

Insights into Turkish Domestic and International Politics during Aug. 16th - Sept. 15th 2014

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Key Points:

- *New Prime Minister Ahmet Davutoglu announces his cabinet with few surprises, save the re-appointment of economic policy heads Ali Babacan and Mehmet Simsek. The cabinet will continue to carry out its predecessor's policies, though Turkey's de facto leader remains President Recep Tayyip Erdogan.*
- *Turkey declines to actively support American-led airstrikes against the Islamic State (IS) in Iraq and Syria. Its reluctance, despite the continued imprisonment of 49 hostages by IS, has drawn the ire of critics in the West, who accuse it of failing to confront the jihadist fighters.*
- *Syria's refugees in Turkey look to swell to 1.5 million by the end of 2014. Their presence outside of the few refugee camps is giving rise to resentment amongst Turkey's citizens.*
- *The Babacan and Simsek appointments to the prime minister's cabinet have soothed market concerns about the stewardship of the country's economy, though slower growth in the coming years looks to be the next great challenge for the ruling AKP.*
- *Turkish national oil company TPAO secures a 19 percent stake in the Shah Deniz-2 gas field, while Kurdish oil continues to flow to the Turkish port of Ceyhan despite the protestations of the Iraqi central government in Baghdad.*

The “new” Turkish government

Newly appointed Prime Minister Ahmet Davutoglu announced his cabinet, which in large part looked much like that of his predecessor and current president, Recep Tayyip Erdogan. Davutoglu's choices were largely unsurprising, save for the re-appointment of Deputy Prime Minister Ali Babacan and Minister of Finance Mehmet Simsek.

Both appointments were seen as economically motivated. Babacan and Simsek, along with Central Bank Governor Erdem Basci, are seen as critical to assuaging fears of global markets which have become increasingly alarmed at the country's capital flight.

Replacing Davutoglu as foreign minister is Mevlut Cavusoglu, who looks to take a less visible role as the face of Turkey abroad. However, given that just a decade ago Davutoglu was a largely unknown academic, Cavusoglu's profile could rise fast as the Justice and Development Party (AKP) government leads the country through a turbulent time in the region.

Molkan Bozkir, former Turkish Ambassador to the European Union, is now the minister of EU affairs. This appointment, along with Davutoglu's address to his party's congress, indicates that Turkey's long EU-accession process will continue. Though many Turkish citizens have given up after years of rejection by the bloc, the AKP has nothing practical to gain in spurning the accession process right now. It should come as no surprise though if the threat of accession talks with Brussels are used as a cudgel to rally domestic support in a future time of political need by the ruling party.

While Davutoglu's cabinet appointments indicate a continuation of business as usual for the AKP, they are in themselves, largely inconsequential. Turkish governmental decision making now begins at the presidential palace.

For the next year, this government's main goal is to push for a full parliamentary majority at the June 2015 elections, in which the AKP will seek to alter the

current constitution towards a presidential form of government.

Though there has been lip service given to the AKP's peaking popularity, its approval ratings would have to drop precipitously in the next year for an outright majority to be unattainable. Until then, the AKP will continue to court the left-leaning Kurdish People's Democratic Party (HDP) via the PKK peace process in hopes of putting itself over the 50 percent threshold needed to reform the constitution.

The Nationalist Movement Party (MHP), which lost voters to the AKP in the presidential election in which it ran a combined candidate with the Republican People's Party (CHP), looks lost in the wilderness outside of its dwindling strongholds. The CHP's prospects are not much better, as it recently re-elected its leader Kemal Kilicdaroglu following another disappointing electoral loss. The internal election CHP poll was closer than many expected, and Kilicdaroglu threatened to oust members who failed to toe the party line going forward.

His remarks signalled a stark change, at least in rhetoric, for the CHP. The party has appeared to be without a plan, outside of being opposed to the ruling AKP. The question is now: can Kilicdaroglu sell this uniform CHP vision to Turkish electors outside of the party's traditional base? If recent elections are any indicator, the answer is a resounding no.

