

# Turkey

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## Danger lies ahead on lonely road

Prime minister's lurch to authoritarianism raises concern, writes *Daniel Dombey*

Surveying a throng of supporters in Ankara after the latest in an unbroken sweep of election victories, prime minister Recep Tayyip Erdogan also looked out on a Turkey that has gone through the most turbulent of years.

Since May 2013, the country has been damaged by an emerging markets rout, mass protests against the prime minister, a corruption probe, a split with an old government ally, a torrent of hostile leaks, and bans on Twitter and YouTube.

The past 12 months have seen Mr Erdogan's rule increasingly described as authoritarian, the vulnerability of the economy much commented on, and the rule of law – an issue that affects both the political and economic spheres – often seen as under threat.

Despite it all, local elections delivered the triumph he savoured from his Ankara balcony on March 30, a victory convincing enough to put the presidency of the country within his grasp should he decide to run in inaugural elections to the post in August.

"The people have given a clear message to Turkey and the world," Mr Erdogan said that night. "The people will not bow and Turkey is invincible."

Mr Erdogan's election success shows that his stock of capital with his core supporters is still high. His government is feted for improving services, notably health and housing, and for ending restrictions that



Savouring acclaim: prime minister Recep Tayyip Erdogan looks out over supporters in Ankara celebrating after his local election victory in March

Getty

constricted the lives of millions of people in Turkey's pious heartlands – especially headscarf-wearing women.

But the capital that Turkey built up on the international stage – chiefly through political and economic reforms that reached a high point between an International Monetary Fund-led bailout in 2001 and the start of EU membership talks in 2005 – is running low.

Rarely in recent years has the country appeared more isolated, criticised by its allies in the EU and US over freedom of expression, the use of force and the rule of law. Meanwhile growth, widely forecast to be between 2 and 3 per cent this year, is far from

the sky-high rates of the start of the decade. Both the IMF and the US Federal Reserve have called Turkey the most vulnerable big emerging market, largely because of its reliance on debt to fuel the economy.

According to Turkey's central bank, the country's large current account deficit is principally underwritten by bonds and loans rather than foreign direct investment. The mainstay of the economy is not exports but domestic demand, which has been propelled by annual credit growth of between 20 and 30 per cent for most of the past five years.

While the government has greatly improved its finances, companies' net

foreign exchange liabilities have soared during Mr Erdogan's time in office – from \$6.5bn in 2002 to more than \$170bn today. By contrast, the central bank's net reserves are only around \$32bn; the bank's independence from the prime minister has been questioned despite a rate rise that rallied markets this spring.

The question now facing Turkey is whether Mr Erdogan will continue his steady accumulation of power and keep the country on its current political and economic path. His supporters say he has little option in the face of an alleged conspiracy by the movement of Fethullah Gulen, an ally-turned-foe with followers throughout

Turkish institutions. The prime minister blames Mr Gulen for the corruption probe, which he depicts as an anti-government plot.

"Call Erdogan an autocrat and then you don't need to talk about coup attempts, illegal wiretappings, parallel structures, shadowy connections, espionage, and the misuse of judicial powers," wrote Ibrahim Kalin, one of the prime minister's top advisers, in a recent column.

"Calling Erdogan a dictator is an insult to Turkish democracy and the Turkish people. But nobody cares; this is the new fashion and it sells."

Continued on Page 2

### Inside »

#### Credit crisis

How borrowing has pushed Turkish companies and families to the brink

Page 2



#### Old allies clash

The government is locked in a struggle with its 'Gülenist' former friends

Page 3

#### A tarnished image abroad

The country's influence has been undermined

Page 3

#### Freedoms at risk

Journalists and social media are being targeted in a fresh onslaught

Page 4

## Corruption scandal prompts scrutiny of building industry

### Construction

Important engine of the economy may be vulnerable, writes *Andrew Finkel*

The day began badly for Recep Tayyip Erdogan, Turkey's prime minister. On December 17 2013, police launched a series of dawn raids, uncovering huge sums of cash in the homes of the then head of state-owned Halkbank and the son of the then minister of the interior.

In the following months what purported to be police surveillance recordings were leaked on the internet.

At face value, these appeared to implicate Mr Erdogan, political associates and businessmen close to his Justice and Development party (AKP) in corruption on an epic scale.

The recordings, all but the most damaging of which the government has made no effort to deny, also shone a light on the construction industry and the drive to transform Istanbul through mega-projects and large housing schemes.

This comes at a time when an industry that is responsible for 7 per cent of gross domestic product and 7.5 per cent of employment faces challenges amid concerns about the resilience of demand.

Construction is not only hit by the corruption allegations but lies at their heart.

In one recording, members of the consortium that won the £17bn bid for a third Istanbul airport complain of being bullied into coming up with tens of millions to buy a loss-making pro-government television and newspaper group. The consortium denies any wrongdoing.

In another recording, a man sounding like Mr Erdogan apparently scolds the later dismissed head of the state housing development administration (TOKI) for not seeking permission to dispose of a £20m Istanbul plot and demands the deal be annulled.



Demonstrators mock the Halkbank cash scandal

Reuters

Mr Erdogan has described some of the recordings as fabricated, but acknowledged others as authentic but illegally made.

