

TÜRKIYE



POLITICAL RISK REPORT / DECEMBER 2023

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EXECUTIVE SUMMARY

Regarding the **economic outlook**, the report finds that Türkiye is likely to enter an economic slowdown in the short term. Its GDP growth rate is likely to decrease to 3% in 2024. Inflation is expected to continue increasing in the short term, reaching 62.5% in 2024. The appreciation of the TRY (Turkish lira) will be at the center of the Turkish Central Bank's monetary policies given its importance in making lira revenues attractive for foreign investors. However, forecasts point to a continued devaluation in the short term, reaching 38 TRY/USD by the last quarter of 2024. The Turkish government is highly likely to incentivize FDI in the energy, infrastructure and industrial sectors. Moreover, an increase in exports is expected, which will narrow down the current account balance deficit to -3% by 2024.

In relation to **energy and infrastructure prospects**, the report identifies short, medium and long term revenue-generating investment areas in Türkiye. In the short term, coal, wind and hydropower are expected to boost in order to cover for the sought reduction of natural gas imports. In the medium and long term, gas, oil and nuclear energy are expected to be the leading sources of domestic production. Moreover, Türkiye is likely to seek comparative advantage in its geographical position to consolidate as a regional energy hub through the development of infrastructure such as natural gas pipelines.

The **political and social outlook** identifies elements of political and social instability that could negatively affect the country's economic performance. The report concludes that Erdogan's influence of power in the judiciary, military, Parliament, media and private sector through corruption will continue to generate political and social disaffection in the short and medium term. Weak social integration and the hostile attitude of Turks towards Syrian refugees will continue to fuel social division. Finally, the continuation of identity politics, which generates marginalization of religious and ethnic minorities (including Kurds), may generate social unrest in the short and medium term. However, the continuation of the government's political and social stance may be conditioned to the results of the March 2024 local elections.

SWOT ANALYSIS

STRENGTHS +	WEAKNESSES –
<ul style="list-style-type: none"> ● Amicable relations with both the Eastern and the Western blocks. ● Geographical position favorable for trade and developing as an energy hub. ● Increasing working age population. ● Strong domestic economic sectors: service and industry sector boosting. ● Expansion of the defense industry through target products: drones and land-systems. ● Geo-strategic position between the world’s major fossil fuels producers. 	<ul style="list-style-type: none"> ● Slowdown of GDP growth. ● Hyperinflation. ● Trade deficit, costly imports due to a devalued lira and high external debt. ● Energy dependency on resource-rich neighbors. ● Stagnated poverty and inequality indexes. ● Disturbances caused by the mass reception of refugees. ● Political polarization and social disaffection.
OPPORTUNITIES +	THREATS –
<ul style="list-style-type: none"> ● Becoming an energy hub through infrastructure development. ● Regaining investor’s confidence by maintaining an “<i>orthodox</i>” economic stance. ● Expanding trade partnership to faraway countries. ● Development of high-tech and R&D sectors. ● Diversification of energy supply through domestic production boost. ● Reception of working age migrants and refugees willing to occupy low-skilled workplaces. 	<ul style="list-style-type: none"> ● Inability to ease inflation in the medium term and negative forecasts on the value of the TRY. ● Regional instability due to neighboring conflicts which can potentially endanger trade. ● Inability to attract FDI to boost industry, energy and infrastructure. development. ● Intensification of the Kurdish conflict. ● Increase in political Islamism within state institutions. ● Further excessive power given to the executive and erosion of judicial independence.

Time Frames Used in this Report

Short term: 2024 (1 year)
 Medium term: 2025-2026
 Long term: 2027 onwards

CHAPTER 1. ECONOMIC OUTLOOK

- Türkiye is likely to enter economic slowdown in the short term. Its GDP growth rate is likely to decrease to 4% in 2023 and to 3% in 2024. Inflation will continue to increase in the short term, from 51.3% in 2023 to 62.5% in 2024. The unemployment rate is expected to stabilize in the short term, it is expected to be 10.1% in 2024.
- Lira stabilization is being sought through the implementation of a tight monetary policy by the Central Bank. However, forecasts point to a continued devaluation in the short term, reaching 38 TRY/USD by the last quarter of 2024.
- The Turkish government is likely to seek an increase in FDI to support the development of domestic industry. Moreover, an increase in exports will be sought in order to narrow the current account balance deficit down to -3% by 2024.

Macroeconomic Indicators Analysis

During the last decade, macroeconomic indicators in Türkiye have been highly volatile. Economic instability, defined by economic slowdown, high inflation, rise in government spending, soaring trade deficit, lack of foreign exchange reserves and the high share of public debt in foreign currencies have culminated in the acceleration of economic recession. The monetary and fiscal *U-turn* policy implemented since June 2023 is expected to foster stabilization of macroeconomic indicators in the long term.

Figure 1: Macroeconomic forecast

Indicators	2023	2024	2025
Gross Domestic Product (% Growth)	4%	3%	3.2%
Budget deficit (% GDP)	-5.4%	-3.7%	-3.3%
Public debt (% GDP)	34.3%	31.9%	32.2%
Unemployment rate (Percentage)	9.9%	10.1%	10.1%
Current Account Balance (%GDP)	-4.2%	-3 %	-2.8%
Inflation (Average Consumer Prices)	51.3%	62.5%	52.5%

Source: Author's elaboration from the World Economic Outlook (October 2023)¹

¹ IMF, "Republic of Türkiye - Country Data," IMF, October 2023, <https://www.imf.org/en/Countries/TUR#countrydata>.

GDP Growth Rate

Two of the main international economic institutions forecast that Türkiye's economic slowdown is expected to manifest in a decrease of GDP growth rate in the short and medium term. The IMF projects the real GDP growth rate in 2023 to account for 4% and forecasts it will decrease to 3% in 2024 and to 3.2% in 2025.² Similarly, the OECD expects that GDP growth rate will decline from 4.3% in 2023 to 2.6% in 2024.³

Contrarily to the advanced economies, Türkiye's emerging economy showed resilience during the Covid-19 Pandemic⁴ with a GDP growth rate of 1.9% in 2020.⁵ Despite the current slowdown, Türkiye's indicator is still performing above the average growth of the former group, which is expected to be 1.5% in 2023.⁶

Contributors to GDP

Firstly, private consumption - which mainly accounts for household consumption expenditure - constitutes the main driver for growth. Since the Covid-19 Pandemic, private consumption has shown an upward trend and is likely to account for more than 50% of this year's GDP growth, mainly powered by extra-savings in households, expansionary monetary policy and strong welfare policies (raises in wages and pensions).⁷ Secondly, high government expenditure caused by large spendings regarding the May 2023 elections and the February Earthquakes Reconstruction Program are expected to positively impact GDP growth rate in the short term.⁸ Thirdly, regarding investment, the stock market seems to be rebounding after the elections, which suggests the monetary policy turnaround has had a positive impact on investors' confidence.⁹ Lastly, net exports are likely to increase in the short term caused by (i) a rise in demand from trade partners after a temporary stagnation caused by the Covid-19 Pandemic and (ii) a devalued TRY.¹⁰

² IMF, "World Economic Outlook - Real GDP Growth - Türkiye," IMF, October 2023, <https://www.imf.org/en/Countries/TUR>.

³ OECD, "Economic Outlook N° 113 - Gross Domestic Product, Volume Growth - Türkiye," stats.oecd.org, June 2023, <https://stats.oecd.org/Index.aspx?QueryId=72645#>.

⁴ Presidency of Strategy and Budget, "The Medium Term Program: 2024-2026," *Ssb.gov* (The Republic of Türkiye, 2023), <https://www.sbb.gov.tr/wp-content/uploads/2023/09/Medium-Term-Program-2024-2026.pdf>.

⁵ IMF, "Real GDP Growth (Annual Percent Change)," www.imf.org, October 2023, https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/TUR?zoom=TUR&highlight=TUR.

⁶ *Ibid*.

⁷ OECD, "Economic Outlook- Türkiye Projection Note," *Issuu.com*, June 2023, <https://issuu.com/oecd.publishing/docs/turkiye-oecd-economic-outlook-june-2023?fr=sNmVjYzUwNTY2MTA>.

⁸ Central Bank of The Republic of Türkiye, "TCMB - Summary of the Monetary Policy Committee Meeting (2023-37)," www.tcmb.gov.tr, 2023, <https://www.tcmb.gov.tr/wps/wcm/connect/en/tcmb-en/main+menu/announcements/press+releases/2023/ano2023-37>.

⁹ Adam Samson, "Foreign Investors Pile into Turkey's Stock Market since Election," *The Financial Times*, July 6, 2023, <https://www.ft.com/content/6d34b5b9-af76-437d-a197-5ba3a10f1ea6>.

¹⁰ *Ibid*, 5

Budget Deficit

The decreasing tendency Türkiye's government budget deficit had seen over the last three years has been abruptly disrupted in 2023. In relation to GDP, it sharply fell from -5.1% in 2020 to -4% in 2021 and to -1.7% 2022, but is expected to hit a -5.4% peak this year.¹¹

This disruption has been caused by a drastic increase in public spending during the first half of 2023 mainly caused by two major events: the February Earthquakes and Erdogan's May 2023 elections campaign. On the one hand, the February Earthquakes Reconstruction Program involved a spending of approximately 25 billion TRY.¹² On the other hand, prior to the May 2023 elections the government spent billions increasing the minimum wage and raising salaries in the public sector,¹³ mainly as a tool to capture votes from the middle and lower classes, by increasing their purchasing power. The increase in government revenues - partly derived from tax rises in 2023-¹⁴ has not been able to compensate for these huge spendings.¹⁵ Nevertheless, these events will most unlikely determine a new tendency in the evolution of Türkiye's budget deficit, due to their punctual nature. Hence, this indicator is forecasted to return to its decreasing tendency in the medium term. In relation to GDP, Türkiye's budget deficit is expected to recover to -3.7% in 2024 and -3.3% in 2025.¹⁶ However, regarding the forthcoming March 2024 local election, the possibility of the government incurring in public spending similar to the ones in 2023 must not be disregarded.

Public Debt

Despite punctual peaks in 2009 and 2021, general government gross debt in relation to GDP has seen a 41.1% absolute decrease since Erdogan first came to power (from 75.5% in 2002, to an expected 34.4% in October 2023), mainly explained by the exponential growth the country's GDP has since undergone. Following an outstanding recovery from the Covid-19 Pandemic (from a 41.8% peak in 2021 to 31.7% in 2022), public debt in relation to GDP has risen to 34.4% in October 2023. Türkiye's

¹¹ IMF, "World Economic Outlook - General Government Net Lending/Borrowing, Percent GDP - Türkiye," www.imf.org, October 2023, https://www.imf.org/external/datamapper/GGXCNL_NGDP@WEO/TUR?year=2023.

¹² Strategy and Budget Office (SBO) of the Presidency of the Republic of Türkiye, "Türkiye Earthquakes Recovery and Reconstruction Assessment," *Ssb.gov.tr*, 2023, <https://www.sbb.gov.tr/wp-content/uploads/2023/03/Turkiye-Recovery-and-Reconstruction-Assessment.pdf>.

