

Turkey's Early Steps of Globalisation: Revisiting the Turkish Political Economy in the 1980s¹

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Abstract

Although globalisation is the integration process of the world at many different levels, the emphasis goes to economy. Turkish globalisation is not an exception following the liberalising steps from an interventionist state-dominated economy to integration into the global markets with the *January 24 Decisions* in 1980. This further liberalised the political life following the military government of 1980-83 after the Turkish military's third coup d'état on September 12, 1980. Turkish economic liberalisation led the emergence of new entrepreneurs and relatively liberal political atmosphere for the rise of Islamist identity in the public sphere incrementally. This meant the transformation of the traditionally Islamic oriented Anatolian petite bourgeoisie into global vision holding businessmen. The more Turkish economy and politics globalised through liberalisation, the more Islam gained a seat firstly in the economy, then more in politics in the next decades. One has to pay attention to the very first steps of liberalisation in the Turkish political economy of the 1980s to comprehend Turkish globalisation.

Keywords: Globalisation, Islam, Liberalisation, Turkish political economy, 1980s

INTRODUCTION

Globalisation, briefly, is the multi-layered integration process of the world from individual to international organisations driven by a combination of factors from economy to biology -as in the cases of epidemics- thanks to the revolutionary technological developments easing transportation and communication so increasing the human interaction through exchange of everything at the global level (Hirst & Thompson, 1996; Perraton, Goldblatt, Held & McGrew, 2000; Wallerstein, 2005). When one talks about globalisation the emphasis goes to economy such as very well-known global trade marks, foreign direct investment and capital flows and even globalisation is conceptualised as economic globalisation at the first hand. Thus, globalisation has much more to do with the economy followed by other sectors of the life. Turkish globalisation is not an exception and has more or less followed such a sequence. The economic liberalisation in Turkey starting in 1980, first anchoring and then further integrating within the global economy, further liberalised Turkish political life. Moreover, Turkish liberalisation was in parallel with the early neoliberal practices of Margaret Hilda Thatcher (1979–1990) and Ronald Wilson Reagan (1981–1989) known as Thatcherism and Reaganism consecutively. This paper argues that in order to understand the globalisation of Turkey with special

¹ For the sake of academic ethic and self-morality, most of this article has been taken and rewritten from my unpublished PhD thesis. Formation and Representation of Interests in Turkish Political Economy: The Case of MÜSİAD (Independent Industrialists' and Businessmen's Association), Ankara: The Department of Political Science and Public Administration, Bilkent University, 2002.

reference to its political economy, one has to pay attention of the very first steps of liberalisation of Turkish political economy in the 1980s. The importance of the decade is that Turkey was exposed to an overall change firstly in the economic field which spread to political and social mentality and experiences.

The year 1980 is a crucial turning point in the history of Turkish political-economy. Following a long period of state-dominated, heavily interventionist and inward looking economic policies, two stabilisation programs in 1958 and 1970 failed (Nas & Odekon, 1988; Aricanli & Rodrik, 1990; Öniş, 1998; Boratav, Türel & Yeldan, 1995). The previous economic system had been basically dominated with the characteristics of financial repression based on negative real interest rates, a heavy tax burden on financial earnings, and high liquidity reserve requirement ratios. The Turkish state was both a productive agent through state economic enterprises (SEEs) and a regulatory agent directly involved in the administration of foreign exchange and determination of key prices. Moreover, the major balance of payments crisis of the 1970s corresponded to the combined impact of two factors: the collapse of the dominant import substitution industrialisation (ISI) model of development (Fry, 1972; Krueger, 1974; Barkey, 1990) and external shocks due to the extreme increases of oil price in 1973 and 1979. Thus, Süleyman Demirel's minority-government (November 1979-September 1980) commenced an extensive reform program of austerity measures, known as the *January 24 Decisions* (24 Ocak Kararları), in 1980.

Turgut Özal, keeping the offices of the Undersecretary and the Deputy Minister, tailored the program emphasising the need for market forces to reign freely with less governmental intervention in the economy, readjustment of the tax system, deregulation of the labour market and privatisation (Atiyas, 1995). The program aimed at a more efficient and flexible financial system to convert national savings into productive investments at the lowest cost while integrating the Turkish economy further into the global system (Akyüz, 1990). The intention was to liberalise the economy on a sustainable growth path through export-led policies while reducing inflation on permanent basis signifying the shift towards a market-oriented economic model and the integration of Turkey into the global commodity and financial markets. The multiple exchange rates system was abandoned and quantitative restrictive measures on imports were removed. In January 1980, the exchange rate of Turkish Lira (TL) was depreciated by 49 per cent, from 47 TL per dollar to TL 70 per dollar. The rate was then regulated intermittently until May 1981, when adjustments became daily practice. The SEEs increased their prices and adopted a flexible industrial price policy. Although such liberal steps were taken, the labour union activities were restricted and the salaries of government employees and agricultural support prices were reduced (Öniş, 1991).