Aykan Erdemir, an opposition MP, says: "In America there was the military-industrial complex; Turkey has the construction-Erdogan complex."

Omer Taspinar, senior fellow at the Brookings Institution in Washington, says: "The events that began to unfold in December were shocking, because for the first time in more than a decade in office, the Erdogan government began to look vulnerable."

This shook markets confident in Mr Erdogan's ability to manage a two-year cycle of local, presidential and parliamentary elections.

At a time of reduced global liquidity, Turkey appeared to be edging into a vicious circle of increasing political risk, a currency under pressure, higher interest rates and lower growth.

With mortgage rates rising to 13.9 per cent last month from 9 per cent in April 2013, the construction industry was among the first to feel the pinch.

"House sales did not come to a standstill. Popular

locations and good projects still attracted sales," says Tebernus Kirecci, who runs emlakkulisi.com, a property website. However, he adds that, with a 70 per cent drop in housing credit in the run-up to the March local elections, "the figures speak for themselves".

The AKP held Istanbul and Ankara and took 44 per cent of the vote. "The Turkish electorate was not anxious to add to the instability," says Murat Guvenc, director of the Urban Studies Research Centre at Istanbul's Sehir University. "Voters demonstrated they cared less about corruption than their own patterns of credit and consumption."

The government has battles ahead, with a presidential contest mid-August and a general election next year. Opinion is divided as to whether business is back to normal or whether the feelgood factor of the 2000s, based on private borrowing and consumption, is running out of steam.

The government is taking no chances and has been accused of using a series of mega-projects, including the controversial third Istanbul airport, as a means to remove the city's remaining green spaces, opening the way for urban expansion.

Yet, given the corruption allegations, rising interest rates and increased currency risk, it is harder to raise foreign finance for these projects. Some investors reportedly shied away from the airport project on the grounds that Istanbul's airspace is insufficient for the planned six runways and concerns about its environmental impact.

The treasury has offered to provide financial guarantees to companies working on state projects worth more than TL1bn (£280m). The extent of government contingent liabilities would not be published in the Official Gazette, according to press reports.

"This seems an invitation to moral hazard and could well turn into an invitation for rating agencies to look again at Turkish sovereign risk," says Murat Ucer, an economist at Global Source Partners.

"Construction is still the engine of the economy and provides employment for the least skilled members of the workforce," says Haluk Yukler, investor relations director for developers Torunlar, whose £365m Mall of Istanbul opens next week.

He describes rising Istanbul market values – driven by local and foreign demand, urban growth and the need to replace old buildings with earthquake-resistant housing as "a trend and not a bubble".

However, the industry survives, not on conventional finance but on a mix of instalments while buildings are constructed and short-term mortgages, often arranged by the developers. This, says Mr Erdemir, makes it vulnerable to over-supply, interest rate spikes and currency devaluation. The days may be over when buying an extra apartment or two was the blue-chip investment of choice for Turkish families.

Not everyone fears a Spanish-style property bust, however. Mr Kirecci of emlakkulisi.com says: "Confidence is back, the market has begun to settle. People who don't get into the Istanbul property market now will be sorry later."

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Turkey

Tolerance for debt approaches its limits

**Economy** As the wave of personal and corporate credit recedes, hard questions are emerging, writes *Piotr Zalewski*

One after another, the bills began piling up. Tugrul Bayir took out a loan, then a credit card, and then another. Some of the money went to pay for his daughter's wedding, he says. The rest bought supplies for his business.

Mr Bayir, 53, a welder before an accident forced him into early retirement, complemented his pension by making colourful figurines. The little dervishes, musicians and bagel sellers, moulded from dough, did not sell as well as expected, he says.

By the end of 2013, he was paying up to TL2,500 (\$1,175) in monthly instalments and credit card fees, twice as much as he was bringing in.

Mr Bayir's troubles exemplify a problem that has begun to plague the economy at the individual and corporate level: the over-reliance on credit.

With the US Federal Reserve opening its coffers in late 2008 and its bond-buying programme sowing the markets with tens of billions of dollars a month, Turks took to borrowing and spending like never before.

The ratio of household debt to disposable income in Turkey, negligible at the start of the 2000s, rocketed to 55 per cent at the end of last year. The number of non-performing loans is low by western standards, but rising fast. Nearly 1m people were unable to pay off their personal loan or credit card debt in 2013, an increase of 49 per cent from 2012. The savings rate is the lowest in three decades.

Recep Tayyip Erdogan, the prime minister, has repeatedly urged Turks not to use credit cards. In late 2013, the banking watchdog passed measures capping card limits and increasing the minimum threshold for monthly payments. Vendors who used to sell anything from shoes to fuel by instalments can no longer do so.

Although Mr Erdogan objects to plastic, he likes cheap credit. A devout man, mindful of Islam's prohibition on interest, he regularly leans on the central bank to keep real lending rates as low as possible. With the economy slowing and his eyes on August's presidential elections, the prime minister recently called on the bank to reverse a January rate rise that saved the lira from freefall.

So far, the bank has refused to bow. Erdem Basci, its governor, recently reminded Mr Erdogan that "politicians in other countries prefer not to talk about central bank policies".

Inan Demir, chief economist at Finansbank in Istanbul, says: "Looking at inflation and the external financing outlook, I see no grounds at all for a rate cut." But "the political rationale may win out over the economic. And that is a reason for concern."

