economy. In other words, the dominant capital accumulation strategy in Turkish financial sector was based on *rentier profits* extracted from the state apparatus.²⁰ As a result, the

credit allocation mechanisms of many banks were significantly politicized and irrational. The 2001 crisis put an end to the rentier strategy of capital accumulation and wiped most of these banks off the scene so that the total number of banks decreased to 59 immediately after

crisis. The consolidation in the sector continued in the mid-2000s with bank numbers decreasing to 49 as of 2009.²¹ The consolidation in the financial sector was the result of *intra-capital restructuring* of finance capital in Turkey. In fact, the exhaustion of the rentier accumulation strategy in the early 2000s required the restructuring of financial firms and their affiliated holdings. In the new context, the dynamic accumulation strategy that was based on internationalization and competition on a world scale instead of state-dependent accumulation model turned out to be the only sustainable way for Turkish finance capital to develop. The Banking Sector Restructuring Program and the financial reforms were developed with this shifting strategy in mind.

The changing economic structure affected power relations in the country, and inevitably spilled-over into foreign policy

However, it is crucial to underline at this point that the restructuring in question was by no means a solely state-run project or a project only dictated by the international financial institutions. On the contrary, the diverging paths within finance capital and the changing attitudes of the factions within the financial sector turned out to be the crucial non-state factors. For the sake of categorization, the position of finance capital can be classified into two basic groups in this period.²² Of the first faction, there were the conglomerates that relied on the 'primitive capital accumulation' strategy, in the sense that the overwhelming share of their accumulation was realized thanks to the rentier type of profits extracted from the investments in treasury bonds and bills.²³ This faction, especially in the industrial sector, was characterized by low-value added and traditional production that had not helped them gain competitive advantage in the world economy. As a result, they were dependent on the state and relied on state protection and subsidies. The holdings in this fraction could not establish a strong capital structure that was sustainable in the long-run due to their concentration in the traditional and fragmented production sectors such as textiles, construction and media. Their survival, in this context, became possible only on the rentier capital accumulation throughout the late 1980s and 1990s. In fact, the high state-indebtedness provided a type of 'financial protection' for these firms to survive without facing real international competition. However, this strategy failed in the late 1990s due to the fiscal crisis of the state. Unsurprisingly, the bankrupted financial in-

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stitutions came out of the holdings that overwhelmingly relied upon the 'primitive accumulation' strategy. Accordingly, the banks belonging to Çukurova Holding (Pamukbank), Yaşar Holding (Yaşar Bank), Nergis Holding (Interbank), Medya İpek Holding (Etibank), Cingilioğlu Holding (Demirbank), and others, either declared bankruptcy or fell into financial difficulties in the early 2000s.

The other faction in the financial sector were the conglomerates that used the 'dynamic accumulation' strategy in the sense that these corporations did not only rely on the treasury to sustain their financial profitability.²⁴ It is true that these financial institutions also significantly benefited from crony capitalistic relationships throughout the 1990s, yet they nevertheless succeeded to survive when the fiscal crisis of state hit the economy in early 2000s. These conglomerates realized that the Turkish political economy was on an unsustainable path in the 1990s and systematically improved their capital accumulation modes by investing in high-value added sectors.

In the industrial realm, they veered towards newly emerging sectors and regions by using the 'dynamic accumulation' and *internationalization* strategies. The most popular sectors for these conglomerates turned out to be the automotive, finance, high-technology, and durable goods sectors. They used their financial arms relatively better than the first faction and invested in their banks to improve their international competitive position. Koç Holding's Koçbank, Sabancı Holding's Akbank, Doğuş Holding's Garanti Bank and İş Holding's İşbank became the organic supporters of these holdings in their high-value added investments during the internationalization process in the 2000s. For instance, Sabancı Holding divested from the traditional textile sector and concentrated on the high-technology sector by acquiring DuPont in 2004 for \$108 million. Eczacıbaşı Group acquired 51% of the ceramic division of Villeroy&Boch; Ülker Group acquired the famous Belgium chocolate firm Godiva for \$850 million; Anadolu Group acquired the beer firms Krasny Vostok in Russia and Lomisi in Georgia; and the Koç Group acquired the washing machine producer Blomberg, the electronics firm Grundig, and the white goods producer Artic.²⁵ In summary, instead of concentrating on the state-dependent growth and accumulation strategy, the second faction of Turkish finance capital preferred global integration.