Turkey and the fight against ISIS

Turkey has come under increasing pressure from its Western allies as the United States has actively reengaged in combat operations in Iraq. President Barak Obama addressed his nation early in September to announce the expansion of airstrikes against the Islamic State (IS) in Iraq and Syria.

Turkey has made an effort to close its borders to jihadists in recent months. It also agreed with its NATO allies at the 4-5 September summit in Wales to fight IS, but has subsequently either backtracked or clarified its stance, depending on which media outlet one reads.

As of writing, 49 hostages, seized from the Turkish consulate in Mosul on June 11, remain captives of the IS. Ankara's main goal is securing the release of those individuals, a point of increasing importance as the IS continues to release videos showing the beheadings of Western hostages.

The government has stressed that Incirlik Air Base, the largest NATO base in proximity to the areas under IS control in Syria and Iraq, cannot be used for airstrikes, only humanitarian missions. This stance has drawn the ire of Western commentators; criticism that was most poignantly summarized in an early September Wall Street Journal editorial titled, "Our Non-Ally in Ankara".

Turkey's leadership, namely the ruling Islamist party of President Erdogan, certainly deserves criticism for its paltry effort to vet some of the groups it has supported in Syria's civil war. It should also do more to tamp down illegal oil sales that continue to fill the coffers of the Islamic State, regardless of how dire Turkey's energy needs are.

The blocking of combat missions against ISIS emanating from Incirlik smacks of hypocrisy on Ankara's part as well. Dutch, American and German missile batteries have been stationed along the border with Syria since the civil war there broke out as part of NATO's collective defence agreement, of which Turkey is a member. Yet now when the alliance's leading members call for action against the Islamic State, a terrorist group threatening regional stability if there ever was one, the government of President Erdogan balks at military involvement.

Yet some of the venom directed at Turkey's stance from the West seems fairly disingenuous, especially from critics in the U.S. Without much complaint, Turkey has hosted well over a million Syrian refugees on its own dime in the years since peaceful protesters were gunned down by Bashar al-Assad's security forces. And while its acquiescence of jihadist groups was well known, until recently there were few complaints coming from Western capitals that supported the overthrow al-Assad. It was only with

the threat of war coming home, in the form of Western hostages or Western-born jihadists returning to Europe, did NATO or Washington D.C. consider overt military action in the region. Turkey has been living with this reality for years now.

Moreover, the support that Turkey provided for jihadists like the Islamic State and al-Nusra Front pales in comparison to the funding those groups received from U.S. allies in the Persian Gulf. While Saudi Arabia agreed to host training sites for moderate rebels, it has done little to stem financing to the radical groups that the U.S. now finds itself bombing. Little criticism of the house of Saud or ruling monarchs of Kuwait will be seen in the Western press, however.

While the American president has provided nearly as much bluster as his predecessor in the run up to military operations in Iraq, the U.S. has yet to provide a clear strategy for, as President Obama put it, "destroying" the Islamic State. Potent as they can be, American air strikes will not solve the underlying ills in Iraq and Syria that have led to the region's current state of affairs. Turkish leaders likely see no strategic advantage at backing what can best be described as a holding measure by the Americans. It is little wonder then that they will abstain from the current offensive. At present, Ankara has nothing of consequence to gain and 49 vitally important things they can easily lose.

Syrian refugees in Turkey

Despite some gains by the government forces of President Assad against secular opposition forces throughout 2014, the civil war in Syria appears to have no end in sight.

Bar none, Turkey's response to the overwhelming Syrian refugee crisis has been admirable in almost every way. The country has been a safe haven for more than one million Syrians since the conflict erupted three years ago. The United Nations High Commissioner for Refugees estimates by year's end, that number may swell to 1.5 million. (Letsch, "Syrian refugees trigger child labour boom in Turkey," The Guardian, 1 September 2014.)