Either way, the era of cheap growth appears to be over. As the US bond-buying programme draws to a close and the wave of credit recedes, questions are emerging. One is the extent to which the rise in living standards is the result of borrowed money. By some estimates, the middle class has more than doubled since the 1990s.

Mert Yildiz, a senior economist at Burgan Bank, recently wrote on his personal blog: "The middle class 'feel' in Turkey has been engineered through debt." Particularly among low-income households, borrowing has outpaced the rise in earnings, notes Mr Yildiz. "Despite earning the minimum wage," he writes, "tens of thousands of households were able to acquire nicer phones, better furniture, electronics...all thanks to bank loans and maxed-out credit cards."

Mr Demir points out, nonetheless, that the penetration of household loans remains low by international standards, particularly on the mortgage side. Looking ahead, says Deniz Cicek, a fellow economist at Finansbank, lower levels of external financing and higher rates might rein in consumption, leading to a slight decrease in living standards. But the expansion of Turkey's middle class "is largely irreversible".



Worried man: Tugrul Bayir, with some of the figurines he made to sell. The retired welder was driven to a personal crisis by his debts

Rashid Aydogan/Turkey Gazette

**M&A** Rise in cross-border transactions hints at renewed interest by foreign and domestic investors

"The phrase is 'game on,'" says Mehmet Sami, a partner for financial services at Deloitte in Turkey, describing the mood in the country's mergers and acquisitions (M&A) market.

With 61 deals worth an estimated \$3bn-\$3.5bn in the first quarter of 2014, compared with 59 by the same time last year, the outlook looks "pretty good," says Mr Sami. Since 2010, total transaction value has hovered between \$15bn and \$22bn a year.

Just over half the deals concluded this year have been cross-border transactions, hinting at renewed interest by foreign investors. In 2013, with the markets tested by a series of political crises, the share of cross border deals

fell to a record low of 30 per cent of total volume. Overall, foreign direct investment (FDI) totalled \$12.6bn, a 4.1 per cent drop from 2012.

With FDI having fallen by almost half compared with 2006-2008 levels, Turkey has come to rely on volatile portfolio flows to finance the lion's share of its \$65bn current account deficit.

A sizeable chunk of last year's \$17.5bn in M&A deals came from domestic companies, which snatched up assets through privatisation tenders.

Some foreign investors still appear spooked by the recent political turmoil, says Hande Senova, head of corporate finance services at KPMG Turkey.

Particularly in the run-up to this spring's local elections, Ms Senova says, her firm has seen "decreasing interest" in due diligence requests. "Some of our clients have been on hold."

But the uncertainty should not last long, says Deloitte's Mr Sami.

Even with two more elections within the next year, he says, outside investors have been reassured by the stability suggested by the victory of the ruling Justice and Development Party (AKP) in the March 30 poll. "I think, in economic terms, people are relieved that they won't have to decipher any new party or coalition," he says.

Meanwhile, Turkish companies' own appetite for investing abroad is growing

at an unprecedented rate. According to Deloitte's estimates, the total volume of outbound M&A in 2012 and 2013 came to about \$6.5bn, almost as much as the previous five years combined.

Turkish companies have acquired marinas in the Balkans, mines in Russia and Canada, stakes in shopping malls in the UK, and hydrocarbon exploration blocs in northern Iraq.

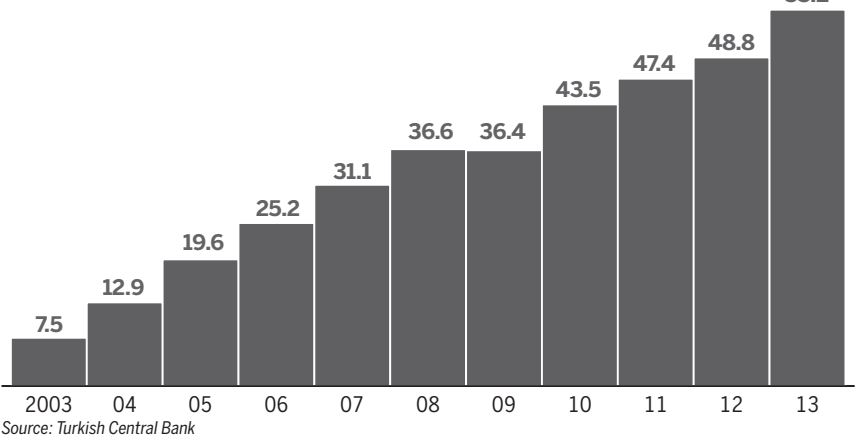
And there appears to be more in the pipeline. In January, Ulker, a Turkish food giant that made waves in 2007 with its \$850m purchase of Godiva, the US chocolatier, announced that it was setting aside at least \$500m for acquisitions in 2014.

Piotr Zalewski

'Banks shouldn't lend more than people are able to repay'

**Turkish household debt**

As a share of disposable income, Dec (%)



Source: Turkish Central Bank

A bigger problem, says Mr Demir, is corporate debt. According to central bank data last month, Turkish companies have net foreign exchange liabilities of more than \$170bn, up from \$6.5bn in 2002 (after a 2001 devaluation). With the majority of their revenues in lira, and with \$17bn of debt coming due in less than 12 months, companies are feeling the squeeze.