In the process, the state (with IMF support) played an active role in liquidating the financial institutions that were relying on primitive accumulation and helping in the internationalization of financial conglomerates by promoting the dynamic accumulation strategy. The second faction of finance capital, from the other side, encouraged the state to form a new capital accumulation strategy and encouraged state-business relations. Thereby they supported the post-crisis reforms and internationalization strategies of state actors. This point is implied in the following quotation of Rahmi Koç, the chairman of Koç Holding:

The difficulties of 2001 may be likening to cleaning the decks. The strong firms that do sustainable business survived the storm and had become stronger. The firms who grew extraordinarily thanks to political influence and favor were wiped out from the scene due to the harsher market conditions and changing government policies. I see this as an important and promising development for the *transformation of business culture* in Turkey. The inability of making money ought to be clear for the firms that do not add value to their products and services.”²⁶

From a political economy perspective, the restructuring operation refers to a ‘who-gets-what’ question in the sense that the old-traditional type of finance capital lost the game and left the scene, while the pro-integrationist fraction succeeded. The power shift in domestic finance capital, in turn, underpinned an active foreign policy engagement. The restructuring of capital had important political economy and foreign policy consequences for Turkey. As a result of the abovementioned transformation, Turkish financial firms first consolidated their position in the economy, and second acted as a *change agent* in transforming industrial capital in Turkey. The changing economic structure affected power relations in the country, and inevitably spilled-over into foreign policy. The third part of this section will investigate the role of this transformation for Turkish foreign policy. Beforehand, it is important to map out another aspect of the transformation of industrial capital in Turkey as a complementary to the financial transformation in the post-crisis era.

A New Actor of Turkish Industrial Capital: The ‘Anatolian Tigers’

The aforementioned restructuring of intra-capital in Turkey refers to one aspect of Turkish finance capital. There is another aspect that has the potential to influence the political economy dynamics: The ‘Anatolian tigers’.²⁷ Starting from the 1980s, during the Özal government, a conservative and self-sufficient group of Anatolian businessmen came to the fore and has gradually increased its influence.²⁸ MÜSİAD, as the main representative of Anatolian capital along with

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the SİADs, moved from the periphery to the center of Turkish capitalism.²⁹ Anatolian cities such as Konya, Gaziantep, Denizli, Eskişehir, and Kayseri, in which MÜSİAD and other SİADs are quite active, have become the new powerhouses

of the Turkish manufacturing industry.³⁰ For example, MÜSİAD, established in 1990, has 30 nation-wide branches, 92 connection points in 43 countries and 4,700 members all around Anatolia as of 2010.³¹ The economic and political power, naturally, started to shift to economic actors that were excluded from the state mechanisms beforehand. This power shift to a certain extent has changed the domestic balances in both the political and social landscape.³² The shifts in domestic power have foreign policy implications for Turkey in the sense that the newly rising Anatolian bourgeoisie, thanks to geographical proximity and cultural factors, has pushed policy-makers to reformulate their policies vis-à-vis Middle Eastern and Central Asian countries.³³ The way in which these power shifts underpinned the new foreign policy activism is to be elaborated in the following part.

The Economy as the ‘Practical Hand’ of Turkish Foreign Policy Activism

In line with the new perspective for state-society and state-capital relations, the economic elite have pressured for new policy formulations not only in domestic affairs but also in foreign policy. First of all, Turkey’s integration into the global economy and the EU process forced business groups to adapt to the mentality of the new world political economy. Accordingly, the new economic rationality, which necessitated investing in high-value-added products, making long-term strategic decisions, and changing economic mentality from a *clientelistic approach* to a *rule based understanding*, turned out to be a major force of change.³⁴ Once the business associations had internalized the ‘hard recipe’ that they had no chance but to obey the rules of the game in the new international political economy, they strongly supported the EU membership process as the most appropriate method of economic modernization in Turkey. The economic interest groups, mainly TÜSİAD, who were quite skeptical about a possible integration with the European Economic Community in the late 1970s started to gradually change their attitudes after the mid-1990s. Most of them lobbied simultaneously on domestic and international fronts.³⁵ For instance, MÜSİAD, which was arguing in the mid-1990s that “Turkey was in full contradiction with the EU member countries in

historical, religious and cultural terms”, changed its anti-EU rhetoric and became a member of the European small and medium enterprises (SME) network of European Confederation of Associations of Small and Medium-sized Enterprises “for further Europeanization of Turkish economy”.³⁶ Since Turkey was given candidate country status in Helsinki in 1999 and the negotiations kicked-off in 2005, business support for Turkey’s membership bid peaked in the early 2000s.