¹³ Aaron Boxerman, "Türkiye's Central Bank Raises Rates to near Two-Decade High," *The New York Times*, September 2023, <https://www.nytimes.com/2023/08/24/business/T%C3%BCrkiye-central-bank-raises-rates.html#:~:text=T%C3%BCrkiye%27s%20central%20bank%20raised%20interest,of%2080%20percent%20last%20year.>

¹⁴ Daren Butler, "Turkish Budget Deficit Surges in June, Spending to Be Reviewed," *Reuters*, July 17, 2023, sec. Middle East, <https://www.reuters.com/world/middle-east/turkish-budget-deficit-surges-june-spending-to-be-reviewed-2023-07-17>.

¹⁵ Ministry of Trade, "Economic Outlook September 2023," Trade.gov.tr (The Republic of Türkiye, 2023), <https://www.trade.gov.tr/data/602cd44013b876f918da9c8c/Economic%20Outlook%20September%202023.pdf>.

¹⁶ IMF, "World Economic Outlook - General Government Net Lending/Borrowing, Percent GDP - Türkiye," www.imf.org, October 2023, https://www.imf.org/external/datamapper/GGXCNL_NGDP@WEO/TUR?year=2023.

public debt is expected to stabilize in the medium term, steadily remaining around the 30% mark in 2024 (31.9%) and 2025 (32.2%).¹⁷ These data place Türkiye's gross public debt to GDP ratio in a distinguished position in respect to that of the "advanced economies."

Türkiye's gross public debt-to-GDP ratio's "manageable" size has provided the government with a wide margin of action in resolving issues such as the low TRY value, enabling the implementation of the "liralization" strategy. Despite such a positive outlook, it must be noted that nearly two-thirds of Türkiye's public debt is in the form of foreign currency,¹⁸ hence conditioning the ability to repay public debt to the Central Bank's availability of foreign currencies. This scenario positions Türkiye in a very vulnerable position in relation to exchange rates variations and the devaluation of the TRY.

Unemployment Rate

Türkiye's unemployment rate has experienced a steep and constant decrease from 13.7% in 2019 to 9.9% in October 2023,¹⁹ and it is expected to stabilize around the 10% mark in the medium term (10.1% in 2024 and 10.2% in 2025).²⁰ Despite the experienced and forecasted improvement in this indicator, Türkiye's unemployment rate is still far from lowering to the advanced economies average mark (4.4% in October 2023). An increase in job demand due to current demographic trends, in addition to a contraction of the labor market owing to economic slowdown offer an explanation for Türkiye's stagnated unemployment rate, with no improvement in sight in the medium term.

Türkiye's unemployment rate issue is intrinsic to the demographic structure. On the one hand, the median age increase to 33.5 years in 2022²¹ has correspondingly raised the population in working age group to 68.1%,²² an approximate 4% more than the OECD average.²³ On the other hand, foreign population residing in Türkiye increased by 31,800 people, which is likely to add up to overall job demand. Moreover, these trends are most likely to be negatively contributing to the exorbitant youth unemployment rate, which rose to 19.1% in 2022.²⁴ Türkiye's economic slowdown is hindering the

¹⁷ IMF, "General Government Gross Debt, Percent GDP - Türkiye," www.imf.org, October 2023, https://www.imf.org/external/datamapper/GGXWDG_NGDP@WEO/TUR?year=2023.

¹⁸ *Ibid.* Graph 7.b Gross Public Debt (Central Government)

¹⁹ IMF, "Unemployment Rate - Türkiye," www.imf.org, October 2023, https://www.imf.org/external/datamapper/GGXWDG_NGDP@WEO/TUR?year=2023.

²⁰ *Ibid.*

²¹ Turkish Statistical Institute, "The Results of Address Based Population Registration System 2022," data.tuik.gov.tr, February 2023, <https://data.tuik.gov.tr/Bulten/Index?p=The-Results-of-Address-Based-Population-Registration-System-2022-49685&dil=2>.

²² *Ibid.*

²³ OECD, "Demography - Working Age Population," OECD, 2023, <https://data.oecd.org/pop/working-age-population.htm>.

²⁴ Expansión, "Desempleo de Turquía 2021," [datosmacro.com](https://datosmacro.expansion.com/paro/turquia), 2022, <https://datosmacro.expansion.com/paro/turquia>.

possibility of the economy growing at the same pace as population in working age, hence the labor offer is unable to cover job demand.

Current Account Balance

For decades, Türkiye has been a “net borrower”. It has constantly shown deficit results in its trade balance,²⁵ as its consumption heavily relies on imports.²⁶ In 2022, the Current Account Deficit (CAD) was -5.3% of the GDP, which translated into \$48.4 billion.²⁷ The IMF forecasts the Current Account Balance (CAB) in 2023 will result in a -4.1% deficit, which is expected to narrow to -3.1 % in 2024 and -2.8% in 2025.²⁸ When compared to other advanced economies, Türkiye’s CAB is below the average (-0.2% in 2023).

In the short term, the reduction of the CAD is highly likely to be driven by the decrease of gold imports²⁹ and a rebound in external demand.³⁰ This will cause the Balance of Goods deficit to narrow in the short and medium term. Parallely, the Balance of Services will continue to record a surplus - which increased 6.6% the first six months of 2023 compared to that period in 2022³¹ -, particularly supported by the enhancement of the tourism sector.

Inflation Rate

Hyperinflation is likely to persist in the short term, but a downward trend is anticipated from 2025 onwards. Inflation rate is expected to be 51.2% in 2023, 62.5% in 2024 and 52.5% in 2025.³² The stickiness of service inflation and the increase in global oil prices, which raises commodity goods

²⁵ Kara, Hakan, Sarıkaya, Çağrı, “*Current Account Balance and External Adjustment in Turkey.*” University of Koç - Tüsiad Economic Research Forum, Paper n°236, August 2023 https://eaf.ku.edu.tr/wp-content/uploads/2023/08/erf_wp_2306.pdf

²⁶ Yılmaz Ebru Gül, “Determinants of Current Account Balance : Evidence from Türkiye” (İstanbul Gelişim University, Department of International Trade and Finance, Department, Paper N° 1302-1322., September 3, 2022), <https://dergipark.org.tr/tr/download/article-file/2271034>.

²⁷ Presidency of the Republic of Türkiye - Presidency of Strategy and Budget, “The Medium Term Program (2024-2026),” 2023, page 10 <https://www.sbb.gov.tr/wp-content/uploads/2023/09/Medium-Term-Program-2024-2026.pdf>.

²⁸ World Economic Outlook (International Monetary Fund), “Current Account Balance, Percent of GDP (Percent of GDP),” October 2023, <https://www.imf.org/en/Countries/TUR>.

²⁹ IMF, “IMF Staff Concludes Staff Visit to Türkiye,” IMF, October 2023, <https://www.imf.org/en/News/Articles/2023/10/06/pr23343-turkiye-imf-staff-concludes-staff-visit-to-turkiye#:~:text=Walsh%2C%20visited%20T%C3%BCrkiye%2C%20during%20September>.

³⁰ Presidency of the Republic of Türkiye - Presidency of Strategy and Budget, “The Medium Term Program (2024-2026),” 2023, page 21 <https://www.sbb.gov.tr/wp-content/uploads/2023/09/Medium-Term-Program-2024-2026.pdf>.

³¹ Ministry of Trade, “Economic Outlook September 2023,” Trade.gov.tr (The Republic of Türkiye, 2023), page 17 <https://www.trade.gov.tr/data/602cd44013b876f918da9c8c/Economic%20Outlook%20September%202023.pdf>.

³² World Economic Outlook (International Monetary Fund), “Inflation Rate, Average Consumer Prices,” www.imf.org, October 2023, <https://www.imf.org/external/datamapper/PCPIPCH@WEO/TUR?zoom=TUR&highlight=TUR>.

prices will be the main drivers of a high inflation in 2024.³³ The country's inflation rate is significantly higher than the average of the advanced economies' (4.6% in October 2023).³⁴ This acute difference could be partly related to Türkiye's constant GDP growth over the last decade, which in the long term, is likely to have been a factor to the existence of hyperinflation.³⁵ Positive prospects for 2025 onwards foresee a positive impact of the maintenance of a tight monetary policy in household demand.³⁶

Relevant Factors Affecting Inflation

The increase in commodity prices - which include food and energy prices - is triggered by domestic and external factors. On the one hand, raises in taxes and wages during the first half of 2023 caused the increase of production costs and domestic demand,³⁷ leading to an increase in commodity prices.³⁸ On the other hand, the fact that the TRY (as many other currencies) has not stopped depreciating ever since Covid-19 Pandemic in 2020 has also contributed to inflation. Currently, the exchange rate is 28.44 TRY/USD,³⁹ and it is expected to hit 38 TRY/USD in the last quarter of 2024.⁴⁰ As a consequence, the country faces the "Exchange Rate Pass-Through Effect" which raises import costs leading to an increase in imported commodity prices.⁴¹ The exchange rate burden is especially worrying for Türkiye taking into account its dependence on imports and trade deficit.

Economic Policy

Erdogan's New Term Economic Policy

Türkiye's economic policy this legislative term has shifted to a more "*orthodox*" approach. The restoring of the main financial institutions' independence (Central Bank, Ministry of Finance)⁴² is a

³³ Central Bank of The Republic of Türkiye, "TCMB - Summary of the Monetary Policy Committee Meeting (2023-37)," www.tcmb.gov.tr, 2023,

<https://www.tcmb.gov.tr/wps/wcm/connect/en/tcmb+en/main+menu/announcements/press+releases/2023/ano2023-37>.

³⁴ World Economic Outlook (International Monetary Fund), "Inflation Rate, Average Consumer Prices," www.imf.org, October 2023, <https://www.imf.org/external/datamapper/PCPIPCH@WEO/TUR?zoom=TUR&highlight=TUR>.

³⁵ Barnes Ryan, "The Importance of Inflation and GDP," Investopedia, September 14, 2023,

<https://www.investopedia.com/articles/06/gdpinflation.asp#:~:text=Over%20time%2C%20growth%20in%20GDP>.

³⁶ François Faure, "Türkiye: Change of Direction" (BNP Paribas, June 2023), <https://economic-research.bnpparibas.com/pdf/en-US/Turkiye-Change-direction-7/11/2023.48778>.

³⁷ *Ibid.*

³⁸ Ministry of Trade, "Economic Outlook September 2023," Trade.gov.tr (The Republic of Türkiye, 2023),

<https://www.trade.gov.tr/data/602cd44013b876f918da9c8c/Economic%20Outlook%20September%202023.pdf>.

³⁹ XE, "XE: Convert TRY/USD. Turkey Lira to United States Dollar," www.xe.com, November 6, 2023,

<https://www.xe.com/currencyconverter/convert/?Amount=1&From=TRY&To=USD>

⁴⁰ ING, "Forecasts," ING Think, November 8, 2023, <https://think.ing.com/forecasts>.

⁴¹ Center For Eastern Studies, "Growing Crisis Surrounding the Turkish Lira," OSW Centre for Eastern Studies, June 16, 2023,

<https://www.osw.waw.pl/en/publikacje/analyses/2023-06-16/growing-crisis-surrounding-turkish-lira>.