The lira may have regained its footing since the January rate increase, and the AKP's convincing win in March's local elections may have calmed outside investors, but the risk of political turbulence remains.

Last month, Moody's, the credit rating agency, downgraded the outlook on government bonds to negative, citing the threat of turmoil and questions over the financing of the current account deficit. The economy, which gorged on debt to deliver China-like growth in 2010 and 2011, is cooling. The IMF has cut Turkey's 2014 growth forecast from 3.5 to 2.3 per cent.

Meanwhile, some Turks are suffering the fallout of the credit boom.

On November 22 last year, a round-faced, mustachioed man arrived at Mr Erdogan's office in Ankara and said he was wearing a suicide vest. Guards fired a few rounds into the air. After a stand-off, the man surrendered. The suicide vest was a fake. The man was Mr Bayir, the figurine maker.

According to 2012 data, more than 200 Turks have committed suicide because of credit card debt since 2004. Mr Bayir wanted to join them.

"I was hoping for [the police] to kill me," he says. "But I also wanted to make the point that people like me needed help, that banks shouldn't lend more than people are able to repay. A lot of people don't understand the terms of a loan."

Mr Bayir spent less than 24 hours behind bars and, having become the day's top news item, apologised for the commotion he had caused. Today, he feels better. "though still not perfect".

He has restructured his payments and, with help from his children and loans from his friends, he says that he is slowly getting back on his feet.

Danger lies ahead on lonely road

Continued from Page 1

Such protestations have not convinced everybody. In a speech before a glowering Mr Erdogan last month, Hasim Kilic, the head of the country's constitutional court, declared that current trends would "bring about the end of the state of law".

Thousands of police and hundreds of prosecutors and judges have been moved from their positions since the corruption investigation began in late December. A new law has increased the government's power over the judiciary, even though key provisions were thrown out by the constitutional court. The court also found Mr Erdogan's ban on Twitter, which the government previously maintained in defiance of an order by a lower tribunal, to be without legal basis.

The debate on the rule of law – and the fight with the Gulenists – affects corporate life too. Groups associated with Mr Gulen or with Turkey's old secular order have been subjected to revoked licences, cancelled deals and high-profile tax raids.

In one instance, Turkish Airlines led a series of creditors in pulling money out of a Gulenist bank – while the largely stalled corruption probe targeted government-connected companies, whose executives deny any wrongdoing.

"To attract local and foreign investment, we need the rule of law," says Suzan Sabanci Dincer, chairman of Akbank, one of Turkey's biggest banks.

Ali Babacan, deputy prime minister, has highlighted similar concerns. "If we cannot be law-governed, our democracy will remain incomplete and

\$170bn

**Corporates' net foreign exchange liabilities, up from \$6.5bn in 2002**

our economy will not reach the point we wish," he said in a recent speech.

"We reached \$10,000 per capita income in 2007-08, but...we have started to have problems even in rising from \$10,000 to \$11,000," he continued. "We need to have equal opportunity within competition for all our companies...There should be no tolerance in fighting corruption."

The issue is all the more pressing, as Turkey vies for a higher place on the value chain, now the era of easy international credit may be over.

The country, often hailed for its favourable demographics, has the highest proportion of 15-29-year-olds neither employed nor in education or training in the OECD, at 35 per cent, against an average of 16 per cent. Such educational characteristics are reflected in the economy: high technology goods are 2 per cent of manufactured exports, a lower figure than a decade ago and far below Poland, Mexico, South Africa and Russia.

Mr Erdogan's supporters emphasise the broader picture. The prime minister has done more than any previous leader, for example, to resolve the country's Kurdish conflict, its bloodiest dispute. Indeed, the 6 per cent bloc of votes that go to pro-Kurdish parties could be instrumental in making him president.

On foreign policy, too, Mr Erdogan retains the capacity to break the mould: in a historic step in late April he issued his condolences over the mass killings of Armenians almost 100 years ago.

Yigit Bulut, another prominent prime ministerial adviser, has argued there are only two great leaders in the world today: Mr Erdogan and Russia's Vladimir Putin.

Turkey is, of course, far from Russian-style authoritarianism. But if it goes further down the road it is travelling, the political and economic results could be felt for years to come.

This generation is redefining society and the sense of nationhood

**Opinion**  
HAKAN ALTINAY

The Bosphorus has two opposing sea currents, and able captains have to take account of both as they navigate its waters. Today, citizens and observers of Turkey must do the same.

Those watching Turkey from abroad are bombarded with images and stories of increasing authoritarianism and confrontation. Yet, there is another, more diffuse, process at work. Turks are negotiating new ways of living together. Failing to appreciate this not only blinds us to critical features of Turkish society, but also to what the future may hold.

It is hard not to be shocked by the depth of Prime Minister Recep Tayyip Erdogan's authoritarianism. He lashes out at the Turkish

Constitutional Court, Turkey's western allies, media owners, even his own son. He sees enemies at each turn, and seemingly considers all means legitimate in his fight with enemies, real or imagined. If we assume that nobody is infallible, and due process and uninhibited debate are our main routes to truth as well as the benchmarks for being a democrat, it is now impossible to consider Mr Erdogan a democrat.