Yet for all of Turkey's benevolence in welcoming these tired poor, yearning to be free, the influx is trying nerves amongst the country's native citizens. Over the summer months, increasingly violent demonstrations and riots have taken place in municipalities across Turkey. These events, which vary in intensity, have largely been directed at the Arab Syrians.

In Gaziantep, a city near the Syrian-Turkish border, attacks on Syrian-owned businesses, property and people occurred following the murder of a Turkish landlord by a refugee. ("Turkey protest in Istanbul over Syrian refugees," BBC, 25 August 2014.) In Ikitelli, the similar actions took place after tensions erupted between locals and the newcomers. Incidents like these, albeit limited, are becoming more common.

The longer the war goes on south of the border, the more pronounced this problem will be. Cultural differences aside, Syrian refugees, seventy percent of whom live outside of refugee camps, are undercutting Turkish wages in provinces where they reside. Sanliurfa, home to 155,000 refugees, has seen its unemployment rate rise by more than ten percent in just two years. (Cetingulec, "Syrian refugees aggravate Turkey's unemployment problem," www.al-monitor.com, 9 July 2014). The country's overall unemployment rate rose 0.3 percent earlier in 2014, an increase of 251,000 people.

For the Turkish government, the situation is delicate. It should be rightly commended for providing a template on how to best manage an almost unmanageable situation. Yet the presence of a large number of young Syrians in Turkey is a cause for concern. The memory of the Palestinian Liberation Organization's 1970 insurrection in the Kingdom of Jordan is likely on the mind of many Turkish policy makers. The number of Syrians in Turkey compared to the overall population are not as striking as that particular situation, in which two-thirds of Jordan's population was Palestinian, yet the episode remains a vivid example of the negative consequences of a refugee population on a host country.

Turkish municipal leaders, who are on the front lines of this situation, have called on the national government for help. In response, the ministries of labour and interior announced plans for a roadmap that would evaluate potential job prospects for refugees seeking work. Also in discussions are changes to the country's labour laws that would allow refugees to work without a residence permit, something currently required for legal employment.

Both steps are indicative of the government's pragmatic and humanitarian approach to the situation, which hopefully can be a template for future humanitarian crises. The government's handling of the Syrian Civil War has not always been perfect, yet the leadership it has shown towards the country's guests is worthy of admiration.

The Economy

Indebtedness continues to increase at the governmental, commercial and personal levels in Turkey. There was a thirty percent increase in Turkish households unable to pay loan or credit card debts in June, a reflection of rising inflation and unemployment levels across the country. ("Turks' soaring debts setting off alarm bells," *Hurriyet Daily News*, 25 August 2014.)

Economic prospects are increasingly uncertain as the Eurozone appeared to hit another slowdown in August and the U.S. Federal Reserve is set to raise interest rates in the coming months. Given that Turkey's quick recovery from the 2008 financial crisis was buoyed these same low rates, their impact will be consequential when it comes.

In his excellent analysis of the Turkish economy's current state of affairs, Murat Ucer writes,

The good news is that, despite this volatility, the economy has proven relatively resilient, with growth this year forecast at around 3-3.5 percent. The bad news is that both GDP per capita and labor productivity have virtually stagnated since 2007. Moreover, inflation and the current account deficit as a percent of GDP have

both remained high, at around 8 percent and 6 percent, respectively, during the past few years. (Ucer, "Turkey's Economy: Now for the Hard Part," Foreign Policy, 12 August 2014.)

Private capital investments remain a worry in a country where spending on large public works projects shows no signs of abating. Its reliance on energy imports, estimated at \$50 billion this year alone, are also a drag on the economy.

The prime minister's attacks on the Turkish Central Bank and anyone else who suggests that interest rates may ultimately have to rise are not helping the situation. The AKP knows that its political legitimacy is in large part due to its management of the economy, and any attempt to undermine that is seen as a direct threat to the party.