TURKEY'S STEPS OF GLOBALISATION

On the political side, Turkey was characterised by remarkable political instability in the 1970s. The succeeding weak coalition governments of the 1970s were unable to stop terrorism and urban violence of street fights between leftist and rightist groups, threatening the daily security of the man in the street. In such a vicious circle of weak economy and insecure politics, it was not surprising that on September 12, 1980, the Turkish military executed its third coup d'état in the history of Turkish Republic since 1923. Interestingly, the generals kept the implementation of this liberal(ising) program intact by keeping Turgut Özal as the Deputy Prime Minister in the military cabinet. Thus, the adjustment program continued favouring the deregulation of industrial and financial

markets as well as liberalisation of trade and capital movements. The major concern of the generals was to decrease the rate of inflation and the current account deficits to moderate levels.

The financial deregulation started by liberating interest rates on loans and deposits in July 1980 (İnselbağ & Gültekin, 1988). However, the government kept control on interest rates for preferential credits in areas, i.e. export, agriculture and certain categories of investment. Also, certificates of deposits (CDs) emerged as the new financial instruments of the regulatory framework (Sak, 1995). The state's productive agent role decreased by privatisation policies while keeping its regulatory role in redistributing income through the conduct of its fiscal operations, i.e. determination of interest rates and subsidies for exporters (Cizre-Sakallıoğlu & Yeldan, 2000). This process was also part of a broader global trend under the auspices of the World Bank and the International Monetary Fund (IMF). In short, the adjustment program was welcomed as a "model" by the international community and supported by generous structural adjustment loans, debt relief, and technical aid (Eralp, Tünay & Yeşilada, 1993; Öniş & Webb, 1994).

During 1981-82 the financial liberalisation continued through the removal of the ceilings on deposit interest rates to maintain positive real rates of interest. This approach was based on the presumption that higher saving and concomitant higher investment would be achieved while decreasing the need for external finance. The program succeeded in terms of real economic growth, relatively low inflation rate, liberalised external trade regime and financial system and further integration of the domestic economy within international one during the period 1981-82 (Yeldan, Bulut, Özgür, Rençberoğlu, Volkan & Voyvoda, 1999).

The 1980-83 military arrangements narrowed the bases of political participation via abolishing the pre-1980 political parties and outlawing their leaders from political activity, which weakened the foundations of parliamentary democracy. This repressive political framework eased the implementation of the austerity measures. The military government, tried to stabilise the political system through depoliticising the economy by eliminating any potential threats to the market-orientated reforms. Yet the outcomes of these measures, paradoxically, have formed the seeds of greater instability in the end of the 1980s (Öniş, 1997). Thus, the 1980-83 military rule period was portrayed by trade liberalisation, stabilisation, deregulation of industrial and financial markets through an interest rate reform. The army returned back to its barracks after the approval of the new Constitution by a referendum in 1982 providing the coup d'état leader, the ex-Chief of the Military Staff Kenan Evren to be the President. Interestingly, the Motherland Party (MP) led by Özal won the majority of the parliament following the general elections held on November 6, 1983, and established the government thereafter.

The end of the military rule eased the rise of inflation although the program was continuing (Selçuk & Ertuğrul, 2001). Financial liberalisation improved when the residents and non-residents were granted the right to open foreign exchange deposits with the commercial banks in 1984. However, at the end of 1985, the rise in speculative foreign exchange dealings resulted in some restrictions on foreign exchange transactions and deposits of the banks. Thus, limitations were imposed on foreign exchange selling rates, required reserves were broadened to include foreign exchange deposits, and banks were impelled to sell a certain proportion of the foreign exchange receipts to the Central Bank (CB). In 1986 an inter-bank money market was created and in 1987, interest rates were once again deregulated and the CB started open-market-

operations resulting in the increase of the interest rates by private banks. Meanwhile, rapidly increasing inflation forced banks to postpone further deposit rate increases. This, in turn, led to a shift in favour of foreign exchange deposits bringing the CB's intervention again by raising the deposit rate. Yet, the disequilibria in the financial market continued signifying the heavy speculation by banks in foreign exchange transactions. This opened the path for a quick escalation in foreign exchange interest rates (Uygur, 1993). The financial liberalisation in the 1980s achieved fiscal and monetary stability promoting business appetite for further investment. The relatively stable growth in the 1980s fostered expectations of further privatisation. However, the new hegemony of the capital markets deteriorated macroeconomic performance by worsening income distribution, which discredited politics (Selçuk & Ertuğrul, 2001). Moreover, during the 1980s, the Turkish economy experienced accelerating inflation simultaneously with financial liberalisation efforts. 'Average annual inflation was 36.2 per cent during 1981-84 accelerated to 43.3 per cent during the 1985-88' while fluctuating within a 40-70 per cent range during the rest of 1980s (Nas & Perry, 2001, p. 32).