⁴² Jens Bastian, "Unsustainable or Unorthodox? Macro-Economic Policy Options in Turkey" (Konrad Adenauer Stiftung - Centre for Applied Turkey Studies (CATS), 2023),

clear example of this. At the same time, the government is likely to seek a price stability-focused policy through the reduction of import dependency.⁴³ In accordance with the tight monetary policy, the government is also likely to tighten fiscal policy by reducing public spending.⁴⁴ If this “*orthodox*” turnaround is maintained in the long term, the private sector is likely to be relieved of public intervention leading to its revitalization, which would allow maintaining a stable growth. However, doubts remain as to the continuity and credibility of this switch.

Emergency on Scarce International Currency Reserves

Foreign currency reserves are likely to increase in the medium term. However, taking into account the crucial role of these reserves in domestic currency stabilization processes, and regarding the instability of the lira, it must be noted that the volume of such reserves might decrease if necessary. Hence, there is intrinsic uncertainty derived from lira needs and monetary policy implemented.

Over the past year, foreign exchange reserves have been the main tool to cope with an increasingly weak lira and trade deficit. Türkiye is an importing country which can no longer afford to borrow foreign currency (mainly from banks and other governments) to offset the high cost of imports caused by a soaring exchange rate, which currently stands at 28.44 TRY/USD.⁴⁵ The drastic shift to a more “*orthodox*” monetary policy taken by the Central Bank since Erkan's entry in May 2023 can be seen as a further manifestation of the “U-Turn” policy, with macroeconomic and lira stabilization and disinterventionism as the main focus of action. Hence, efforts regarding an increase in foreign exchange reserves are expected in the short term as part of the application of a more “*orthodox*” monetary policy.

The monetary policies implemented since the start of 2023 directed at mitigating the effects of a highly devalued lira and steep inflation - which reached its peak in October 2022 - in sight of the run-up to the May 2023 elections, have left deep cracks in the Central Bank’s foreign exchange reserves. Since June 2023, the Central Bank of Türkiye has attempted to increase foreign exchange reserves through

<https://www.kas.de/documents/283907/24975074/Jens+Bastian+Unsustainable+or+Unorthodox.pdf/d280a6fb-f2de-a4f8-8a16-467eb12a3cd2?version=1.0&t=1687156814665>.

⁴³ Presidency of the Republic of Türkiye, “Presidency of the Republic of Turkey : ‘with the Basket of Policies We Adopt in the Medium Term Programme, We Will Remove the Inflation Problem from Our Country’s Agenda,’” www.tccb.gov.tr, September 6, 2023, <https://www.tccb.gov.tr/en/news/542/149283/-with-the-basket-of-policies-we-adopt-in-the-medium-term-programme-we-will-remove-the-inflation-problem-from-our-country-s-agenda->.

⁴⁴ Presidency of Strategy and Budget, “The Medium Term Program: 2024-2026,” *Ssb.gov* (The Republic of Türkiye, 2023), <https://www.sbb.gov.tr/wp-content/uploads/2023/09/Medium-Term-Program-2024-2026.pdf>.

⁴⁵ XE, “XE: Convert TRY/USD. Turkey Lira to United States Dollar,” www.xe.com, November 6, 2023, <https://www.xe.com/currencyconverter/convert/?Amount=1&From=TRY&To=USD>

the “U-turn” policy, directed at reversing the effects of “liralization” and the KKM lira protected deposits. The former was effective at injecting lira in the market, which had been bought by the Central Bank to national banks with foreign currencies. The latter are being deprotected from exchange rate fluctuations. Moreover, immovable minimums on foreign currency deposits are being introduced.

Reasoning Behind our Forecast

However, these monetary policy decisions taken since May as part of the “U-turn” policy are no guarantee of an “*orthodox*” renewal in the medium or long term. These could merely be a temporary economic rescue strategy. However, the technocratic profile of the new heads of the main Turkish institutions (for instance, Hafize Gaye Erkan, Central Bank’s new governor, is a former Princeton University alumni and Goldman Sachs managing director) could be taken as a more solid and representative indicator of the willingness to make a structural change within the decision-making institutions and, therefore, in the longer term.

Foreign Direct Investment

Between 2002 and 2022, Türkiye accounted for \$252 billion in foreign direct investment (FDI) inflows, an exponential increase compared to previous decades. Türkiye currently hosts 80,500 international companies. Given that Türkiye continues to be dependent on external financing,⁴⁶ attracting FDI inflows is a government top priority. The Turkish FDI post-closing regime is based on the principle of freedom to invest and equal treatment of foreign and local investors⁴⁷ and offers great legal, bureaucratic, fiscal and economic incentives for foreign investors. In the medium term, Türkiye will likely be seeking to secure EU investors,⁴⁸ which currently represent 69% of total FDI inflows.⁴⁹ This section provides a general overview of foreign investments in Türkiye. Specifications regarding particular sectors, such as energy and infrastructure, are discussed in their respective sections of the present report. FDI inflows sectoral breakdown is likely to keep diversifying in the medium term in view of Türkiye’s strategy to achieve a higher position in the global value chain;⁵⁰ to boost renewables and nuclear energy; develop high-tech and R&D industries.

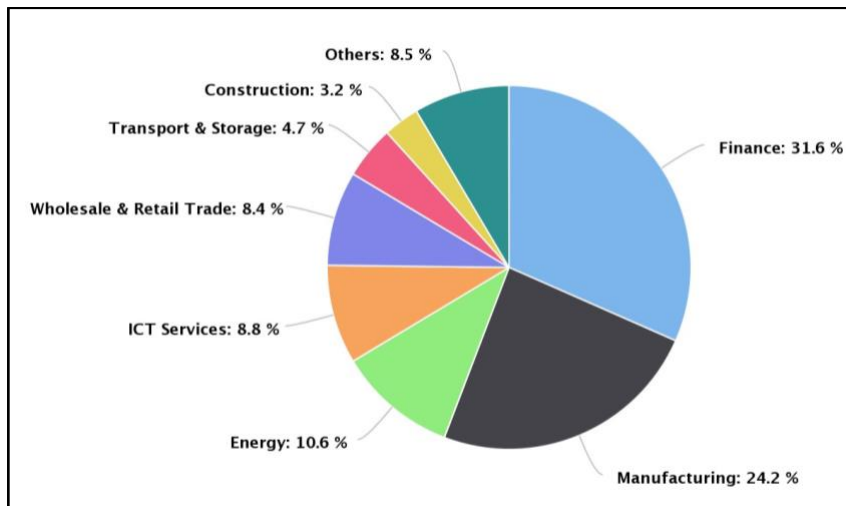
⁴⁶ Paula Sánchez, Alejandro Melgar, and Pedro del Río, “Situación Macrofinanciera de Turquía,” *Boletín Económico* 2023/T3, no. 2023/T3 (June 21, 2023): 11, <https://doi.org/10.53479/30251>.

⁴⁷ Türkiye, “Foreign Direct Investment Law, Law No.4875. Article 3,” www.lawsturkey.com, June 5, 2003, <http://www.lawsturkey.com/law/foreign-direct-investment-law-4875>.

⁴⁸ Sezin Elçin Cengiz, “Foreign Direct Investment Reviews 2023: Türkiye | White & Case LLP,” www.whitecase.com, March 20, 2023, <https://www.whitecase.com/insight-our-thinking/foreign-direct-investment-reviews-2023-turkiye>.

⁴⁹ YASED (International Investors Association), “FDI in Figures Balance of Payment Statistics | August 2023. Issue Number: 93,” October 11, 2023, page 8 <https://yased-api.yased.org.tr/Uploads/Reports/YASED-FDI-in-Figures-August-2023.pdf>.

⁵⁰ Investment Office (Presidency of the Republic of Türkiye), “FDI in Turkey - Invest in Turkey,” [Invest.gov.tr](http://invest.gov.tr), April 19, 2023, <https://www.invest.gov.tr/en/WhyTurkey/pages/fdi-in-turkey.aspx>.

Figure 2: Sectoral Breakdown of FDI Inflows to Türkiye. Top Sectors 2003-2021

Source: Central Bank of the Republic of Türkiye

Türkiye has managed to lower its net debtor international investment position in the past two years - from -54% of GDP at the beginning of 2021 to -28% of GDP at the beginning of 2023-, mainly due to the lower value of FDI liabilities.⁵¹ This suggests an increase in Türkiye's ability to repay investors.

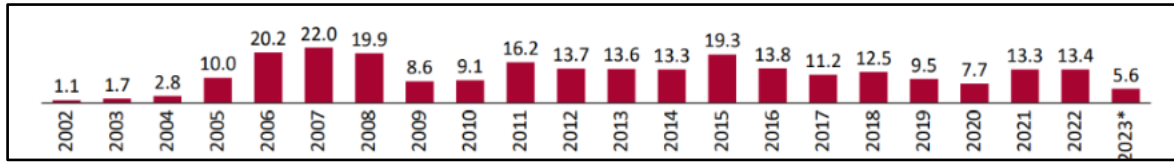
Annual data on FDI inflows has not shown since 2002 a steady upward or downward trend. Year-to-year monthly data comparison does not provide an accurate general overview of the status of FDI inflows in Türkiye due to the cross-month instability of inflows, which does not even present a regular year-round dynamic - the existence of which would allow for an approximate forecast of monthly inflow.⁵² For instance, in July 2023, Türkiye netted a total FDI inflow of \$827 million, approximately \$100 million more than in July 2022, nearly \$800 million less than in July 2021, and meeting the July 2020 level.⁵³

⁵¹ Banco de España, "Situación Macroeconómica de Turquía. 2023/T3. Artículo 01," June 21, 2023, page 11 <https://www.bde.es/f/webbe/SES/Secciones/Publicaciones/InformesBoletinesRevistas/BoletinEconomico/23/T3/Fich/be2303-art01.pdf>

⁵² YASED (International Investors Association), "FDI in Figures Balance of Payment Statistics | August 2023. Issue Number: 93," October 11, 2023, page 5 <https://yased-api.yased.org.tr/Uploads/Reports/YASED-FDI-in-Figures-August-2023.pdf>.

⁵³ *Ibid.*

Figure 3: FDI. Annual data, 2002-2023 first seven months



Source: Central Bank of the Republic of Türkiye, YASED calculations

Thus, the lower performance of the first seven months of 2023 compared to that period in 2022 must not be taken as an indicator of a downward trend when forecasting 2023 annual results. FDI net inflows positively recovered during 2021 (\$13.3 billion) and 2022 (\$13.4 billion) after hitting historically low levels in 2020. Nonetheless, data for January to July show a 27% decrease in inflows in 2023 for that period compared to that of 2022.⁵⁴ This ought not to be taken as an indicator of a downward trend for 2023 annual results straight away. Inflows for the first seven months of 2022 were \$1.9 billion higher than those of that same period in 2021, however annual volumes then only resulted in an \$100 million increase. Hence, the trends in the first semester are independent of a possible second-quarter improvement and subsequent annual recovery.

The Positive Impact of an “Orthodox” Economic Policy on Credit Ratings

Despite the decline in credit rating since the May 2023 elections, the expected - although not assured- application of a more “*orthodox*” economic policy, is likely to have a positive impact on investor confidence in Türkiye in the medium term. This was stated by Moody analyst Dietmar Hornung: "We have a stable outlook on the rating, we don't see any significant downside risks, but it will take time to see the positive effects of the changes."⁵⁵

Türkiye’s struggles in attracting large foreign investments are mainly related to investors’ mistrust caused by economic instability and consequent unpredictability of investment outcome. Türkiye counts with the key structural preconditions to attract foreign investors: a great market size and high trade openness. Hence, the adversities Türkiye faces in attracting large inversions may be rather explained by looking at circumstances that deter investors’ confidence in Türkiye as an investment destination. These are known as “stability” factors, and relate to the country’s macroeconomic instability, inflation rate, and volatile exchange rate, all of which are crucial for investors in predicting

⁵⁴ YASED (International Investors Association), “FDI in Figures Balance of Payment Statistics | August 2023. Issue Number: 93,” October 11, 2023, <https://yased-api.yased.org.tr/Uploads/Reports/YASED-FDI-in-Figures-August-2023.pdf>.

