

## Insights into Turkish Domestic and International Politics during January 1-31<sup>st</sup> 2014

By John VanPool, EGF Turkey and Black Sea Regional Analyst

### Key Points:

- *The AKP government effectively halts the corruption investigations by conducting the largest judicial reshuffle in the Republic's history.*
- *Fethullah Gulen defends prosecutors' actions but denies any complicity on part of his Gulen Movement as part of a conspiracy against the government.*
- *Prime Minister Erdogan takes a softer tone in a hostile Brussels as he visits the seat of the EU for the first time in five years.*
- *Capital flight continues to harm Turkey's economic prospects as the lira faces longest consecutive days of losses against the dollar since 2001.*
- *Defying the prime minister's warnings that an interest rate hike is part of a conspiracy, the Central Bank acts in an emergency meeting, raising interest rates more than 4 percent.*

**Gulen and the AKP**

*The country continues to reel from the December 17 corruption investigations implicating several high profile government and business elites, including the prime minister's son. The AKP government struck back at the prosecutors, police and judges responsible for the inquiries. Some sources suggest that these bodies are aligned to the Gulen (Hizmet) Movement. On January 22, the government announced its biggest judicial purge in the Republic's history by terminating or reassigning scores of law enforcement officials. (Sherlock, "Turkey continues with huge purge of judges and police," The Daily Telegraph, 22 January 2014).*

In the aftermath of the mid-December investigations' announcement, nearly 2000 members of the police and judiciary have been reassigned. Of the original indictments, including Erdogan's son's, 45 have been rescinded by replacement prosecutors. (Butler and Toksabay, "Turkish prosecutors removed as judicial purge intensifies," Reuters, 16 January 2014).

The main opposition Republican People's Party (CHP) responded to the judicial reshuffle. MP Ali Ozgunduz told reporters that the government's move to reassign prosecutors and judges had succeeded in stopping the inquiries.

"It's all over," said Ozgunduz. "This is a clear coup by the executive against the judiciary."

It is an interesting turn of events. A number of those removed were the same judicial officers who had investigated and prosecuted the high profile Ergenekon and Balyoz coup cases. Those trials, which were widely criticized by the opposition and international observers, resulted in dozens of convictions of journalists, secular politicians, business executives and military members.

Mustafa Yesil, Chairman of the Hizmet-affiliated Journalists and Writers Foundation, took note of the AKP's sudden mistrust of the judiciary, saying the government's assertions about "an 'organized junta within the police and the judiciary' stand in contrast with its previous statements praising the police and

the judiciary during the Ergenekon and Balyoz (Sledgehammer) coup trials and the Gezi Park protests." (Zeynalov, "Hizmet says not linked to graft probe, says democracy is antidote to chaos," Today's Zaman, 14 January 2014.)

Organizations affiliated with the Movement continue to downplay its influence in the investigations, explaining that to be a follower of Hizmet does not equate control over its adherent's political and professional lives. For his part, the once reclusive Fethullah Gulen continued to meet the accusations head on, providing his take on the judicial reshuffle in the wake of the investigations in an interview with the BBC. (Franks, "Islamic scholar Gulen says Turkey's graft scandal can't be covered up," BBC, 27 January 2014).

"Up until now, bribery, embezzlement, theft and cronyism were regarded as criminal activities. That is why the judiciary and the police went after these people," said Gulen from his home in the U.S. "The investigating prosecutors and police did not know that these things [corruption, etc.] were no longer considered crimes and they pursued this matter. This made the government unhappy and as a result they are talking about a state within a state. They are not talking about wrongdoing such as bribery, about the rigging of state tenders. These things are being presented as normal and acceptable. This is what it is."

For now, with the investigations effectively stopped, it appears the AKP has the upper hand. Erdogan has made sustained a political career with his hard charging, confrontational manner. This is no easy accomplishment in Turkey, where lesser civilian leaders have ended their reigns at the hangman's noose. Yet as the uproar over the investigations continues both domestically and abroad, the efficacy of such a strategy may diminish. Conciliation isn't his strong point, but perhaps the break with one of his longtime allies in the Gulen Movement may be the wakeup call needed to ebb his more autocratic leanings. The prime minister need look no further than to former Army Chief of Staff Ilker Basbug to see how the mighty can fall.