Five years ago, my diagnosis was that Erdogan was no Putin, but had to be a Mandela to heal Turkey's schisms. It is now clear that Erdogan has failed the Mandela test, and his conservative democrats have coalesced around his personality cult, rather than cardinal values of a vibrant democracy.

Yet that should not dwarf the more diffuse and hopeful story of a society

in which people are maturing and forging new ways of relating to each other.

The questions of why we should care about the rights of others, including those of our enemies, and how to live with difference, are central. We have witnessed the children of military officers – jailed for years after the long-running Balyoz Harekati (Operation Sledgehammer) and Ergenekon anti-coup trials on thin evidence – expressing sympathy for and solidarity with Kurdish politicians detained on similarly dubious grounds. Only a few years ago, it would have been hard to believe that families of the Turkish military could feel anything but contempt for Kurdish nationalists.

When a senior member of the nationalist MHP party expressed his disapproval of the

prosecution of students for throwing eggs, he made clear that his sympathy extended to communist protesters against his own party. Until recently, an ultranationalist supporting communist students' right to protest would have been inconceivable.

In a similar vein, notable Kurdish voices have challenged their brethren to stop assuming that they were the only ones who suffered in the 1990s, and urged them to demonstrate sympathy and respect for other Turkish citizens' losses during the same period. When a 22-year-old Sunni was killed in protests against the death of a 15-year old Alevi Muslim from the same neighbourhood, the fathers were quick to condemn the killers of each other's sons; in the past, such violence would have started a chain of recriminations and deepened schisms.

'Research shows that Turks are becoming more comfortable with difference'



During the protests in Istanbul's Gezi Park last summer, young demonstrators responded to government brutality with remarkable humour and empathy. That choice was anything but obvious. Such protests have historically been full of anger. This time, the new generation shifted the tone and demonstrated they were a new breed. Although largely a non-pious group, they went out of their way to make sure the devout among them would not feel out of place. On one holy day, they campaigned

for no alcohol at the otherwise-festive park, and distributed food special to the occasion. A previous generation would not have cared and may even have felt generic contempt for the pious.

When a police chief died after falling off a cliff while chasing a protester, this generation of protesters held placards of sympathy for police: "Your loss is our loss; Your grief is our grief." At a time when police were responsible for several deaths and several hundred serious injuries, this level of empathy and readiness to engage was unheard of.

Beyond anecdotal evidence, survey research consistently shows that Turks are becoming more comfortable with difference. "Civics" can be understood in one of two ways. The term is often assumed to refer to a range of government institutions,

and to a particular constellation of civil rights and responsibilities. This dominant view is institution-centric and indifferent to societal conventions and their history, without which our institutions would be hollow shells.

Yet, thanks to the work of social scientists, we now have a much better sense of how co-operation and norms emerge, and how they are sustained. Our conventions and norms are negotiated, contested, and reproduced on a daily basis. It is that interaction that Turks have been renegotiating with passion. How they settle these questions will matter not just for them, but for the whole world.

*Hakan Altinay is president of the Global Civics Academy, and a non-resident senior fellow at the Brookings Institution.*



Turkey

Erdogan turns on Gulenists ‘parallel state’ in battle for power

**Politics** The governing AKP has hit back at corruption allegations, accusing its former allies of attempting a judicial coup. By *Piotr Zalewski*

In June 2012, Recep Tayyip Erdogan, Turkey’s prime minister, gave a speech at a cultural Olympiad organised by the followers of Fethullah Gulen. He called on the ailing, elderly Muslim cleric to return from the US after more than a decade in exile.

“We want to see him among us,” he said, drawing a minute-long ovation from the tens of thousands of spectators. “We want this longing to end.”

Two years later, Mr Erdogan is just as eager to see Mr Gulen come home – this time wearing handcuffs, however. He said last week that Turkey would begin extradition proceedings.

The prime minister’s ruling Justice and Development party (AKP) and Gulen’s *cemaat*, or religious community, have had their share of rows since the 2012 speech. They clashed over Mr Erdogan’s uncompromising response to last summer’s anti-government protests, the powers accorded to his intelligence agency, and the planned closing of Gulenist cramming schools in Turkey.

In December, weighed down by a series of investigations and leaked documents packed with evidence of alleged government graft, the thin thread by which their relationship

hung snapped. Mr Erdogan, rather than focusing on the accusations, has zeroed in on the bureaucratic faction that helped expose them. The allegations, he has claimed, amount to nothing less than a “judicial coup” staged by Mr Gulen’s followers in the police and judiciary or, as Mr Erdogan calls them, Turkey’s “parallel state”.

The *cemaat*’s leading lights, not least Mr Gulen himself, insist what matters is not the identity of the accusers or their motives, but the crime itself.

Their exhortations seem to have fallen on deaf ears. On March 30, the AKP won about 44 per cent of the vote in local elections, its eighth consecutive win at the polls, referendums included. According to an Ipsos survey, the corruption claims persuaded less than 4 per cent of the party’s voters to switch sides. Since the election, the daily parade of incriminating documents and wiretapped conversations leaked to the web has dried up.

But Mr Erdogan has no intention of burying the hatchet. “They illegally wiretapped thousands of people, they shamelessly published private conversations,” he said of the Gulenists in April. “This will not go unpunished.”