⁵⁵ Alexandra Hudson and Marc Jones, “Turkey’s Post-Election Pivot ‘Clearly’ Positive for Credit Rating, Moody’s Says,” *Reuters*, September 7, 2023, sec. Middle East, <https://www.reuters.com/world/middle-east/turkeys-post-election-pivot-clearly-positive-credit-rating-moodys-says-2023-09-07/>.

creditworthiness and payback ability.⁵⁶ Stabilization of the aforementioned indicators is very likely to positively impact current hardships in attracting foreign investment by increasing investor confidence.

But... Investments Ultimately Depend on the Investor

The final volume of foreign investment does not solely depend on the Turkish context. Rather, it will ultimately be determined by factors relating to the investor country or entity (profit maximization, cost minimisation, international diversification, etc.) and to the international panorama at the time of the investment.⁵⁷ The continuous and forecasted steep devaluation of the lira makes Türkiye particularly attractive to foreign investors because of their high investing capacity in a growing industrialized country (the more devalued the lira becomes, the more purchasing power foreign currencies have relative to it). However, in the medium and long run, lira returns obtained from investing in Turkish equity, real estate or debt bond assets lose value when converted back to investor's home currency. To conclude, greater macroeconomic stability coupled with the creation of incentive mechanisms for foreign investment, while they do contribute to the consolidation of foreign confidence, do not guarantee the materialization of such investments.

Industries and Trade

Domestic Economic Pillars

Figure 4: Turkish Economic Sectors by Value Added (% GDP) and Total Employment in 2022

Main Economic Sectors	% of GDP	Growth Evolution of the Sector
Service	51.2%	Slight decrease, recovering from Covid-19 Pandemic.
Industry (including construction, excluding manufacturing)	31.87 %	Upward trend, recovering from February Earthquakes.
Manufacturing	22.1 %	Upward trend, dominant in the industry sector.
Agriculture	6.46 %	Slight decrease as inverse relationship with industry and service sector.

Source: Author's elaboration from The World Bank (Data Bank)

⁵⁶ Ayla Oğuş Binatlı and Niloufer Sohrabji, "Factors Influencing Foreign Direct Investment Flows into Turkey. Vol.7, No.2", page 161 (EBER (Entrepreneurial Business and Economics Review), March 21, 2019).

⁵⁷ Eyad Aldalou and Nada Sarsour, "Determinants of Foreign Direct Investment Inflows: Case Study of Turkey" (Gazi Journal of Economics & Business 8 (1): 1–14. doi:10.30855/gjeb.2022.8.1.001., February 18, 2022).

Türkiye's dominant economic pillar is the service sector, although it presents a downward trend due to Covid-19 Pandemic (it slightly decreased from 52.8% of GDP in 2021 to 51.2% 2022).⁵⁸ On the contrary, the industrial sector (excluding manufacturing) is increasing its value added to the GDP representation (it increased from 31.1% in 2021 to 31.9% in 2022). However, the February Earthquakes negatively affected this sector, which is likely to temporarily decrease.⁵⁹ In turn, the agriculture sector decreased from 5.5% in 2021 to 6.5% in 2022.⁶⁰ The distribution of employment by sectors adheres to the same dynamics: service sector represents 56.6% of the total employment, industry sector (including manufacturing and construction) 27.7% and agriculture just 15.8%.⁶¹ Finally, the industrial sector dominates the distribution of exports by sector.

Within the service sector, the tourism sub-sector stands out. It is expected to reach a total revenue of \$9,363 million in 2023,⁶² increasing from \$8,080 million in 2022.⁶³ However, it was one of the sectors most affected by the Covid-19 Pandemic, which translated into a widening of the current account deficit.⁶⁴ In 2023, tourism continued recovering and is likely to surpass pre-pandemic levels. Furthermore, tourism revenues translate in foreign currency inflow,⁶⁵ which is likely to increase foreign currency reserves. The WTTC forecasts that Türkiye's tourism sub-sector value added to GDP will grow at an average rate of 5.5% annually within the next decade.⁶⁶ Furthermore, employment is also likely to grow in the sector by 4% to reach more than 2.5 million jobs in total by the end of 2023.⁶⁷

The industry sector is likely to grow exponentially in the medium term. Within industry, the manufacturing sub-sector holds 84% of total industrial production⁶⁸ and accounts for 22.1% of the

⁵⁸ The World Bank, "World Development Indicators | DataBank," databank.worldbank.org, 2023, <https://databank.worldbank.org/source/world-development-indicators/Series/NV.SRV.TOTL.ZS>.

⁵⁹ *Ibid.*

⁶⁰ The World Bank, "World Development Indicators | DataBank," databank.worldbank.org, 2023, <https://databank.worldbank.org/source/world-development-indicators/Series/NV.SRV.TOTL.ZS>.

⁶¹ Presidency of the Republic of Türkiye - Presidency of Strategy and Budget, "The Medium Term Program (2024-2026)," 2023, <https://www.sbb.gov.tr/wp-content/uploads/2023/09/Medium-Term-Program-2024-2026.pdf>.

⁶² Statista Market Insights, "Travel & Tourism - Turkey | Statista Market Forecast," Statista, August 2023, <https://www.statista.com/outlook/mmo/travel-tourism/turkey>.

⁶³ *Ibid.*

⁶⁴ Martin Kaufman and Daniel Leigh, "How the Pandemic Widened Global Current Account Balances," IMF, 2021, <https://www.imf.org/en/Blogs/Articles/2021/08/02/blog-how-the-pandemic-widened-global-current-account-balances>.

⁶⁵ Emirhan Yenişehirlioğlu, İzzet Taşar, and Tayfur Bayat, "Tourism Revenue and Economic Growth Relation in Turkey: Evidence of Symmetrical, Asymmetrical and the Rolling Window Regressions," *Journal of Economic Cooperation and Development*, 41, no. 2 (2020): 1–2, <https://jeed.sesric.org/pdf.php?file=ART20020502-2.pdf>.

⁶⁶ World Travel & Tourism Council, "News Article | World Travel & Tourism Council (WTTC)," wtcc.org, May 16, 2022, <https://wtcc.org/News-Article/Turkeys-Travel-and-Tourism-sector-to-grow-at-twice-the-rate-of-the-national-economy>.

⁶⁷ *Ibid.*

⁶⁸ Ministry of Industry and Trade, "Turkish Industry | All about Turkey," www.allaboutturkey.com, 2019, <https://www.allaboutturkey.com/industry.html>.

country's GDP.⁶⁹ Growth in the sector is highly probable to be enabled by Türkiye's strategic location, rising external demand (recovery from Covid-19 Pandemic), supply chains restored. Within manufacturing, the most noteworthy segments are automotive; aviation; consumer goods; electronic equipment; textile and apparel; chemicals; and steel and mining industry.

Within the industry sector, there are two main tendencies that are likely to define the medium and long term evolution of the industry sector. Firstly, there are ambitious plans to update transport and energy infrastructure in the construction sector.⁷⁰ Secondly, the government is expected to invest between \$1-\$1.5 billion annually in high-tech (which currently only represent 6% of manufacturing exports)⁷¹ which will allow improving its manufacturing technologies, likely leading to an increased competitiveness of its products in the international market.⁷²

The agricultural sector encompasses most of the low-productivity informal activities of the country.⁷³ Despite being disrupted by the Covid-19 Pandemic, the country's agriculture is one of the top ten in the world as it presents a favorable geography to arable crops (which are half of the land).⁷⁴ Apricots and hazelnuts are the dominant crop, followed by wheat, sugar beets, cotton, olive oil and tobacco.⁷⁵ However, the sector value added to GDP is likely to progressively narrow as the services and industrial sectors boost.⁷⁶ Despite its shrinking relative to other economic sectors, the agricultural sector revenue in absolute terms is expected to increase from \$65.20 billion in 2022 to \$78.77 billion in 2023.⁷⁷ The sector is likely to experience a continued adoption of high-tech which will likely imply a reduction of

⁶⁹ The World Bank, "World Development Indicators | DataBank," databank.worldbank.org, 2023, <https://databank.worldbank.org/source/world-development-indicators/Series/NV.SRV.TOTL.ZS>.

⁷⁰ Mordor Intelligence, "Turkey Construction Market Report (2022 - 27) | Industry Size, Growth," www.mordorintelligence.com, 2022, <https://www.mordorintelligence.com/industry-reports/turkey-construction-market>.

⁷¹ International Trade Administration. Department of Commerce - United States of America, "Turkey - Advanced Manufacturing," www.trade.gov, July 26, 2022, <https://www.trade.gov/country-commercial-guides/turkey-advanced-manufacturing#:~:text=Over%20the%20next%20decade%2C%20Turkey>.

⁷² *Ibid.*

⁷³ OECD, "SME and Entrepreneurship Outlook 2021. Turkey," page 3. April 2021, <https://www.oecd.org/cfe/smes/Turkey.pdf>.

⁷⁴ International Trade Administration, "Turkey - Agriculture," www.trade.gov, December 7, 2021, <https://www.trade.gov/country-commercial-guides/turkey-agriculture>.

⁷⁵ *Ibid.*

⁷⁶ Ministry of Trade. Republic of Türkiye, "Türkiye Country Report," December 2022, https://icac.org/Content/EventDocuments/PdfFiles9c851747_05cc_4007_a7f9_b0accebe1773/Country%20Report%20of%20T%C3%BCrkiye%202022.pdf.

⁷⁷ Statista, "Agriculture - Turkey | Statista Market Forecast," Statista, 2023, <https://www.statista.com/outlook/io/agriculture/turkey#revenue>.

the employment in the sector,⁷⁸ leading to the continuation of long-lasting internal migration trends away from rural areas.⁷⁹

International Trade Partners

In August 2023, Türkiye's major export partners were as follows: Germany (8.2%), US (5.1%), Iraq (5%), UK (4.9%) and Italy (4.1%). In that same month, the main import partners were China (12.6%), Russia (11%), Germany (8.4%), the UAE (6.6%) and Switzerland (4.8%).⁸⁰

The Big Three: Russia, China and the EU

Türkiye has managed to develop close trade relations with Russia centered on energy imports without undermining relations with the EU Türkiye's main export partner, relations fostered by EU-Türkiye customs union. Both Russia and the EU are likely to remain top trading partners in the medium term. The dependency on Russian energy imports - mainly refined and crude petroleum⁸¹ - in order to guarantee energy security is very likely to guarantee Russia's position as one of Türkiye's top trading partners in the medium term. Not even threats by the EU and US of imposing secondary sanctions to Russia's trading partners in the context of the Ukraine war has deterred Türkiye from maintaining close trade relations with Russia.⁸² The loss of Russia's weight in the total share of imports from 2022 (16.4% of total imports) to 2023 (in August, 11%) - which has led China to becoming Türkiye's first import partner, representing 12.6% of total import share in August 2023 - must not be interpreted as a losing in the commercial relations between Russia and Türkiye. This is due to the fact that Moscow's oil export revenues fell by 40% year-on-year in January 2023, as Russian crude was sold at discounts of \$15-\$20 per barrel to China, India and Türkiye.⁸³ Moreover, the supply of nuclear fuel by Russia for the Akkuyu NPP (Nuclear Power Plant) is likely to increase uranium imports from Russia. Nevertheless, Türkiye's engagement with China is likely to be maintained and reinforced in the

⁷⁸ <https://www.statista.com/statistics/1386416/turkey-employment-by-economic-sector/> Statista, "Turkey: Employment by Economic Sector 2022," Statista, March 2023,

⁷⁹ Statista, "Turkey - Urbanization 2012-2022," Statista, September 2023, <https://www.statista.com/statistics/255487/urbanization-in-turkey/>.