The interaction and mutual interdependence between Turkish businessmen and their counterparts have turned into one of the ‘practical hands’ of Turkish diplomacy

Apart from the EU membership process, business associations gave vocal support on Turkey’s new foreign policy approach towards its neighbors. In this new context, Turkey in the AK Party era, especially after the 2007 elections, said it was to follow a “zero problems” policy with its neighbors. This foreign policy formulation is based on Turkey’s soft-power capabilities and foresees a multi-dimensional approach due to “Turkey’s unique space in terms of geography”.³⁷ In line with the new foreign policy paradigm, Turkey devoted most of its energy in mediating between Syria and Iraq, Israel and Palestine, and facilitating the talks between Iran and the Western world. Recently, Turkey has remarkably improved its bilateral relationships with Syria, Iraq and Iran. What is important in terms of this study is that the major driving force for the soft power activism of Turkish foreign policy has been the economy and trade. Putting it another way, Turkish finance capital has turned out to be the practical hand of Turkish policy-makers in the region. The new mode of capital accumulation that has become more visible in the post-2001 period and the rise of Anatolian capital have encouraged Turkish business groups to invest abroad. Accordingly, the Turkish business elite have started to explore the economic and financial opportunities in the neighboring countries and have backed the state in its efforts to stabilize the region for the sake of their interests, *inter alia*. In other words, the finance capital in Turkey has gradually increased its power in foreign policy formulation. According to the broader implications of the Neofunctionalist and Interdependence theories, the economy has played an important role in foreign policy formulation via three mechanisms; material interests, multiple dialogue channels, and perceptions.

Material Interests

The material interests established between Turkish firms and neighboring countries constitute the first mechanism that underpins the new Turkish foreign

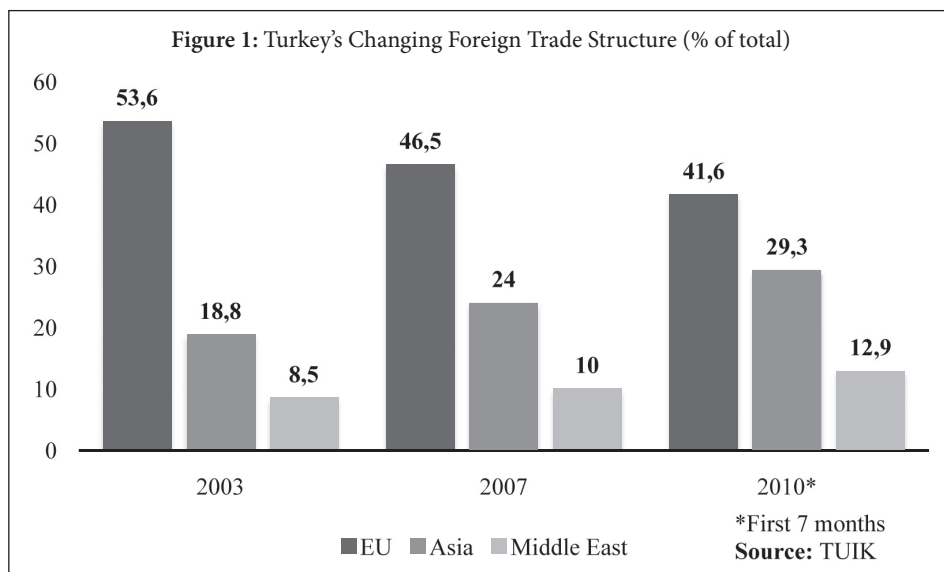
policy activism. The interaction and mutual interdependence between Turkish businessmen and their counterparts have turned into one of the 'practical hands' of Turkish diplomacy. The leading airline operator in Turkey, Turkish Airlines (THY), for instance, has increased its destinations from 70 to more than 124 points in 80 countries. According to THY's CEO, the demands of Turkish businessmen is one of the reasons for them to increase the number of destinations in the last couple of years.³⁸ The total annual turnover of the airline industry in 2009 reached more than \$8 billion, compared to \$2.2 billion in 2002.³⁹ Turkish construction firms, most of which are Anatolian tigers, have invested more than \$20 billion in Russia and about \$35.5 billion in the Middle East over the last decade.⁴⁰