The SEEs, the scapegoat of the budget deficit, kept their significance in the economy during the 1980s despite the privatisation efforts. The ratio of public sector borrowing requirement (PSBR)² to the Gross National Product (GNP) has slightly decreased. Although the state expenses continued increasingly during the 1980s the GNP increase passed the state expenses through the export-promotion policies which resulted in the slight decrease of the PSBR (Aktan, 1996). Furthermore, the increased foreign debt and the concomitant rising 'costs of debt financing' in 1980s 'constituted an important source of macroeconomic disequilibria' (Boratav, Yeldan & Köse, 2000, p. 6). This delegitimised the system by increasing inflationary pressures stemming from the budget deficit (Boratav, Yeldan & Köse, 2000). The governments favoured borrowing from the growing domestic financial markets rather than undertaking tax and social security system reforms. Thus, the instrumental role of public spending continued to constitute the legitimacy of the state. This, in turn, fostered the fever of PSBR and the concomitant pressures of macroeconomic instability through chronic inflation. Moreover, the government transferred foreign exchange transactions on foreign trade from the CB to the private banks. This encouraged private banks to utilise short-term credits from the external market (Cizre-Sakallıoğlu & Yeldan, 2000). Thus, the public sector has been trapped in a short-term rolling of debt, Ponzi-financing, in which domestic financial markets required the continued inflow of short-term external capital. The inefficiency of the state banks was also another factor in the rise of PSBR. This inefficiency was due to the implicit resource allocation decision of the governments based on the distribution of extended concessionary credits to the agricultural sector, SMEs, and the housing sector. These banks were not able to change their traditional loan extending policies and could not reduce the volume of concessionary loans.

The SEEs happened to be another contributing factor to the PSBR since the public enterprise sector performance deteriorated with over-employment and not functioning according to market rationality. Although the issue of privatisation kept its place in the agenda of every Turkish government since 1980, its realisation was quite insufficient until 2000 due to the legal framework and populist policies (Celasun, 2001). In short, limited restrictions over the public expenditures led to the increase of fiscal deficit and

² The public sector borrowing requirement (PSBR) in Turkey consists of six components: central Government, extra-budgetary funds, local authorities, state economic enterprises, social security institutions and revolving funds.

interest payments. Moreover, Turkey's financial reform resulted in huge public sector debt turning the government into the country's largest source of inflation (Yeldan, 1998). Thus, the disinflation policies in the late 1980s were composed of diverse monetary constricting forms lacking any realist effort to reduce the PSBR. This policy, in turn, 'necessitated a higher interest rate on domestic assets and a lower depreciation rate to secure short-term capital inflow' (Selçuk & Ertuğrul, 2001, p. 7) which proved futile in preventing inflation because it continued in the 1990s.

In the political arena, the September 1987 referendum resulted in fully competitive politics with the return of "old veteran" politicians like Süleyman Demirel, Bülent Ecevit, Necmettin Erbakan and Alparslan Türkeş to the political stage. This, in turn, opened up the political structure to distributional demands, which had mostly been limited during the military rule and Özal's early years in office. Thus, the intensified political struggle led the government follow populist policies of economic expansionism. This new wave of populist pressures combined with the general elections in November 1987 and municipal elections in March 1989 helped organised labour to attain significant increases in wages. In such an environment the momentum of the adjustment process started to decline. Özal's populist policies of massive wage increases and high agricultural subsidies led to further deterioration of public accounts and increase of inflation (Özatay, 1999). Thus, the classical accumulation episode based on wage suppression came to a halt by 1989. Then, in order to overcome public deficits, the authorities eliminated all controls on foreign capital flows (Esen, 2000). This resulted in the capital account liberalisation with full convertibility of the TL in 1989 by the Decree No.32 issued (Metin-Özcan, Voyvoda & Yeldan, 2001).