⁸⁰ TÜİK, "Foreign Trade Statistics August 2023," data.tuik.gov.tr (Tüik Kurumsal, September 2023), <https://data.tuik.gov.tr/Bulten/Index?p=Foreign-Trade-Statistics-August-2023-49631>.

⁸¹ OEC, "Turkey (Tur) and Russia (RUS) Trade," oec.world (OEC, 2021), <https://oec.world/en/profile/bilateral-country/tur/partner/rus>.

⁸² Natalia Konarzewska, "Turkey Will Not Give up on Its Lucrative Trade with Russia," www.turkeyanalyst.org, 2023, <https://www.turkeyanalyst.org/publications/turkey-analyst-articles/item/709-turkey-will-not-give-up-on-its-lucrative-trade-with-russia.html>.

⁸³ Shounak Dasgupta, "Exclusive: Urals Oil Supplies to Turkey Jump in Feb as STAR Refinery Resumes Russian Crude Imports," *Reuters*, March 1, 2023, sec. Commodities, <https://www.reuters.com/markets/commodities/urals-oil-supplies-turkey-jump-feb-star-refinery-resumes-russian-crude-imports-2023-03-01>.

framework of the “Belt and Road” initiative through the “Trans Hazar- Middle Corridor” Project which will enable Türkiye to become a trade corridor between China and Europe.⁸⁴

The Shift in Industrial Production to High-Tech and R&D: Impact on Nature of Imports

Not only will the shift in industrial production to high-tech and R&D imply a need of external financing⁸⁵ but it will also determine the nature of new imports necessary to develop such new sectors. Imports are likely to increase from countries from which Türkiye obtains raw materials necessary for the development of these industries, such as Iran (from whom Türkiye obtains raw aluminum, zinc and copper).⁸⁶

Faraway Countries Strategy

In the medium term, we could see Türkiye seeking commercial rapprochement with geographically distant countries - particularly in the Americas and Asia - as a result of the intention to diversify markets and ensure a sustainable rise in exports. This strategy has been named "Faraway Countries Strategy" and is part of the Export Master Plan presented by the Outlook of September 2023 of the Ministry of Trade.⁸⁷ It is likely to see Türkiye reinforcing relations with those partners with whom commercial ties already exist: for instance, Türkiye already has functional FTAs with Chile (2011), South Korea (2013), Malaysia (2015) and Singapore (2017).⁸⁸

Defence Industry: Türkiye's Burgeoning Asset

Türkiye's domestic defense industry has undergone a revolution since the AKP took office in 2002.⁸⁹ As a result, the nation went from being the world's third-largest weapon importer to the twelfth-largest arms exporter.⁹⁰ Currently, four Turkish companies are ranked among the top 100 world defense industry companies.⁹¹

⁸⁴ Ministry of Foreign Affairs, “Türkiye-People’s Republic of China Economic and Trade Relations / Republic of Türkiye Ministry of Foreign Affairs,” www.mfa.gov.tr, 2021, https://www.mfa.gov.tr/turkey_s-commercial-and-economic-relations-with-china.en.mfa.

⁸⁵ Ministry of Trade, “The Exports Strategy of Türkiye for 2023,” *Trade.gov.tr*, 2023, <https://www.trade.gov.tr/data/5b90d2eb13b8760beca887fd/2023%20EXPORT%20STRATEGY-15%20%C5%9Eubat%202022.pdf>.

⁸⁶ OEC, “Iran (IRN) and Turkey (TUR) Trade,” oec.world (OEC, 2021), <https://oec.world/en/profile/bilateral-country/irn/partner/tur>.

⁸⁷ Ministry of Trade, “Economic Outlook September 2023,” *trade.gov.tr*, 2023, <https://www.trade.gov.tr/data/602cd44013b876f918da9c8c/Economic%20Outlook%20September%202023.pdf>.

⁸⁸ *Ibid.*

⁸⁹ SIPRI, “Aerospace and Defence Industry Performance Report 2020” (Stockholm International Peace Research Institute, 2020), <https://www.sipri.org/databases/national-reports/Turkey>.

⁹⁰ Holly Dagues, “Turkey’s Defense Industry Is on the Rise. The GCC Is One of Its Top Buyers.,” Atlantic Council, August 4, 2023, <https://www.atlanticcouncil.org/blogs/menasource/turkey-defense-baykar-gcc-gulf/#:~:text=Since%20the%20Justice%20and%20Development>.

⁹¹ Presidency of the Republic of Türkiye, “Turkish Defense & Aerospace Industry,” 2022, <https://www.invest.gov.tr/en/library/publications/lists/investpublications/defense-aerospace-industry.pdf>.

According to Türkiye's Investment Office,⁹² the country's defense and aerospace exports grew significantly from \$3.2 billion in 2021 to \$4.4 billion in 2022, a 20% increase.⁹³ In the short and medium term, these values are likely to keep increasing caused by the government's willingness to increase its defense expenditure added to a rise in external demand (which is likely to be fueled by widening tensions in the MENA region).⁹⁴ The sector contributed to employment by creating a total of 81,137 jobs in 2022.⁹⁵

The main production outputs are land systems, naval systems, air systems and weapons.⁹⁶ Although land and naval systems were dominant in the market share, most orders from foreign clients in 2022 accounted for weapons (26%) and air platforms (25%).⁹⁷ This is mainly due to the fact that Türkiye has found its place in the armed drone (UCAVs) production market niche. The proven efficiency of Turkish armed drones (which have already been used in several conflicts)⁹⁸ is likely to increase this product's demand in the short and medium term.

Major Bottleneck Facing the Turkish Defense Industry

However, the country remains unable to cover all of its supply chain in the defense industry. The country mainly relies on engines and armored vehicles imports.⁹⁹ This factor is likely to pose a risk to the high revenues of the sector (as it increases production costs) and makes Türkiye vulnerable to supply chain disruptions.

⁹² *Ibid.*

⁹³ Presidency of the Republic of Türkiye, "Turkish Defense & Aerospace Industry," 2022, <https://www.invest.gov.tr/en/library/publications/lists/investpublications/defense-aerospace-industry.pdf>.

⁹⁴ Agnes Helou, "Turkish Defense Exports Jump Led by Interest in Land Systems, Drones: Report," *Breaking Defense*, July 13, 2023, <https://breakingdefense.com/2023/07/turkish-defense-exports-jump-led-by-interest-in-land-systems-drones-report/>.

⁹⁵ Presidency of the Republic of Türkiye, "Turkish Defense & Aerospace Industry," 2022, <https://www.invest.gov.tr/en/library/publications/lists/investpublications/defense-aerospace-industry.pdf>.

⁹⁶ *Ibid.*

⁹⁷ Presidency of the Republic of Türkiye, "Turkish Defense & Aerospace Industry," 2022, <https://www.invest.gov.tr/en/library/publications/lists/investpublications/defense-aerospace-industry.pdf>.

⁹⁸ Felipe Sánchez Tapia, "The Turkish Defence Industry. Strategic Asset of the First Magnitude," *Ieee.es*, June 2021, https://www.ieee.es/Galerias/fichero/docs_analisis/2021/DIEEEA06_2021_FELSAN_IndustriaTurca_ENG.pdf.

⁹⁹ János Besenyo and Andras Malnassy, "Future Expansion and Prospects of Turkish Defense Industry," *Insights into Regional Development* 4, no. 2 (June 30, 2022): 10–15, <https://doi.org/10.9770/ird.2022.4.2>.

CHAPTER 2. ENERGY: SOURCES AND INFRASTRUCTURE

- Türkiye aims at guaranteeing its energy security and developing its condition as a regional energy hub through the diversification of energy resources and suppliers.
- In the short term, domestic coal and renewable energy (mainly hydropower and wind) production will be used to cover the demand increase and natural gas imports decrease. However, coal is expected to decrease in the medium and long term.
- In the medium and long term, increasing domestic production will be sought to reduce energy dependence and expensive imports. The discoveries of recent natural gas and oil reserves are likely to boost domestic production in the medium and long term. Nuclear and geothermal energy are also likely to boost in this time frame.

Challenges, Opportunities and Limits to Energy Policy

Türkiye's energy strategy is currently defined by two drivers: guaranteeing energy security and the desire to consolidate its position as an energy hub. The former is explained by Türkiye's permanent situation of energy dependence on its resource-rich neighbors caused by lack of own energy resources. The latter, due to the economic and geopolitical benefits of consolidating its position as an energy corridor between the east and the west. Türkiye faces clear challenges in relation to energy security: growing population, increasing current account deficit partly derived from the need to import 75% of energy consumed,¹⁰⁰ an increasing industry sector demand for energy, and a devalued lira which makes such imports more costly. A private sector driven energy growth is not free from restraints. Future energy developments will likely be conditioned by Türkiye's international relations interests, as has the Turkish Foreign Affairs Ministry recognised.¹⁰¹ The potential of exploiting the energetic capabilities of Türkiye both as a producer and a transit route must be understood as closely linked to diplomatic and political considerations. In essence, Türkiye is not likely to take any political or diplomatic step that could endanger its energy supply.

¹⁰⁰ Banu ERKÖK and Yasin Kütük, "Dependency on Imported Energy in Turkey: Input- Output Analysis," *Marmara Üniversitesi İktisadi ve İdari Bilimler Dergisi* 45, no. 1 (June 20, 2023): 47–70, page 47 <https://doi.org/10.14780/muiibd.1317197>

¹⁰¹ Ministry of Foreign Affairs, "Türkiye's International Energy Strategy," mfa.gov, 2022, <https://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa>.

Due to its multifactorial relevance, this entire section is dedicated to analyzing the evolution of the energetic and infrastructure question in the medium term. A scenario has been constructed to forecast possible trends regarding the energy source Türkiye is likely to focus on boosting to cover its energy demand increase derived from industrial sector growth in the upcoming 10 years.

Energy Outlook

Energy Dependence

Türkiye's domestic fossil fuel reserves are not significant. Despite domestic coal production covering most of the demand, Türkiye still relies on coal imports to cover the totality of the demand.¹⁰² Currently, domestic gas and oil production remain relatively low, although new discoveries are likely to boost domestic production in forthcoming years. Türkiye achieved a reduction of its energy dependence from 80% in 2020 to 75% in 2023.¹⁰³ In that same year, gas import dependence stood at 99% and oil at 91%.¹⁰⁴ Türkiye is likely to seek diversification in its domestic production in order to gain energetic independence, which involves the development of renewables and nuclear energy, as well as the exploitation of newly found reserves of gas and oil in Turkish territory.