Apart from Middle East, Turkish firms have also increased their investment stock gradually in the Turkic republics. For instance, Turkish firms have invested more than \$3.6 billion in Azerbaijan and \$628 million in Kazakhstan.⁴¹ In this environment, the material links between the Turkish economy and the economies of neighboring countries have drawn the attention of the policy-makers to concentrate on the new demands of business circles. Hence, Turkish foreign policy activism has become an area of realizing material opportunities that obviously goes beyond the ideational explanations. The increasing gravity of the economy in new Turkish foreign policy, especially in Middle Eastern and Asian countries, is summarized as follows:

Turkey mainly relies on economic instruments in improving relations with its neighbors. The economic instruments, mainly trade and investment projects, are used as facilitators in foreign policy. In other words, the recent political openings have found their ways via bilateral economic relations. For example, Turkey's recent engagement with Syria [in 2009] resulted in the reciprocal abolishment of visa requirements... Turkish and Syrian businessmen are preparing for joint projects in the tourism and industrial sectors. The bilateral trade relations (which expanded to 1.1 billion dollars in 2008 with a 40 percent increase vis-à-vis the previous year) are expected to further increase in the coming years... The other example is Iraq. Turkey aims to expand bilateral trade relations with Iraq from 5 billion dollars to 20 billion dollars in a short time span. Moreover, Turkish construction firms have been constantly searching for ways to take an active part in the possible construction projects, which are projected to total 500 thousand residences... The last example is Turkish-Iranian bilateral economic relations. [In 2009], the trade volume between the two neighboring countries reached 10 billion dollars; this figure was about 350 million dollars just ten years ago... Turkish investors have investments in Tabriz, the focal point of the Iranian economy, and they mainly concentrate on textiles, food, chemicals, gas explora-

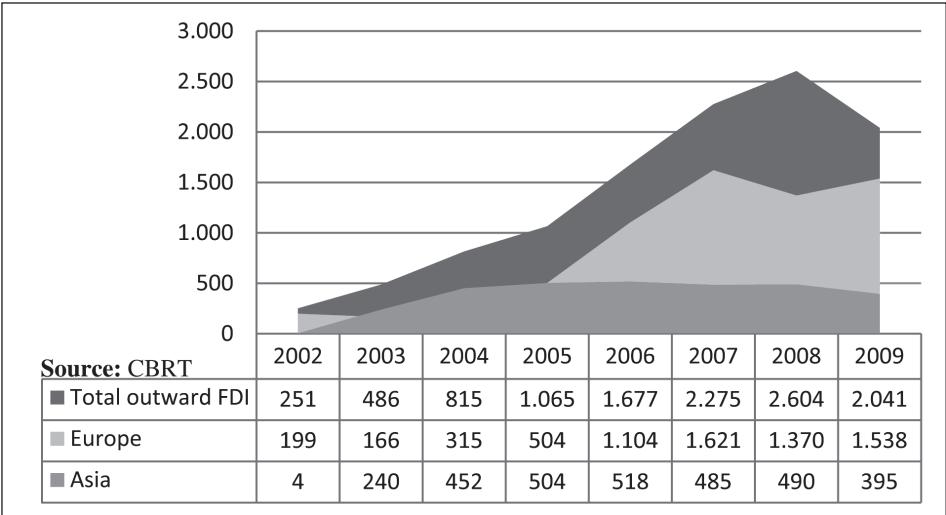
tion etc. It is estimated that Turkish investments in Iran have reached up to 1 billion dollars and many other investment plans are waiting to be signed on the negotiation table.⁴²