An indicator of the party's path to economic status-quo was the re-appointment of AKP Deputy Prime Minister Ali Babacan, who is mainly responsible for the party's economic leadership. His re-appointment is a positive step, as Babacan remains a key opponent of Yigit Bulut, a former journalist and financial analyst who has the ear of President Erdogan. Bulut is best known for his crackpot pronouncements, such as knowing about a conspiracy involving assassins attempting to kill Erdogan with telekinesis or that German airline Lufthansa was behind the 2013 Gezi Park protests. (Gursel, "Market pressure keeps Babacan in new Turkish Cabinet," www.al-Monitor.com, 31 August 2014.)

Bulut's entrance into Erdogan's inner circle of advisors in July 2013 came in the midst of the Gezi Park protests, but also coincided with the then-prime minister's attacks on the "interest rate lobby." That line of criticism, seen as political interference with the economy, has unnerved many investors. Babacan's presence as well known critic of politically motivated interest rate cuts, and specifically against the advice peddled by individuals like Bulut, is key to keeping the economy on a steady path in the years ahead.

Erdogan's attacks on the Central Bank and the interest rate lobby will likely continue for the foreseeable future. It is a dangerous game to play, but thus far the strategy is working. Look for the trend to continue until at least next June, when the ruling party will push to win an outright majority in the parliamentary elections.

Energy

In 2013, Turkey's energy imports resulted in a deficit of \$65.1 billion. The government, whose political success is reliant on a steady and growing economy, is constantly in search of ways to secure lower prices and diversify energy resources.

State-owned TPAO took a significant step towards that goal in its recent purchase of an additional 10 percent stake in the Azerbaijani Shah Deniz-2 natural gas field. Its purchase of shares from French-owned Total brings its current ownership stake to 19 percent.

Gas from Shah Deniz-2 will eventually flow through the TANAP pipeline, which will traverse Turkey on the way to its final destination to Europe. Construction of the Turkish section of the line is due to start in January 2015, with gas scheduled to start flowing in 2018. Initially expected to cost \$7 billion, experts have estimated that costs may balloon to \$10 billion by the time construction is complete. Though the price is not inconsequential, Turkish business and governmental leaders see it as a worthwhile investment when looking at the ever-increasing annual energy import deficit.

Another energy supplier, Iraqi Kurdistan, continues its feud with Baghdad. Currently, oil exports from the Kurdish Regional Government of Iraq (KRG) travel to the Turkish port of Ceyhan before being loaded onto oil tankers. The Iraqi Central Government, embroiled in its own drama of forming a new government following the resignation of the unpopular Prime Minister Nouri al-Maliki, continues to threaten litigation against any potential customers of Kurdish crude. The threats are not without merit, as the Iraqi Oil Ministry has already sued Turkey in international arbitration court for the sales. Most recently it took

Greek shipping company Marine Management Services to court for its role in exporting KRG crude oil. (Coles, "Iraq sues Greek shipping firm for transporting Kurdish oil," Reuters, 4 September 2014.)

Turkey has held that the dispute is a matter between Erbil and Baghdad, and views the sales as legal. Given that the KRG has the ninth largest oil reserves in the world, Turkey's lack of opposition to the eight million barrels shipped last month alone are not surprising.

The country's prospects at diversifying its energy sources continue in the nuclear sector as well. It is making a \$70 billion investment in three planned nuclear plants, with two to come online by 2023 and the third to follow shortly after.

Russia's Rosatom is leading the consortium to build the first plant on the Mediterranean Coast, while a Franco-Japanese consortium is preparing a Black Sea site. The third plant will be built by Turkey itself.

Alongside construction, the country's regulatory infrastructure will need to be created through legislation that is expected to be passed in the upcoming parliamentary session. First up, the AKP-majority is expected to work towards creating a nuclear energy directorate, though some environmentalist groups have indicated that they will oppose the construction of the plants. While the latter seems inconsequential in the grand scheme of Turkish politics, it is worth considering that the 2013 Gezi Park protests initially stemmed from opposition to the destruction of one of Istanbul's last green spaces.

Remote locations planned for nuclear plants are not the same setting as a crowded city of millions, but these groups have proven they can organize if motivated.

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