Current Energy and Electricity Mix

Current Energy Mix

Türkiye's energy mix is currently dominated by the hydrocarbons sector. In 2022, total energy supply was composed of: 28.8% oil, 27.4% natural gas, 25.1% coal and 17.6% renewables - mainly led by hydropower (8.99%) and wind (4.70%).¹⁰⁵ The overall energy consumption (or demand) is expected to increase 2.2 percentual points every year in the period between 2020-2035¹⁰⁶ to support the industrialization of the country. Nevertheless, consumption per capita is significantly lower compared to the European Union average.¹⁰⁷

¹⁰² EMBER and Ufuk Alparşlan, "Türkiye Electricity Review 2023," *Ember-Climate*, 2023, <https://ember-climate.org/insights/research/turkiye-electricity-review-2023/>.

¹⁰³ Banu ERKÖK and Yasin Kütük, "Dependency on Imported Energy in Turkey: Input- Output Analysis," *Marmara Üniversitesi İktisadi ve İdari Bilimler Dergisi* 45, no. 1 (June 20, 2023): 47–70, page 47 <https://doi.org/10.14780/muiibd.1317197>

¹⁰⁴ *ibid.*

¹⁰⁵ OECD, "Home," www.oecd-ilibrary.org, 2022, <https://www.oecd-ilibrary.org/sites/5a3efe65-en/1/3/47/index.html?itemId=/content/publication/5a3efe65-en&csp=2ffa7a733148fec42dccb926d7619e1c&itemIGO=oecd&itemContentType=book>.

¹⁰⁶ Ministry of Energy and Natural Resources, "Türkiye National Energy Plan," *Enerji.gov*, 2022, https://enerji.gov.tr/Media/Dizin/EIGM/tr/Raporlar/TUEP/T%C3%BCrkiye_National_Energy_Plan.pdf.

¹⁰⁷ Our World in Data, "Turkey: Per Capita: What Is the Average Energy Consumption per Person?," *Our World in Data*, November 28, 2020, <https://ourworldindata.org/energy/country/turkey>.

In terms of growth, hydropower will be the fastest growing sector in the short term followed by oil in the energy mix (29TWh and 23TWh, respectively in 2022).¹⁰⁸ Coal is also likely to increase within this period as a short term solution to reduce natural gas imports.¹⁰⁹ By the end of September 2023, Türkiye's installed capacity reached 105,668 MW.¹¹⁰ In the long term, Türkiye is likely to seek the boosting of its installed capacity in order to cover demand increase. Low carbon sources are likely to represent the greatest increase in this sense. Altogether an important hub for foreign investment in the medium and long term may be identified in the development of Türkiye's domestic energy production.¹¹¹

Current Electricity Mix

In 2022, 41.97% of electricity generation came from non-fossil fuels (20.3% hydropower, 10.6% wind, 5.1% solar, 3.4% geothermal, among other sources),¹¹² despite coal and gas being the main two sources (34.6% coal, 22.9% natural gas). By 2025, renewables domestic production is predicted to increase by 30%.¹¹³

Türkiye's electricity consumption is still significantly lower than EU annual consumption (2,812 TWh in 2022).¹¹⁴ However, the country's electricity consumption is expected to increase 3.5 percentual points every year until 2025, reaching a total of 510.5 TWh that year.¹¹⁵ Contrary to the EU, electricity demand in Türkiye has increased since the Covid-19 pandemic: in 2021, it increased by 8%.¹¹⁶ However, the forecasted economic slowdown is likely to bring this indicator down 2% (year on year relative change in electricity demand) in 2025.¹¹⁷ Furthermore, the industrial sector will keep representing the highest volume of electricity consumption and will continue to do so in 2024 and

¹⁰⁸ *Ibid.*

¹⁰⁹ Our World in Data, "Energy Mix," Our World in Data (Our World in Data, 2022), <https://ourworldindata.org/energy-mix>.

¹¹⁰ Ministry of Energy and Natural Resources, "Republic of Turkey Ministry of Energy and Natural Resources - Electricity," Enerji.gov.tr, 2022, <https://enerji.gov.tr/infobank-energy-electricity>.

¹¹¹ Enerdata, "Turkey's National Energy Plan for 2035 Will Boost Solar and Wind Capacities," www.enerdata.net, January 4, 2023, <https://www.enerdata.net/publications/daily-energy-news/turkeys-national-energy-plan-2035-will-boost-solar-and-wind-capacities.html>.

¹¹² Ministry of Energy and Natural Resources, "Energy - Republic of Turkey Ministry of Energy and Natural Resources," enerji.gov.tr, 2023, <https://enerji.gov.tr/info-bank-energy>.

¹¹³ IEA, "Electricity Market Report 2023," *Iea.blob* (International Energy Agency, 2023), <https://iea.blob.core.windows.net/assets/255e9cba-da84-4681-8c1f-458ca1a3d9ca/ElectricityMarketReport2023.pdf>.

¹¹⁴ Our World in Data, "Turkey: Energy Country Profile," *Our World in Data*, 2022, <https://ourworldindata.org/energy/country/turkey>.

¹¹⁵ Enerdata, "Turkey's National Energy Plan for 2035 Will Boost Solar and Wind Capacities," www.enerdata.net, January 4, 2023, <https://www.enerdata.net/publications/daily-energy-news/turkeys-national-energy-plan-2035-will-boost-solar-and-wind-capacities.html>.

¹¹⁶ IEA, "Electricity Market Report 2023," *Iea.blob* (International Energy Agency, 2023), <https://iea.blob.core.windows.net/assets/255e9cba-da84-4681-8c1f-458ca1a3d9ca/ElectricityMarketReport2023.pdf>.

¹¹⁷ IEA, "Electricity Market Report 2023," *Iea.blob* (International Energy Agency, 2023), <https://iea.blob.core.windows.net/assets/255e9cba-da84-4681-8c1f-458ca1a3d9ca/ElectricityMarketReport2023.pdf>.

2025. Services and household consumption only make up for 24% and 22% of the total consumption, respectively.¹¹⁸

Installed electricity capacity increased from 103,809 MW at the end of December 2022 to 104,352 MW at the end of March 2023.¹¹⁹ The composition of installed capacity by source is as follows: 29% hydropower, 24% natural gas, 20.6% coal, 11% wind, 10.3% solar, among other renewable sources.¹²⁰ The fact that electricity generation is controlled by coal and natural gas, but renewables are dominant in installed capacity, suggests that electricity generation from coal and gas is much more efficient. While hydropower plants have the greatest share of installed capacity (29.9%) they just generate 67.09 TWh, while coal, which just accounts for 11% of the total installed capacity produces 111.08 TWh.¹²¹

Just as in primary energy supply, coal has provided for a short term coverage of electricity demand due to natural gas imports reduction. This trend is highly likely to continue in 2024 and 2025, since the country's energy policy is aimed at guaranteeing electricity supply affordability. Indeed, this June the country has become the largest coal producer in Europe.¹²²

Energy Sectors

Hydrocarbons Sector

Despite Türkiye is poor in fossil fuels reserves, this source represents 81.15% of its primary energy consumption¹²³ and 58.03% of its electricity generation.¹²⁴ The previous facts highlight the significant dependence the country has on fossil fuel imports. Currently, Türkiye's CO₂ emissions remain significantly below the European average.¹²⁵ Were Türkiye to continue to rely on hydrocarbons as its

¹¹⁸ Enerdata, "Türkiye Energy Information | Enerdata," www.enerdata.net, October 13, 2023, <https://www.enerdata.net/estore/energy-market/turkiye/#:~:text=Electricity%20consumption%20remained%20stable%20in>.

¹¹⁹ Can Hakyemez, "Monthly Energy Bulletin" (TSKB, April 2023), <https://www.tskb.com.tr/uploads/file/energy-bulletin-march-20230425.pdf>.

¹²⁰ Ministry of Energy and Natural Resources, "Energy - Republic of Turkey Ministry of Energy and Natural Resources," [enerji.gov.tr](https://enerji.gov.tr/info-bank-energy), 2023, <https://enerji.gov.tr/info-bank-energy>.

¹²¹ Our World in Data, "Turkey: Energy Country Profile," *Our World in Data*, 2022, <https://ourworldindata.org/energy/country/turkey>.

¹²² Gavin Maguire and Gavin Maguire, "Turkey Emerges as Europe's Largest Coal Power Producer in June," *Reuters*, July 19, 2023, sec. Commodities, <https://www.reuters.com/markets/commodities/turkey-emerges-europes-largest-coal-power-producer-june-2023-07-19/>.

¹²³ Enerdata, "Türkiye Energy Information | Enerdata," www.enerdata.net, October 13, 2023, <https://www.enerdata.net/estore/energy-market/turkiye/#:~:text=Electricity%20consumption%20remained%20stable%20in>.

¹²⁴ LowCarbonPower, "Electricity in Turkey in 2022," lowcarbonpower.org, 2022, <https://lowcarbonpower.org/region/Turkey>.

¹²⁵ Hannah Ritchie and Max Roser, "CO₂ and Greenhouse Gas Emissions," *Our World in Data*, 2021, <https://ourworldindata.org/co2/country/turkey>.

main energy source for industrialization (both imported and domestically produced), it is highly unlikely it would meet environmental international agreements it has committed to.

Domestic Oil Production

Domestic oil reserves accounted for 371 million barrels in January 2023. However, Türkiye imports almost all of its petroleum: only 9% of domestic demand is met by domestic production. In 2022, the country produced an average of 69,000 barrels per day through its six refineries.¹²⁶

Given that oil prices are fixed in US Dollars, TRY devaluation has been a challenge for oil imports. In the medium and long term, however, Türkiye is expected to improve its domestic oil production, as long as new discoveries are being drilled and new FDI is attracted into the sector. Indeed, the TPAO's (state-owned primary exploration and production entity in Türkiye) recent oil reserves discoveries in the Gabbar Mountain (Cudi-Gabar region) amount to a total capacity of 150 million barrels.¹²⁷ The TPAO does not discard the possibility of new discoveries in the area.

Domestic Coal Production: The Short-Term Band-Aid for Expensive Imports

Coal is the only source on which Türkiye is not fully import dependent, as its domestic production covers 78% of domestic demand. Domestic coal production is significant as reserves were approximately 13 billion tons in January 2023. Türkiye is the 4th largest producer of lignite in the world and the first in Europe.¹²⁸ Despite the previous, the boost of other sources in the medium term is likely to imply the progressively reduction of coal.¹²⁹

Domestic Gas Production

If Türkiye is able to efficiently exploit recent gas fields discoveries in the long term (achieving an expected total capacity of 710 bcm),¹³⁰ it is likely that Türkiye will no longer have to rely on expensive imports coming from pipelines and LNG.¹³¹ However, due to its strategic role as a transit route between

¹²⁶ EIA, "Country Analysis Brief: Türkiye," *Eia.gov* (U.S. Department of Energy, 2023), https://www.eia.gov/international/content/analysis/countries_long/Turkiye/turkiye.pdf.

¹²⁷ *Ibid.*

¹²⁸ *Ibid.*

¹²⁹ IFRI, "Global Coal Markets at a Climax," *Ifri.org* (Center for Energy & Climate, October 2023), https://www.ifri.org/sites/default/files/atoms/files/cornot-gandolphe_coal_markets_2023_1.pdf.