**Erdogan visits Brussels**

*Though knowing he would face hostile EU audiences in the aftermath of the December 17 corruption investigations, Prime Minister Erdogan went ahead with his long planned visit to Brussels in mid-January. It was his first trip to the Capital of Europe in five years, and was initially planned to help kick start Turkey's long stalled EU accession candidacy.*

Despite facing criticism from European Council President Herman Van Rumpoy and European Commission President Juan Manuel Barroso, Erdogan took a different route than his normal public confrontations. (Croft and Coskun, "Turkey's Erdogan, on Brussels visit, criticized over crackdown," Reuters, 21 January 2014.)

"Instead of communicating this (criticism) through the media, we should handle this in our bilateral talks through our relevant ministers," Erdogan said at the news conference with Barroso.

It was a calculated move by the always savvy politician, knowing that while his bluster plays well at home, it would be less welcome in the international press hub that is Brussels.

Yet his trip was not entirely conciliatory, as he continued to speak out against the perceived Gulenist plot to undermine his government.

Anticipating the barrage of criticism from Erdogan, the Brussels-based Intercultural Dialogue Platform (IDP), a Gulen Movement affiliate, released a response to a European Parliament-resolution calling for the organization to show greater transparency and accountability. In a press release coinciding with the prime minister's visit, the IDP replied.

"The Hizmet movement has repeatedly invited for allegations and accusations leveled at itself to be investigated and proven. To date, it has been subjected to various forms of judicial, political and academic scrutiny in Turkey and some European countries...it supports an inquiry into the Hizmet movement that will be carried out in accordance with the principles of the rule of law, impartiality and the independence of judicial process."

Certainly there are powers both inside and outside of Brussels that will use any excuse to keep Turkey's long-stalled membership bid on the back burner. France and Germany still continue to have reservations with its candidacy. There is a legitimate concern amongst many EU members that should Turkey become a member, open borders would overwhelm already-strained Western European social welfare states. Other issues are related to Turkey's impact in the European institutions were it to become a full-fledged member. In a European Parliament that is growing in political clout since the last EU-treaty negotiation, Turkey would become the largest country represented in the body given its large population.

Also, with its distant and even more recent past, there is legitimate concern amongst EU nations that Turkey's rule of law isn't up to the bloc's standards. Instead of the AKP being the democratic champion who wrested control away from the reactionary Kemalist-military, the ruling party's recent draft bill giving the government control over the appointment of the judiciary renewed concerns for even those EU members in the pro-accession camp. Despite his support for the measure, Erdogan conceded that the draft law was blocked by the parliamentary opposition and would likely have to be renegotiated. ("EU aware of Gulen plot," Erdogan says," Sabah English, 26 January 2014.)

Paramount above all however, is the fact that no Turkish accession will occur without a settlement of the Cyprus issue. The likelihood of that occurring is as dim as ever.

So while the prime minister's trip was certainly more an effort in putting out fires versus jump starting Turkey's EU membership negotiations, it was a success of sorts. Yet Erdogan reiterated his standing position that Turkey might "end up turning in other directions" should its decades-long accession process continue at its glacial pace. What that means is still unclear given the current turmoil facing the country's other possible options in the Middle East and Black Sea region. Ergodan has made this threat before, and certainly could float the idea of joining Russia's customs union as an alternative for Turkey's future

economic ambitions. Though in the short term this option seems unlikely, especially given the upheaval currently gripping Ukraine, as the clock ticks on EU accession, it is an option worth exploring at least for leverage's sake.

### **Economy**

*As political uncertainty continues, one of the pillars of AKP governance, a stable, growing economy, continues to deteriorate. The downturn certainly isn't relegated to Turkey alone, as global markets faced their most severe slump in more than a year. Yet, one of the AKP's long-term claims to fame has been its stewardship of the economy, a record that stands in stark contrast to the CHP's long record overseeing boom and bust cycles.*

It is a legitimate accomplishment, considering that for the first six decades of the Republic, the economy was largely closed. While the late Turgut Ozal's economic modernization policies of the 1990s have been given their due, Turkey's economic success in recent years is largely due to the AKP's guidance. This is especially relevant when viewed in the context of the economic and geopolitical turmoil the country faced over the past decade. The aftermath of the banking crisis of 2000-01, the American-invasion of neighboring Iraq, the near collapse of the Eurozone and most recently, the civil war in Syria might have all overtaken lesser governments.