The transition to the full convertibility, eliminating the protection of the value of the Turkish currency, was a very important step toward financial openness. This legislation permitted non-residents to buy and sell Turkish securities and to transfer income and sales proceeds of these securities abroad through banks and other financial institutions. Residents were also permitted to purchase securities abroad and to transfer the foreign exchange required to purchase such securities. Moreover, Turkish commercial banks were allowed to extend foreign currency credits to foreign trade companies, which completed deregulation of capital movements (Esen, 2000). The effect of these developments was to open up Turkey's domestic markets to global financial competition and the CB lost its control over the determination of exchange and interest rates as policy instruments (Boratav, Yeldan & Köse, 2000). In short, adoption of the full convertibility of the TL constituted the final impediment in the step-by-step liberalisation of the Turkish economy, a process that had been commenced in January 1980.

The export promotion was one of the main policy objectives of the January 24 Decisions. Thus, after 1980, exporters gained a prestigious position in the society and received state encouragement in the form of incentives (Çokgezen, 2000). The governments of the 1980s supported export activities by an adjusted foreign exchange mechanism and controls on capital inflows. The depreciation of the TL and numerous tax incentives to exporters backed this export-led growth policy in this period. This generated an 'exportable support with heavy use of export subsidies and exportable surplus, which found its way to the newly growing Middle Eastern markets' (Metin-Özcan, Voyvoda & Yeldan, 2001, p. 225). This export promotion and the concomitant price reform were for the state's role decrease in the economic affairs. At the end of 1983, most of the quota restrictions on the list of "prohibited" items were lifted and tariffs were substantially lowered to liberalise the import regime. The system of fixed exchange rate administration

was replaced by a flexible regime of crawling-peg and a complex system of direct export subsidisation was introduced. These policies acted as the main instruments for the promotion of exports and pursuit of macroeconomic stability. Therefore, the external balance situation improved significantly as the external deficit to GDP ratio went down from seven per cent in 1980 to negative one per cent meaning surplus in 1988 (Selçuk & Ertuğrul, 2001). However, the dependence of Turkish industrial production on the availability of imports continued despite the noteworthy transformation of the domestic markets towards a more open economy in 1980s. The export gains based only on price incentives and subsidies had exhausted their impetus by the end of the decade (Boratav, Yeldan & Köse, 2000).

The military and Özal-led governments suppressed wages lowering production costs and squeezing the domestic market capacity to motivate producers for exporting. In such a medium, the business-labour relations in small and middle sized enterprises (SMEs) provided a more secure place for the labour due to "family" understanding of workplace despite less payment. This discourse was further voiced with reference to Islamic moral values and traditional strong communal bonds to signify the fraternity of workers and the employers. The harmonious labour relations helped SMEs benefit from such policies and discourses since they could employ more labour while paying less and they could increase their profit when they could develop themselves in exports. In short, the export-oriented policies attracted attention of the Turkish SMEs to exporting rather than leaning on the domestic market. Thus, the export performance of Turkish economy was impressive in the period 1980-88; annual export growth rate reached 19 per cent while the average annual growth rate of the real GDP was 5.8 percent (Selçuk & Ertuğrul, 2001). Moreover, the Turkish export growth rate went beyond the world export growth rate by a noteworthy margin. This, in turn, ended with praises for Turkey as a perfect model in the annual reports of the IMF.

These changes led prospects not only to the traditional business elite but also to the owners of SMEs mainly in Anatolian towns as well as in metropolitan cities. The transition to the new export-oriented economic policy of the 1980s created a new urban middle class and business elite emerged whose members often originated from Anatolia. They were largely Islamic oriented in cultural terms and began challenging the pre-eminence of state-subsidised large industrialists. They were more or less newcomers in business and often owed their economic take-off to Özal's liberalisation policies and economic developments in some peripheral urban centres of Anatolia (Kristianasen, 1997). In the late-1980s, the ensuing fiscal crisis of the state resulted in measures to liberalise and deregulate the highly protected and heavily regulated economy. In this new environment, SMEs located in certain provincial towns displayed a significant dynamism in their adaptation to new economy policies. They came to be favourably compared with large-scale, diversified companies that had hitherto dominated the economic scene (Buğra, 1999).