Mustafa Yesil, a confidant of Mr

Gulen, says that if the investigation into those responsible for the leaks stays within the law, “we have little to worry about”. If it goes beyond that, “it’s not only a problem for us, but for anyone opposed to the prime minister”. A sweeping crackdown might force the *cemaat*, already known for its opacity, deeper into its shell.

“You can’t forget that civil society groups exist within the framework provided by the state,” says Mr Yesil. “If you don’t give them the freedom to operate, they can’t be transparent. Why do some groups go underground? Because they can’t find the legal basis, the freedom to express themselves.”

Ertan Aydin, a senior adviser to Mr Erdogan, insists that collective punishment is out of the question.

“The government is only concerned about cases of espionage, not about educational or charity activities,” Mr Aydin says. “Only those specific individuals who committed an irregularity [in] office will be prosecuted.”

Still, the anti-Gulenist backlash, which began this year with the reassignment of thousands of police officers and hundreds of prosecutors, appears to be picking up momentum.

Turkish diplomats have been instructed to tell their counterparts

“the truth” about the movement’s “treacherous” operation. Mr Erdogan has asked officials in Azerbaijan and Pakistan to consider closing down local Gulenist schools. Bank Asya, an Islamic bank run by Gulen’s followers, has reported a run on deposits amid allegations, carried mostly in pro-government newspapers, that it bought foreign currency in the days leading up to the scandal.

No measure appears too petty. Turkish Airlines, the national carrier, has stopped carrying Gulenist newspapers. Four months after he resigned from the AKP, Hakan Sukur, a retired football star and prominent Gulen sympathiser, has had his name removed from an Istanbul stadium.

In addition to investigating judges and prosecutors who authorised illegal wiretaps, the government is studying claims that Gulenist applicants secured a disproportionate number of posts within the police and judiciary by cheating in entrance examinations, says Mr Aydin. It also intends to compel the *cemaat*, together with other religious organisations and sects, to disclose “the sources of its funding and how it spends it both within Turkey and internationally”, he says.

The process may eventually reach

Face off: embroidered portraits of (middle row, from left) Kemal Ataturk, Fethullah Gulen, Recep Tayyip Erdogan and Abdullah Gul

GETTY

Mr Gulen himself. “Once the investigations are concluded and individuals from his network are found guilty, he will be legally responsible as the person who inspired and led them,” warns Mr Aydin.

To Ilhan Cihaner, a deputy from the opposition Republican People’s Party (CHP), the crackdown may have more bark than bite. Rather than all-out war, he says, Mr Erdogan is likely to opt for a limited strike. “If he wanted to act as bravely as he suggests, he would have done so already.”

Mr Cihaner, who as a regional chief prosecutor investigated the Gulen network, recalls the prime minister and the *cemaat* working side by side for years. The movement supplied the government with bureaucratic manpower. Mr Erdogan opened doors for its businessmen. Through a number of controversial mass trials, the two groups joined forces to bring Turkey’s mettlesome army to heel.

Even if their alliance has crumbled, both sides have too much to fear from a real fight to the finish, he says.

“One knows all about the thievery and the corruption; the other knows about all the fictitious trials, the plots and the traps,” Mr Cihaner says. “Because they were in it together.”

‘If you don’t give them the freedom to operate, they can’t be transparent’

Country’s image and influence abroad have been tarnished

International affairs

Turkey still offers an example of progress for the Arab world, says *David Gardner*

The story of Turkey in the decade after Recep Tayyip Erdogan came to power in 2002 was not just of serial electoral triumph by neo-Islamists in an ostensibly vibrant democracy – alongside a dynamic economy growing at near Chinese rates – but of the re-emergence of a confident and admired regional power.

But Turkey’s reputation was so bound up with Mr Erdogan that, just as he has been tarnished by charges of authoritarian behaviour, so have the country’s image and influence.

Turkey’s place in the world – as a member of Nato, a candidate member of the EU, and a compass for Arab neighbours undergoing the upheavals of the last three years – is not as assured as it seemed.

EU accession negotiations, which drove reform and gave Turkey cachet abroad, have long been at a standstill.

Initially, that was because states such as Germany and France insisted a large, developing, Muslim country did not meet accession criteria. They could then hide behind the impasse over reunifying Cyprus, divided between Greek and Turkish Cypriots.

Shortly after entry talks ground to a halt six years

ago, an inward-looking Europe, absorbed by the euro crisis, started colliding with an increasingly introverted Turkey, angry at being spurned by the EU but also grappling with the increasingly overbearing AKP government.

Last summer’s crackdown on the explosion of anger across urban and coastal areas shredded the prime minister’s reformist credentials. The government roundly blamed foreign conspirators for the situation in xenophobic language.

In the heat of the crisis, Egemen Bagis, then minister for the EU, now defenestrated by December’s corruption scandal, said: “The EU needs Turkey more than Turkey needs the EU”. An aide to Mr Erdogan later called for a break with the EU, Turkey’s main market and foreign investor.

As the AKP struggles with former Islamist allies who began the corruption probes, even level-headed friends of the premier believe outsiders are trying to do down a Turkey reaching for greatness.

“I am not one for conspiracy theories”, says Yalcin Akdogan, a close adviser to the prime minister, “but we know some people and some countries are uncomfortable with the AKP and Tayyip Erdogan”.