¹³⁰ Enerdata, "Turkey Makes a 58 Bcm Gas Discovery at the Çaycuma Gas Field in the Black Sea | Enerdata," *www.enerdata.net*, January 3, 2023, <https://www.enerdata.net/publications/daily-energy-news/turkey-makes-58-bcm-gas-discovery-caycuma-gas-field-black-sea.html>.

¹³¹ Wayne Ackerman, "Turkey: A New Emerging Gas Player with Resources and Infrastructure," Middle East Institute, June 15, 2022, <https://www.mei.edu/publications/turkey-new-emerging-gas-player-resources-and-infrastructure>.

the Middle-East and Central Asia and Europe, Türkiye is unlikely to turn its back on other gas sources, in accordance with its policy priority to become an energy hub.

In the last decade, Türkiye has intensified its exploration and drilling activities in the region, not only to curb imports, but to gain geopolitical dominance over the Black Sea region.¹³² In 2021, the country discovered the Sakarya gas field, which has an expected total capacity of 350 million cubic meters,¹³³ which would cover 30% of domestic energy demand in 2028.¹³⁴ In 2022, the country discovered the Çaykuma-1 gas field, which accounts for 2 trillion cubic feet. Such volumes will not only allow Türkiye to cover its domestic demand, but also to set up an exportation facility of its domestic LNG.¹³⁵

Renewables and Nuclear Energy

As an initial consideration, the incentivization of renewables is not incompatible with the exploitation of oil, gas and nuclear energy in the future. In 2021, renewable energy accounted for more than 95% of new energy capacity in Türkiye,¹³⁶ positioning itself 12th worldwide in renewable energy power capacity.¹³⁷ The National Energy Plan for 2035 expects three-fourths of the targeted 190 GW installed power capacity in that year to be derived from renewable energy sources.¹³⁸ Türkiye's government has committed to become net zero carbon emissions by 2053.¹³⁹ To that end, long-term domestic and foreign private investment and risk reduction will be sought by offering long-term bureaucratic (reduction of number of licenses needed), fiscal (tax reductions) and economic (Feed In Tariffs) incentives for private investors, all of which have been included in the new YEKDEM (Extension of Renewable Energy Support Scheme)¹⁴⁰. Nonetheless, considering that nuclear energy is much more reliable and more powerful in terms of energy production than renewables; and that guaranteeing

¹³² *Ibid.*

¹³³ Ana Saez Fuentes and Kishore Thamilselvan, "Can Sakarya Pave the Way for Turkey's Gas Independence?," SPGlobal.com (S&P Global, 2023), <https://www.spglobal.com/commodityinsights/en/ci/research-analysis/can-sakarya-pave-the-way-for-turkeys-gas-independence.html#:~:text=As%20per%20recent%20estimates%2C%20Turkey's,potential%20to%20address%20this%20issue.>

¹³⁴ *Ibid.*

¹³⁵ Wayne Ackerman, "Turkey: A New Emerging Gas Player with Resources and Infrastructure," Middle East Institute, June 15, 2022, <https://www.mei.edu/publications/turkey-new-emerging-gas-player-resources-and-infrastructure>.

¹³⁶ World Energy Trade, "La Generación de Energía Eólica En Turquía Registra Un Récord Histórico," World Energy Trade, November 3, 2023, <https://www.worldenergytrade.com/energias-alternativas/electricidad/generacion-energia-eolica-turquia-record-historico>.

¹³⁷ The Global Economy, "Renewable Power Capacity by Country, around the World," TheGlobalEconomy.com, 2021, https://www.theglobaleconomy.com/rankings/renewable_power_capacity/.

¹³⁸ The Global Economy, "Renewable Power Capacity by Country, around the World," TheGlobalEconomy.com, 2021, https://www.theglobaleconomy.com/rankings/renewable_power_capacity/.

¹³⁹ Enerdata, "Turkey's National Energy Plan for 2035 Will Boost Solar and Wind Capacities," www.enerdata.net, January 4, 2023, <https://www.enerdata.net/publications/daily-energy-news/turkeys-national-energy-plan-2035-will-boost-solar-and-wind-capacities.html>.

¹⁴⁰ IEA, "Extension of Renewable Energy Support Scheme (YEKDEM) – Policies," [iea.org](https://www.iea.org/policies/12350-extension-of-renewable-energy-support-scheme-yekdem), June 2021, <https://www.iea.org/policies/12350-extension-of-renewable-energy-support-scheme-yekdem>.

energy security continues to be Türkiye's top priority; such commitments must be put into question. Türkiye is likely to be first and foremost pragmatic in terms of its domestic energy production, which will accordingly imply a boost of nuclear, oil and gas energy despite environmental criticism.

Russian-Dominated Nuclear Energy Emergence

Nuclear energy is a greatly efficient and reliable source of energy production. In Türkiye, it is currently under development (it is not yet represented in the energy mix). Both installed capacity and consumption of nuclear energy are expected to boost exponentially in the medium term, becoming a great hub for foreign investment.

Although Japan and France partnered to finance \$20 billion Sinop NPP (Türkiye's second NPP), Russia currently dominates the nuclear energy sector in Türkiye, and will do so - at least - during the operating time of the Akkuyu NPP (Türkiye's first NPP and the largest in the world): 60 years, extendable by 20 more. Once all four units become fully operational by the end of 2028,¹⁴¹ the plant will hold a total capacity of 4,800 MW, expected to cover 10% of national electricity demand.¹⁴² According to the Akkuyu Intergovernmental Agreement - between the Turkish and Russian government -, construction, management and supervision; technology transfer and fuel provision; and training of Turkish staff; all fall under Russian responsibility. Erdogan's political opposition has criticized the development of NPPs by stating this will not reduce energy dependence on Russia, but rather just shift the dependency source. Further geopolitical implications must be expected from Russia's presence in the Turkish nuclear sector derived from contingencies this is likely to cause in the uranium market.

Boosting Geothermal Energy

Although geothermal energy is most likely to boost in absolute terms in the medium term as a result of long-term investments incentives established by the new YEKDEM,¹⁴³ its representation in the overall energy mix is unlikely to reach the expected level for hydrocarbons and nuclear energy. In 2021, Türkiye ranked 3rd in the world in electricity generation from geothermal energy and 4th in

¹⁴¹ WNN, "Foundation Slab Completed at Akkuyu 4 : New Nuclear - World Nuclear News," world-nuclear-news.org, September 2023, <https://world-nuclear-news.org/Articles/Foundation-slab-concreting-completed-at-Akkuyu-4>.

¹⁴² Eguileta Lago, "Putin Sortea Las Sanciones Para Financiar Con 20.000 Millones Una Planta Nuclear En Turquía," elconfidencial.com, July 29, 2022, https://www.elconfidencial.com/empresas/2022-07-29/rusia-transferencia-dolares-turquia-planta-nuclear_3468748/.

¹⁴³ Think GeoEnergy. "JESDER Chair Shares Thoughts on the New YEKDEM Scheme in Türkiye." Think GeoEnergy - Geothermal Energy News, May 17, 2023. <https://www.thinkgeoenergy.com/jesder-chair-shares-thoughts-on-the-new-yekdem-scheme-in-turkiye/>

installed capacity,¹⁴⁴ and is expected to reach 1,691.4 MW by the end of April 2024.¹⁴⁵ The higher potential of nuclear energy becomes undeniable taking into account that the Akkuyu NPP itself has an expected 4,800 MW total capacity once fully operational.

Infrastructure: Foreign Investors' Safe Bet

The country's expanding trade volume and favorable geographic position has driven the government to develop its infrastructure in sight of becoming an energy and logistic hub.¹⁴⁶ The construction of such infrastructure is mainly conducted through PPP (Public-Private Partnerships) agreements, which represent new investment opportunities for foreign investors. Given the high likelihood that the Turkish energy sector will grow exponentially (both through domestic industrialisation and development of new transit routes), medium and long-term investments in pipelines, LNG terminals and storage facilities may be considered a safe bet.

Türkiye as an Energy Hub

The EU's willingness to push Russia out of the natural gas market due to the Ukrainian war poses a great opportunity for Türkiye to become an energy hub between Middle Eastern countries and the EU. On another note, the Turkish Straits are particularly significant for Türkiye as a hub given that 3% of the global oil demand is transported through them.¹⁴⁷ Türkiye will be able to maximize profits from being an energy hub as long as the EU continues to rely on fossil fuels from these sources. However, the EU's willingness to transition to green energy, manifested in a progressive decrease of fossil fuels demand, is likely to pose a temporary limitation of the Turkish hub "*dream*".

Pipelines

Türkiye possesses 6 natural gas pipelines¹⁴⁸ which allow it to act as a regional hub: Baku-Tbilisi-Erzurum Pipeline (BTE), Türkiye-Greece Interconnector (ITG), Blue Stream Pipeline, Iran-Türkiye Pipeline, Trans-Anatolian Pipeline (TANAP) and TurkStream Pipeline and the Interconnector

¹⁴⁴ IRENA (International Renewable Energy Agency). "Country Rankings." IRENA, July 18, 2023. <https://www.irena.org/Data/View-data-by-topic/Capacity-and-Generation/Country-Rankings>.

¹⁴⁵ Think GeoEnergy. "Geothermal Power Capacity in Türkiye Reaches 1691.4 MW." Think GeoEnergy - Geothermal Energy News, June 20, 2023. <https://www.thinkgeoenergy.com/geothermal-power-capacity-in-turkiye-reaches-1691-4-mw/>.

¹⁴⁶ Investment Office, "Investing in Infrastructure & PPP Projects in Türkiye?," *Invest.gov* (Presidency of Türkiye, July 2023), <https://www.invest.gov.tr/en/library/publications/lists/investpublications/infrastructure-industry.pdf>.

¹⁴⁷ Ministry of Foreign Affairs, "Türkiye's International Energy Strategy," *mfa.gov*, 2022, <https://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa>.

¹⁴⁸ European Gas Hub, "Turkey's Gas Ambitions | European Gas Hub," *europeangashub.com*, November 9, 2020, <https://www.europeangashub.com/report-presentation/turkeys-gas-ambitions>.

Türkiye-Bulgaria (ITB).¹⁴⁹ The TANAP section aims to transport an annual capacity of 31 bcm into the EU by 2026.¹⁵⁰ Domestic interests from supplier countries and geopolitical contingencies are likely to pose disruptions to gas and oil transit by the haltering of the pipelines.

Firstly, ongoing projects to expand the Southern Gas Corridor (SGC) mainly affect the TAP (Trans-Adriatic Pipeline) section and the SCP (South Caucasus Pipeline) section. This highlights Türkiye's willingness to increase the reach of its hub both to suppliers in the east and buyers in the west. On the one hand, Türkiye is seeking to expand the SCP to gas-rich Turkmenistan,¹⁵¹ as it is currently only fed by Azerbaijan, whose reserves result insufficient to cover EU demand. On the other hand, expansion projects of the TAP section (which connects with Southern Italy) to reach the Ionic-Adriatic Zone.¹⁵² The SGC project offers a valuable characteristic: since it is the only piped gas export route for Azerbaijan,¹⁵³ gas transit is unlikely to be halted by political causes. Secondly, the "East-Ring Pipeline" - aimed to connect Slovakia, Hungary, Romania and Bulgaria with the Black Sea region and Türkiye - is expected to be operational in 2025. Thirdly, it is in Türkiye's intentions to gain access to the "Arab-Gas Pipeline" in Killis (the Turkish-Syrian Border) - aimed at transporting gas supplies from Egypt into Jordan, Lebanon and Syria - which currently only reaches Homs (Syria).¹⁵⁴ Important disruptions are to be expected in supply due to the Israeli-Palestinian ongoing conflict. Lastly, the TurkStream Pipeline presents a new opportunity for Turkey to provide a secure connection channel between Russia and Europe, following the weakening of the supply through Ukraine.¹⁵⁵ It is in Türkiye's plans to link the TurkStream with Southern Europe, which would involve building extensions to Bulgaria, Serbia, Hungary, Slovakia and Austria. However, due to the ongoing EU-Russian geopolitical tensions, this plan is unlikely to thrive in the medium term.