In this context, two major economic developments came to the fore. First, neighboring countries have turned into profitable trade partners for Turkish finance capital since 2001. Parallel to the rise in Turkey's total foreign trade (which increased from \$72 billion in 2001 to \$333 billion in 2008), Turkey's total trade with Middle Eastern and Asian countries increased from \$18.7 billion to \$131 billion and Turkey's trade with Gulf Cooperation Council members also tripled in the same period.⁴³ More importantly, neighboring countries' share in Turkish foreign trade has increased at the expense of the EU market. As the figure 1 shows, from 2003 to 2010, the EU's share in Turkish foreign trade declined from 51.38% to almost 42%, whereas Turkey-Asia and Turkey-Near and Middle Eastern foreign trade increased to 26.5% and 12%, respectively.



The second economic development that has improved Turkey's visibility in foreign affairs is the changing outward FDI dynamics (figure 2). Concomitant with rising FDI inflows in the post-2001 period, Turkey's outward investment stock has also increased. Accordingly, between 2002 and 2009, Turkey's outward direct investment stock reached at \$11.2 billion, \$3.1 billion of which was directed to Asian countries (including the Near and Middle East).

Figure 2: Turkey’s Outward Investment Flows (million dollars)



Multiple Dialogue Channels

As the Interdependence theory acknowledges, the multiplication of dialogue channels is another way of improving bilateral relations between parties. Since new actors and new priorities affect the relationship, dialogue between the parties cannot be restricted to the traditional security-biased bureaucratic and military channels and spills-over into other functional corporation areas. The economy, again, acts as a facilitator in this context. Parallel to the rise of Anatolian capital in Turkey, the dialogue channels between Gaziantep and Aleppo, for example, multiplied. As functionalist theories argue, the increasing intensity of commercial relations between Anatolian businessmen and Middle Eastern markets has created spill-over effects and facilitated the establishing of new dialogue and cooperation mechanisms. In the Syrian context, the pressure from Anatolian industrialists and exporters has encouraged the government to sign free trade and visa-free travel agreements.

The case of Syria is particularly interesting; as many commentators in the Arab world have suggested recently, the alliance between Turkey, now ruled by a party with strong roots in Sunni political Islam, with the widely disliked Alawi community appears unseemly. The motives behind Bashir Al-Assad’s emphatic embrace of the new Turkish-Syrian alliance notwithstanding; it is the influence of local business elites, which account for Turkey’s move towards Syria. Industrialists in Gaziantep, one of Turkey’s leading industrial cities and “Anatolian Tigers”, have

lobbied the government consistently to facilitate the conditions of their economic interaction with Syria.⁴⁴

Partially due to the demands and lobbying of industrialists and exporters, Turkey concluded 50 agreements, memoranda of understanding, and cooperation protocols with the Syrian government on September 17, 2009, most of which were directly related to the economic and commercial realms. The agreements also underpinned the *institutionalization* of dialogue channels via establishing a High Council of Strategic Cooperation.⁴⁵ Similarly, Turkey has abandoned its previous visa regimes and signed free trade agreements with Iraq, Lebanon, and Jordan in addition to the establishment of more High Councils of Strategic Cooperation.⁴⁶ The institutionalization of economic linkages has been further underpinned via "official trade liaison offices, chambers of commerce and trade associations."⁴⁷

In summary, the multiple channels established between businessmen increases the number of interpersonal networks and helps institutionalizing the spill-over effects. As a result, relationships are not restricted to bureaucratic state-state relations anymore. The interaction between non-state actors at different levels and on different issue areas has multiplied the ways in which parties gather information about each other. Consequently, the new logic of political economy dynamics paves the way to changing perceptions, albeit slowly *vis-à-vis* the other mechanisms.

Perceptions

The third mechanism thorough which the economy serves as a 'practical hand' of Turkish foreign policy is by changing perceptions as a natural corollary of material interests and multiple dialogue channels. In other words, the spill-over effects of commercial interests and the institutionalization of multiple dialogue channels in new relationships gradually changes perceptions. Arguably, perceptions have been the most persistent problem that has hindered Turkey's relations with most of its neighbors, especially during the 1990s. As Altunışık wrote, "throughout most of the 1990s, Turkey was seen largely irrelevant to debate in the Arab world and mutual perceptions of threat and distrust characterized the relations."⁴⁸ Arab perceptions of Turkey, however, started to change dramatically from the early 2000s and, in 2009, 75% of the Arab population had either very positive or positive views of Turkey.⁴⁹ Obviously there are many reasons for this abrupt change, including domestic changes in Turkey and in the Arab world, as well as power shifts in world politics. The economic aspect, within the context of this study, was also important. The increasing economic interdependence paved the way for

more intense interaction and human mobility that changed the historically and ideologically loaded (mis)perceptions.