The Turkish state, starting with the late 1980s, adopted the logic of global capitalism and promoted financial liberalisation consciously. Liberalisation and consecutive globalisation of the Turkish economy occurred more rapidly than expected. The government turned its face to global financial markets and permitted large inflows of foreign capital, known as "hot money," as a key mechanism to restore economic growth. However, the governments did not focus on correcting the basic structural deficiencies of the Turkish economy, namely large fiscal imbalances and a loss of momentum in the export drive. This injection of hot money inflows to the domestic economy enabled both the financing

of rising public sector expenditures and relief on inflationary pressures by decreasing import costs until the 1994 economic crisis (Boratav, Yeldan & Köse, 2000). In short, Turkish economy was trapped in a vicious circle of high interest rates and cheap foreign currency due to overvalued TL. This, in turn, increased the vulnerability of the domestic economy to the threat of fluctuations in foreign capital inflows/outflows, leading to further increases in real interest rates. Thus, instability in the rates of foreign exchange and interest rates fostered further instability in the economy as a whole. The overvaluation of TL oriented SMEs to invest more on the machinery to develop their competence capacity in the world markets. This was especially felt in the textile sector in which Turkey got a prominent place in the world's textile export. SMEs also enlarged their domestic market share through investment on production left by the big business community to fund public debt, easier way of profit through public bonds than production. In sum, this type of growth solely cloaked but did not overcome the main structural flaws of the Turkish economy. Paradoxically the populist policies failed to prevent MP, led by Mesut Yılmaz after Özal had become president in 1989, from losing the general elections in 1991. The coalition government of the True Path Party (TPP) and the Social Democratic People's Party (SDPP) represented "losers" of the post-1980 reform process, mainly small farmers, petite bourgeoisie, artisans and workers. The powerful pressures associated with competitive political life discouraged the new coalition government to execute an extensive stabilisation program. Briefly, the populist economic policies since the 1987 referendum constituted momentum from 1989 onwards which continued to characterise the economic stance of various governments in the 1990s (Öniş & Aysan, 2000).

However, the liberalisation of economy in Turkey, as in many other countries, did not denote a shift from a state-led model of development to an idealised free-market economy, with minimal state interventionism. The Turkish economy during the 1980s was also paradoxically subject to increasing politicisation of the state and a corresponding weakening of the traditional bureaucracy. This meant the increasing importance of direct contact for businessmen with politicians to achieve more access to state resources. The politicisation of rent distribution resulted in a loss of confidence and a decline in the moral authority of the state in Turkey (Öniş, 1997) as well as weakened the business ethics. Thus, the private sector continued to be heavily dependent on its ability to gain access to state resources and incentives, not on its own dynamism and initiatives. Moreover, the Özal-led governments followed a relaxed attitude towards "economic crimes" of bribery, corruption and embezzlement, including fictitious exporting (Balkır, 1993). Similarly, widespread tax evasion and the growth of the underground economy were features of the 1980s. In short, 'the state apparatus turned into a bastion of privilege,' for the business community due to its regulatory role in the creation and absorption of the economic surplus (Nas & Perry, 2001). Thus, despite significant liberalisation in the financial sector, international trade and capital movements, the Turkish state remained a key actor in the economy while distributing rents to the private sector.

Turkey witnessed a remarkable Islamic business activity augmentation, especially in the financial sphere, during the 1980s. Imported Saudi capital noticed opportunities of the new liberal economic environment. In this context, Saudi financiers preferred Islamic brotherhoods and organisations fuelling Turkey's boom of the 1980s (Lombardi, 1997). Özal signed the decree legalising the establishment of special finance houses on December 16, 1983, two days after the inauguration of his government. These finance houses declared the execution of interest-free banking in accordance with Islamic

principles. The first two of them were *Al-Baraka Türk* and *Faisal Finans* that were of Saudi origin. In the case of *Al-Baraka*, the dominant Turkish figures were Korkut Özal, brother of the Prime Minister, and Eymen Topbaş, the Chairman of the MP in Istanbul who were also prominent figures of İskenderpaşa and Erenköy Nakşibendi *tarikats* (religious brotherhoods) respectively.

CONCLUSION

The liberalisation of the Turkish economy in 1980s meant the economic enthusiasm, rising free enterprise and capital integrated into global markets. In this process, the Turkish economy expanded in the 1980s as a result of the shift from the official import substitution policies of the 1960s and the 1970s to a liberal and export-oriented economic development path adopted by Turgut Özal (Prime Minister, 1983-1989 and President, 1989-1993). These developments resulted in the emergence of new entrepreneurs in the 1980s. The liberalisation in the economy prompted relatively liberal political atmosphere, which paved the path for the rise of Islamist identity in all fields incrementally. This coincided with the development of the Anatolian petite bourgeoisie who are Islamic oriented and traditional. Their isolation from public resources catalysed Islam to become the oppositional identity for the excluded sectors (Yavuz, 2000). Last but the least, Turkish globalisation started with the liberalisation of Turkish economy bringing integration within the global markets. This further provided the liberalisation of politics and social life in which Islam has gained a seat firstly in the economy then more in politics in the next decades.

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