In Brussels, meanwhile, officials who supported Turkey have started folding their tents. “We are the last of the Mohicans”, says one.

Little of this seemed to matter while Mr Erdogan appeared to have become a political rock star to young

Arabs revolting against autocracies in Tunisia, Egypt, Libya, Syria and elsewhere.

He acquired leverage because Europe and the US needed Turkey to help deal with the tumult of the Arab uprising and the challenge of Iran’s nuclear ambitions.

As a member of Nato, Turkey and its army, the biggest in the alliance after the US, once stood guard against the Soviet bloc. That sentinel role was devalued by the end of the cold war.

Now, it seemed, Turkey was again a bulwark of the western system, especially since the example of AKP



Cut off? Erdogan’s phone calls with Barack Obama have become rarer

success could help mould a new Arab order that placed Islamist movements at or near the new centre of Arab political gravity. President Barack Obama came to rely on Mr Erdogan as a US point man in the region.

But as Mr Erdogan, under pressure at home because of his perceived authoritarianism, lashed out abroad, the calls with Mr Obama became rarer.

Ankara’s decision – now in question – to buy a Chinese missile defence package, incompatible with those of Turkey’s incredulous Nato partners, was one reason. Its unilateral rekindling of ties with Tehran was another. Its alliance of

convenience with Sunni jihadis in the civil war in Syria is one more.

Turkey not only became an organising hub for the rebellion against the Syrian regime, it allowed itself to be used as a pipeline for foreign jihadi volunteers who are now of greater concern to Turkey’s allies than ousting Bashar al-Assad.

The military overthrow of the Muslim Brotherhood government in Egypt, after it all but self-destructed, was another setback for Mr Erdogan, denting the idea he could influence change positively in the region.

Turkey is hardly to blame for the fiasco in Syria, given US and European reluctance to arm mainstream rebels. These Friends of Syria subcontracted support for the rebellion to the Gulf – a key reason jihadi influence on the battlefield has grown – whereas the Friends of the Assads, Russia, Iran and its allies such as Hizbollah, the Lebanese paramilitary movement, delivered a clear and simple strategy of support.

The rift between Saudi Arabia and Qatar has spread into Syria, where Turkey now appears allied with Qatar, also a supporter of the Muslim Brotherhood.

Yet, while Mr Erdogan’s star has fallen, polls show Turkey engages Arab public opinion in a way Saudi Arabia and Iran do not. Domestic tumult and foreign misfires have coincided with the Arab uprising.

Warts and all, Turkey remains much more attractive than these two regional theocracies.

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Renewed onslaught on freedom of expression

**Censorship**  
Journalists and social media are targeted again. By *Selin Bucak*

After a newspaper close to Turkey's ruling AKP described a play entitled *E minor* as a rehearsal for last summer's Gezi Park protests, threats against the playwright, director and actors forced them to flee the country. The play, about a fictional, seemingly democratic country that banned the musical note in the title, was no longer even being performed.

"This is a clear example that there is no freedom of expression in Turkey," said Meltem Arikani, the playwright, in an interview from her new home in the UK. "After you go through something like that, you start wondering: What can I produce now and how?"

The latest restrictions on freedom of expression have focused on social media. Protesters made extensive use of Twitter during the nationwide demonstrations, which were triggered by a plan to bulldoze an Istanbul park and vented discontent at perceived authoritarianism on the part of Recep Tayyip Erdogan, the prime minister.

Twitter was later banned after corruption allegations against Mr Erdogan's ministers as well as his son, ahead of local elections in March, spread via the service. Two weeks later, the microblogging site was unblocked after the Constitutional Court ruled against the ban.

YouTube remains blocked despite a lower court ruling, after the website disseminated a video of a high-level government discussion of possible Turkish military action in Syria.

Asked about the continuing ban, Reha Denemec, deputy chairman of the Justice and Development party (AKP) told the Financial Times: "Illegal recordings of a secret meeting were put on YouTube. The site was warned [by the government] but did not act. Commercial enterprises need to be more careful."

Sean Gallagher, news editor of Index on Censorship, a non-governmental organisation that promotes and defends freedom of expression, says such bans are a means for the



government to manipulate the population by controlling access to information. "It's clear the recent crackdown on social media was motivated by political considerations around the elections. While Turkey's record on censorship has never been stellar, Erdogan and his government are plumbing new depths," he says.

Defending the restrictions, which have divided Turkish leaders, Mr Denemec says social media have not yet developed "necessary self-control mechanisms". "For the internet, which has become a form of broadcasting, the laws are not yet developed enough. That is why we have been having problems," he said.

The government's attitude towards its critics has come under attack at home and abroad. Yet restrictions ranging from repressive legislation to officially sanctioned violence, are part of a longstanding repressive tradition of the Turkish Republic.

The Progressive Journalists Association says that 56 journalists have been killed in Turkey since 1930. According to the book *Uncensored History of Censorship*, 811 journalists were imprisoned between 1954-1958. Following a coup in 1980, a military regime imprisoned 31 journalists; 300 were attacked and three killed.

Since the founding of the Turkish republic in 1923, the state has tried to

control the discussion of controversial subjects including the disputed Armenian genocide, Turkish nationhood, the Kurdish minority, and religion.