To sum up the argument so far, business-state relations in the Turkish political economy have changed dramatically in the post-2001 period. The new context has enabled the overhauling of the economic and financial structure and has introduced a new perspective for the international presence of Turkey, especially in its neighboring region. The improvements in the domestic structure have, in turn, provided fertile ground for financial and industrial capital to push for a more dynamic and pro-active foreign policy formulation via establishing material interests, multiple dialogue channels and positive perceptions. Yet, is this trend sustainable in the incoming years? What are the limits and constraints of the political economy dynamics in Turkish foreign policy? The next part aims to make a constructive critique of the political economy of the new Turkish foreign policy.

The Political Economy of the New Foreign Policy Activism: Limits and Constraints

The functionalist and interdependence political economy approaches are highly relevant in explaining the existing nature of activism in Turkish foreign policy. However, in order to take advantage of the economy as the 'practical hand' of foreign policy in the long run, there are certain parameters that need to be satisfied. In this part of the article, three major parameters will be defined, namely industrial capacity in terms of competitiveness, the state-business and business-business synergy, and the societal coherence in terms of domestic and foreign policy priorities. Then, Turkey's position will be assessed accordingly.

First of all, Turkish industry has an important competitiveness problem (see table 1). It is true that Turkish firms have developed an outward-oriented perspective and have internationalized to a certain point. Research and development (R&D) activities, for instance, have increased in the post-2001 period, with R&D expenditures increasing from \$3 billion in 2002 to \$6.8 billion in 2008. During the same period, R&D expenditure per capita increased from \$46 to \$98. The number of full-time equivalent R&D personnel increased from 28,964 in 2002 to 67,244 in 2008, which corresponds to 132% increase. By another measure, the number of scientific publications increased from 10,314 in 2002 to 22,738 in 2008. Similarly, the number of international patent applications a year rose to 361 from 85 in the same period.⁵⁰ In the final analysis, however, the comparative figures are still far from being promising. For example, while Malaysia, South Korea, and China

devote 55%, 32% and 31% of their total exports to high-technology products, the ratio in Turkey is just 2%, which in fact depicts the competitiveness problem of the Turkish export sector.⁵¹ The following table tabulates the relatively dismal picture for the competition ability of Turkey in which Turkey is ranked 61st out of 133 countries in 2009.

Table 1: Turkey's Competitiveness Performance (2009-2010)

| Main Indicators | Rank |
|---------------------------------------------------------------------------------------|------|
| GCI 2009–2010 (out of 133) | 61 |
| GCI 2008–2009 (out of 134) | 63 |
| GCI 2007–2008 (out of 131) | 53 |
| Basic requirements (69) | |
| 1st pillar: Institutions | 96 |
| 2nd pillar: Infrastructure | 62 |
| 3rd pillar: Macroeconomic stability | 64 |
| 4th pillar: Health and primary education | 74 |
| Efficiency enhancers (54) | |
| 5th pillar: Higher education and training | 73 |
| 6th pillar: Goods market efficiency | 56 |
| 7th pillar: Labor market efficiency | 120 |
| 8th pillar: Financial market sophistication | 80 |
| 9th pillar: Technological readiness | 54 |
| 10th pillar: Market size | 15 |
| Innovation and sophistication factors (58) | |
| 11th pillar: Business sophistication | 52 |
| 12th pillar: Innovation | 69 |
| Source: World Economic Forum, <i>Global Competitiveness Index</i> , 2009-2010. | |

The other aspect of the competitiveness problem of the Turkish industrial sector is the lack of productive links between financial institutions and the industrial sector. Access to credit sources had always been one of the main problems for small and medium enterprises (SMEs) in Turkey. This situation became more difficult following the surge of foreign capital into the Turkish banking system. Actually, "one of the obvious limitations of the new environment is that it cannot make a sufficient contribution to the financing of the real economy, as evidenced in the weak share of savings and fixed capital investments in GDP, whilst a considerable amount of household disposable income was transferred to the banking sector."⁵² Foreigners' participation in the Turkish financial system makes it difficult for Turkish SMEs to access credit since they are not adequately equipped to fulfill the necessary credit and rating standards. From a foreign policy perspective, the competitiveness problem is especially serious for the Anatolian ti-

gers investing in Middle Eastern and Asian countries. Obviously, without the strategic planning of investment strategies in neighboring countries, sustaining the economy as the 'practical hand' of foreign policy activism has certain limits and constraints.