Yet many investors, while quick to give praise for the past decade's growth and political stability, appear to be hesitating on Turkey in the long-term. Since the U.S. Federal Reserve's May 2013 announcement that tapering would begin within the year, investors have been cautious about future investments into emerging markets.

Further undercutting Turkey's outlook after the Fed's announcement, political instability manifested in the streets, as protests erupted around the country in response to the government's stance on Gezi Park construction projects. Though initially against a revitalization in one of Istanbul's lone remaining green

spaces, protests against the ruling AKP sprung up around the country. More specifically, protesters opposed the recalcitrant Erdogan's antipathy to all who disagreed with him. Erdogan's lack on conciliation to those he deemed "foreign infiltrators" egged on a heavy handed police response, further deteriorating the country's once promising image.

Though those protests ultimately faded, the perception of Turkey as a stable investment destination took another hit with the late-December 2013 corruption investigations. As the fallout from the investigations continues, including questions regarding perceived interference with the judicial branch, investors are raising concerns about Turkey's rule of law and separation of powers.

Markets already spooked by the impending \$10 billion Fed cut reacted accordingly, with the lira losing 16 percent of its value against the dollar following the announcement of the investigations on December 17, 2013. ("Turkish lira's dive wrecks balance sheets, deters foreign investment," Reuters, 30 January 2014.) The currency suffered as the days grew nearer to the Fed's decision: on January 23 the Turkish lira experienced its longest streak of consecutive daily declines since August 2001.

This symbolic fight, between Erdogan and anyone who disagrees with him was exhibited yet again as the month of January closed out. True to his bullish nature, the prime minister went on the offensive against the "others" he claimed were seeking to undermine Turkey.

"My dear brothers, these organizations have always stolen the national will in this country. They have pocketed the resource and energy of this country," Mr. Erdogan said. "Is it only BBC? Also, The Wall Street Journal. Who are the bosses of these newspapers? Who own these newspapers?" (Parkinson, "Erdogan Says Foreign Media, Business Groups Stoking Turmoil in Turkey", The Wall Street Journal, 28 January 2014.) It should be noted that both organizations have, in recent weeks, conducted interviews with Fethullah Gulen.

However, the Turkish Central Bank appears to pay closer attention to markets and the declining health of the lira than the prime minister, who claims it is all a plot by an unnamed interest rate lobby. In a hastily called midnight meeting on January 28, the central bank raised its lending rates more than 4 percent. ("Turkish central bank raises lending rate to 12%," BBC News, 28 January 2014.)

The action appears to have stemmed the tide in Turkey for now, though capital flight continues in emerging markets globally. The Central Bank's move, if seen as reactive rather than as part of a long-term plan, may end up costing Turkey down the line by cutting growth rates that made it an attractive investment destination over the past decade. However, should the capital flight slow, the Central Bank's move could alternatively be seen as a sign of its independence from domestic political machinations.

The \$10 billion taper by the U.S. Federal Reserve was always going to negatively affect an economy like Turkey's, whose impressive growth was in large part

fueled by easy money. The key to maintaining steady growth from here on out, including future tapering measures by the Fed, relies on a positive working partnership between the government and an independent Central Bank. Despite it being against the prime minister's wishes, the midnight meeting of the Central Bank was a move in the right direction. Long term initiatives on the government's part to improve its economic competitiveness are now vital. (Dombey, "Six Markets to Watch: Turkey," Foreign Affairs, January-February 2014).

A good start would be to redouble efforts to reduce energy imports, increase education opportunities for its underemployed labor force, or promote gender equality in a workforce that only employs 50 percent of its working-age adults. These are not simple, overnight fixes. Yet as markets go, some proactive approaches aside from blaming unforeseen, conspiratorial forces might be a positive change for the AKP.

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Director and Founder: Dr Marat Terterov

Email: [Marat.Terterov@gpf-europe.com](mailto:Marat.Terterov@gpf-europe.com)

Avenue Du Manoir D'Anjou 8

Brussels 1150 Belgium

Tel/Fax: + 32496 45 40 49

[info@gpf-europe.com](mailto:info@gpf-europe.com)

[www.gpf-europe.com](http://www.gpf-europe.com)

[www.gpf-europe.ru](http://www.gpf-europe.ru)