Ambiguous legislation allowed for the silencing of journalists through legal channels including the closure of publications. Extra-judicial killings of journalists have also been a consequence of the exploration of such subjects, though less so as it has become easier to discuss previously taboo questions – in part thanks to the initial reforming zeal of the AKP shortly after it came to power in 2002.

During the 1990s, 41 journalists were killed, whereas since 2000 only two have lost their lives. Nonetheless,

Speaking out: journalists at a rally in 2011 calling for freedom of the press

Getty

After years of oppression, journalists have made a habit of self-censorship

Man who would be president may have squandered legacy

Profile

Prime minister has changed course in his third term, writes *David Gardner*

Recep Tayyip Erdogan, Turkey's prime minister and winner of eight electoral contests, including three general elections on a rising share of the vote, has dominated his country in a way that can be compared only with Mustafa Kemal Atatürk, who built the Turkish republic out of the debris of the Ottoman Empire.

As his triumph in March's local elections attests, winning decisively in the teeth of a corruption scandal reaching deep into his inner circle, he is still Turkey's towering figure.

Yet he may have forgone an opportunity to forge a new social contract for 21st century Turkey, to be the creator of a new republic and thus a genuine rival to Atatürk in history.

Instead of unifying Turks, over the past year he looks to have divided the country irredeemably. His by now well-tried tactic of polarisation works wonders at the polls in the face of a feeble and fragmented opposition.

But it makes impossible what Mr Erdogan once set out to do: to create a democratic Turkey under the rule of law, at ease with its Muslim identity, and working towards complementing its longstanding membership of Nato with entry into the EU.

Aligning Turkey with the EU's democratic club rules, Mr Erdogan devoted his first term to political reform and strengthening civil and minority rights.

His prowess at the polls overcame two attempts, by the army in 2007 and the judiciary in 2008, to evict him from power.

He used his popularity during a stormy second term to push offstage Turkey's overmighty generals, long the final arbiters of the country's political destiny.

When he won his third term in 2011 – increasing



Divisive: prime minister Recep Tayyip Erdogan

Reuters

his tally yet again to almost 50 per cent on an 84 per cent turnout, he seemed no longer to face any challenge to his power – or any checks and balances on his whims.

His ruling Justice and Development party (AKP), however, built from the debris of two banned Islamist parties into a sort of Muslim equivalent of Europe's Christian Democrats, has delivered much of what its name promises.

It has not only significantly boosted per capita income, it has helped change Turkey physically, with gleaming new schools, hospitals, highways and rail services, more airports and domestic airlines that compete with buses.

The AKP has also driven the rise of dozens of Anatolian towns and cities, 60 of which the government has now connected to the natural gas network as it knits the country into a more integrated economy, in which a new breed of "Anatolian tiger" entrepreneurs has risen up against incumbent conglomerates.

Above all, Mr Erdogan gave the people of Turkey's heartland, excluded from power by the Kemalist metropolitan elites, both identity and a tangible stake in the country's wealth.

It is conservative neo-Islamists, not social democrats, liberals or nationalists – scattered across

unelectable parties – that have captured the social justice agenda. But something broke soon after he started his third term.

The government began prosecuting journalists, violating due process in cases against political foes from the army to academia, using tactics such as tax inspectors and bid-rigging to hound perceived opponents in the old business dynasties to a degree that unnerves even the new

'If Erdogan opts for a one-man show, he will end up isolated'

Anatolian bourgeoisie the AKP has helped raise up.

The AKP has used its parliamentary majority to ram through contested laws in sectors from education to the internet, disqualifying discrepant opinion as plotting against the nation.

Third-period Erdogan is a prime minister who micro-manages, bypassing a once well-oiled political machine. Two years ago, for instance, his government forced through a law allowing children to attend religious schools from the age of 10, down from 14.

A closely aligned think-tank working on this for

three years was ignored; the education minister was not even consulted.

It was already apparent during the 2011 election campaign that Mr Erdogan had his eye on much more than a third term.

The billboards highlighted the magic date of 2023 – centenary of Atatürk's republic – and his aides spoke openly about him becoming president, directly elected for the first time and with enhanced power. His triumph in March, consolidating his vote at about 44 per cent, keeps the option open, but he would be presiding over a divided country.

Last summer's mass protests, triggered by plans to develop Gezi Park in central Istanbul, were as much about the AKP's intrusion into private and public space, social and cultural space, as green space, with Mr Erdogan, for instance, legislating restrictions on alcohol consumption and abortion, and telling women to have more babies.

An intra-Islamist power struggle has since broken out between the prime minister and his erstwhile allies in the shadowy movement inspired by Fethullah Gulen, a US-based imam.

The government says it was acting to forestall a coup after responding to corruption allegations by reassigning thousands of police officers and scores of judges and prosecutors, presumed to be Gulenists who had helped the AKP use the law against the army and Kemalist establishment.

"With this operational power, they [Gulenists] wanted to re-engineer the state politically," says Yalcin Akdogan, a senior aide to the premier.

Mr Erdogan's vengeful attitude, exhibited in leaked recordings and rallies, has coarsened public life. Hate language is routinely used against opponents and minorities.

As one AKP ally puts it: "If Erdogan opts for a one-man show, he will end up isolated and the party will lose the dynamism it once had and enter a long process of collapse."

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