The second problem concerns state-business and business-business synergy. According to the functionalist and interdependence approaches the institutionalization of cooperation mechanisms is required for creating sustainable spill-over effects into high politics. Similarly, as Rodrik⁵³ and Evans⁵⁴ argue, the effective industrial policy of the 21st century requires an active and continuous state-private sector *dialogue* implemented by means of proper coordination mechanisms and institutions. The dialogue in question has two dimensions. On the one hand, state-private sector cooperation is essential. However, Turkey has not developed the proper dialogue channels between the state and private finance capital to overcome information shortages and bureaucratic bottlenecks. Also private-private sector cooperation (what Susan Strange calls "firm-firm diplomacy") is *sine qua non*. Business associations in Turkey "have been quite reluctant to enter into alliances and have been careful to maintain a distant, arm's length relationship both with other business associations as well as wider segments of the civil society".⁵⁵ Although there are signs that influential business organizations in Turkey have started to engage in dialogue, the level of cooperation is still rudimentary and fledgling. As a result, the possible expansion of Turkish financial and industrial capital in neighboring countries is hindered and the ability of Turkish finance capital to act as an economic arm of Turkish foreign policy may be further curtailed in the long run.

The third constraint in Turkish foreign policy from an economic point of view relates to the fragmented identity politics and fragile democracy. The single-party government in its first term (2002-2007) succeeded in creating relative stability. Yet, the political arena has started to become more polarized, especially after 2006. In this context, identity politics, rather than the politics of service, has started to dominate the political agenda. The escalation of political tension undermines economic stability and creates new fault-lines in the sustainability of economic growth. The formulation of a comprehensive strategy and active state coordination in guiding finance capital require common denominators that unify the society. This common denominator and the 'glue' of social cohesion was a desire for a strong democracy. Yet, this is not the case for Turkey even in the first decade of the 21st century. As the synergy among state-business and business-business relations is vitally important to create competitive advantage in foreign policy issues, the lack of coordination, mainly due to the lack of consensus on the

major common issues, is likely to constraint Turkey's foreign policy potential in the medium-term.

Conclusion

Turkish foreign policy has been more assertive and independent in the first decade of the 21st century. Accordingly many studies have devoted herculean efforts to understand the basic dynamics and the driving logic of this new Turkish foreign policy activism. Apart from the crude "axis shift" discussions, which is rightly discarded as being simplistic and ideology-loaded, to capture the complexity of the emerging multi-polarity paradigm in question there has emerged two basic explanations. The first concentrates on the changing balance of power in world politics and tries to explain the new Turkish foreign policy within the context of new security conceptions. The second approach sees Turkey's rising influence in the neighboring region in terms of the changing identity perceptions under the AK Party era.

Since Turkish foreign policy is composed of multiple facets, the explanations presented above contribute to our understanding. However, this paper has argued that one crucial aspect, the political economy of Turkish foreign policy, has been relatively neglected in the recent literature. Accordingly, this paper has utilized the functionalist and interdependence approaches to reveal the driving logic of new Turkish foreign policy. In this context, the cooperation in the low politics (or the trade and economy-related issues) is operationalized as the practical hand of Turkish policy makers to solve the disputes in high political issues via *functional spill-over* mechanisms, which can be seen as material interests, multiple dialogue channels and perceptions. Finally, this paper has also discussed the limits and constraints of the functionalist political economy logic in Turkish foreign policy in the new era. Three main constraints, namely the industrial capacity in terms of competitiveness, the state-business and business-business synergy, and societal coherence in terms of domestic and foreign policy priorities, are the principal political economy challenges for the future.

Endnotes

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