¹⁴⁹ *Ibid.*

¹⁵⁰ Ministry of Foreign Affairs, "Türkiye's International Energy Strategy," mfa.gov, 2022, <https://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa>.

¹⁵¹ Fidevs Yuksel and Sibel Morrow, "Southern Gas Corridor in Spotlight as EU Scrambles to Find Fresh Gas Sources," www.aa.com.tr, November 2022, <https://www.aa.com.tr/en/economy/southern-gas-corridor-in-spotlight-as-eu-scrambles-to-find-fresh-gas-sources/2752215>.

¹⁵² BP, "New Energy Supplies for Turkey and Europe: A Visual Guide to the Southern Gas Corridor | News and Insights | Home," Bp Global, 2017, <https://www.bp.com/en/global/corporate/news-and-insights/reimagining-energy/visual-guide-to-europe-southern-gas-corridor-tanap-turkey.html>.

¹⁵³ William Hale, "Turkey's Energy Dilemmas: Changes and Challenges," *Middle Eastern Studies* 58, no. 3 (April 26, 2022): 452–66, <https://doi.org/10.1080/00263206.2022.2048478>.

¹⁵⁴ OPEC FUND, "Arab Gas Pipeline Project - OPEC Fund for International Development," <https://opecfund.org>, <https://opecfund.org/operations/list/arab-gas-pipeline-project#:~:text=The%20Arab%20Gas%20Pipeline%20Project>.

¹⁵⁵ The Oxford Institute for Energy Studies, "Do Future Russian Gas Pipeline Exports to Europe Matter Anymore?," July 2023, <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2023/07/Insight-131-Do-future-Russian-gas-pipeline-exports-to-Europe-matter-anymore.pdf>.

LNG Terminals

As long as piped gas prices continue to increase, the construction of LNG terminals will be fostered as an alternative. Actually, LNG imports have increased over the years as LNG prices have declined. In 2022, the import volume of LNG reached 15 billion cubic meters, in comparison with 13.9 billion cubic meters in 2021.¹⁵⁶ This alternative particularly alleviates household spending, which represents the greatest consumer share of natural gas (34.1% in 2022),¹⁵⁷ as its use is seasonally boosted for heat generation.¹⁵⁸ Currently, the country has two land LNG Terminals: Marmara Ereğlisi LNG and the Aliaga Egegaz LNG, in addition to two floating LNG facilities (known as Storage and Regasification Units, FSRU). The construction of more LNG terminals are in prospect, which will also incentivize FDI attraction.

Storage Facilities

Türkiye gas storage facilities are highly likely to be expanded as a safeguard method against possible future supply cuts.¹⁵⁹ Currently, Türkiye possesses two primary underground storage facilities for natural gas in Silivri and Lake Tuz, whose capacity is expected to be increased to 353 Bcf by the end of 2023.¹⁶⁰

Scenario Construction

Research Question: *Which energy source is Türkiye likely to focus on boosting to cover its energy demand increase derived from industrial sector growth in the upcoming 10 years?*

Initial considerations:

- The plausibility of one of the scenarios does not entail the disregard of the remaining energy sources by the government.
- In consideration that coal will be used to cover natural gas imports reduction in the short term, this scenario is focused on what the solution will be in the long term.
- Geothermal, hydro, wind and solar energy (renewables) have not been considered as alternative scenarios as they are not as powerful in comparison to oil, gas and nuclear energy. Hence, they

¹⁵⁶ Statista, “Turkey : Liquefied Natural Gas Import Volume 2022,” Statista, 2022, <https://www.statista.com/statistics/900226/turkey-liquefied-natural-gas-import-volume/#:~:text=Natural%20gas%20as%20liquefied%20natural>.

¹⁵⁷ Agata Łoskot-Strachota and Adam Michalski, “Turkey’s Dream of a Hub. Ankara’s Wartime Gas Policy,” OSW Centre for Eastern Studies, March 10, 2023, <https://www.osw.waw.pl/en/publikacje/osw-commentary/2023-03-10/turkeys-dream-a-hub-ankaras-wartime-gas-policy>.

¹⁵⁸ The Oxford Institute for Energy Studies, “Turkey’s Gas Demand Decline: Reasons and Consequences,” *Oxfordenergy.org*, April 2017, <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2017/04/Turkeys-gas-demand-decline-reasons-and-consequences-OIES-Energy-Insight.pdf>.

¹⁵⁹ William Hale, “Turkey’s Energy Dilemmas: Changes and Challenges,” *Middle Eastern Studies* 58, no. 3 (April 26, 2022): 452–66, <https://doi.org/10.1080/00263206.2022.2048478>.

¹⁶⁰ EIA, “Country Analysis Brief: Türkiye,” *Eia.gov* (U.S. Department of Energy, 2023), https://www.eia.gov/international/content/analysis/countries_long/Turkiye/turkiye.pdf.

are not as reliable as the latter in guaranteeing energy security in the next 10 years. Renewables ought to be considered as a complement to nuclear energy in the total energy mix.

- Meeting the Paris Agreement guidelines has not been considered as a driver. Türkiye is likely to prioritize coverage demand over sustainability.
- The impact of the drivers is thought on the assumption that the AKP government will continue to be in power in the selected time period.

Figure 5: Scenario Construction

DRIVERS	POSSIBLE SCENARIOS		
	Oil and gas domestic production	Nuclear energy domestic production	Oil and gas imports (current situation)
Increase in import fossil fuels prices	—	+	— —
Full operability of Akkuyu + Sinop NPP	—	++	—
Full exploitation of the Çaykuma-1, Sakarya gas fields and Cudi-Gabar region oil reserves	++	— —	— —
Development of an energy hub (Türkiye as transit country)	—	—	++
Ease to attract EU FDI to develop domestic production	— —	+	— —
Ease to attract non-EU countries FDI to develop domestic production	++	++	— —
Change of Government to CHP in 2028 elections	+	— —	— —
Instability in resource rich neighbors	+	++	— —

++ Very positive impact on the plausibility of the scenario
 + Positive impact on the plausibility of the scenario
 - Negative impact on the plausibility of the scenario
 -- Very negative impact on the plausibility of the scenario

Scenario 1: The government develops the nuclear energy sector (*Most likely*):

Nuclear energy, which is currently under development, is envisaged as a long-term alternative to oil and gas imports and domestic production. The full operability of the two largest undergoing projects - Akkuyu and Sinop NPPs - would provide a total expected installed capacity of 9,280 MW. Both the possibility of a rise in energy import prices and the breaking out of instabilities in supplier neighboring countries (making imports unreliable) are major drivers for nuclear development.

The Intergovernmental Agreement between Russia and Türkiye foresees the provision of 20% (\$4 billion) of the total capital by the Russian government, while the remaining 80% (approximately \$16 billion) is provided in the form of debt.¹⁶¹ It has also been agreed that 49% of the shares of the Project Company (created by Rosatom - Russia's State Atomic Energy Corporation - to finance the plant) are disposable to other investors, which generates a new investment market of about \$10 billion. The completion of this plant is therefore in Türkiye's interest in terms of attracting FDI from both Western and Eastern bloc countries. Nuclear energy's environmental criticisms could imply a lower weight of European investment in this sector compared to countries such as Russia, although it will still be present, as has been seen in the Sinop plant, partially financed by France. Furthermore, the agreement provides that Rosatom will supply nuclear fuel for the entire life of the plant.¹⁶² In view of all the previous, the possibility of Türkiye entering into a debt trap with Russia must not be disregarded. In conclusion, this scenario is highly fostered by its attractiveness in relation to foreign investment and energy independence, which is reinforced by the reliability of the source itself.

Scenario 2: The government exploits domestic gas and oil reserves (*Moderately likely*):

Gas and oil are two of the dominant sources of energy consumption. Therefore, in recent years, the government has stepped up its drilling and exploration activities of fossil fuels in several regions of the country. On the gas side, the country has ramped up its exploration activities in its EZZ in the Black Sea. The discoveries of the Sakarya and the Çaykuma-1 gas fields are expected to cover domestic energy demand in a period of 10 years. Complementary, the government plans to explore for new discoveries in the Cudi-Gabar area, which has the potential for new sources to be discovered.

This scenario is moderately likely since domestic production presents a reliable energy source, as it would reduce or even cancel reliance on fossil fuels imports from other countries. Therefore, it would

¹⁶¹ Marco Cometto, "Financing the Akkuyu NPP in Turkey," *Oecd-Nea.org* (OECD, 2013), https://www.oecd-nea.org/ndd/workshops/wpne/presentations/docs/4_1_Cometto_Akkuyu.pdf.

¹⁶² NS Energy, "Akkuyu Nuclear Power Plant," n.d., <https://www.nsenegybusiness.com/projects/akkuyu-nuclear-power-plant-mersin-turkey>.

contribute to a considerable reduction in Türkiye's current account deficit. Furthermore, supply would not be conditioned to supply cuts, as has recently happened with the pipeline that connects with Iran. It therefore guarantees its availability and affordability. In other words, energy security. However, an increasing domestic development of the hydrocarbon sector, however, would mean a further shift away from the EU, as well as from the national environmental policies to which the government has committed to on paper, and from global green energy trends.

In the long term, the plausibility of this scenario would be positively affected by a change of government to the CHP (*Cumhuriyet Halk Partisi*) in 2028, as the party advocates for a decrease in foreign dependence, in favor of domestic production and European environmentalist standards.

In conclusion, the plausibility of this scenario is moderate, positively influenced by the economic benefits it may bring, as well as the benefits in terms of energy security. However, the discordance of its development with future global trends and environmental policies would be capable of disincentivizing European investment. Furthermore, oil and gas reserves could not cover domestic demand forever, as they are fossil fuels.

Scenario 3: The government continues to cover its demand with gas and oil imports (*Unlikely*):

Energy dependence is one of the main causes of the trade deficit and the high external debt of the Turkish government. Additionally, the volatility of the Turkish lira creates a high vulnerability to energy prices. For all these reasons, reducing energy dependence is one of the main objectives of the Turkish government in the medium and long term. As mentioned in the initial considerations, declaring this scenario as *unlikely* does not mean we predict Türkiye will stop importing, as that is the ultimate goal of the current energy strategy, but it would not be plausible to consider it that way. Imports will continue, but they will not be the government's strategic priority. Just the opposite, efforts to reduce such imports will drive the development of domestic production.

CHAPTER 3. POLITICAL AND SOCIAL COHESION

- The current AKP legislative term will continue to be defined by rising political Islamism within the main state institutions. The independence of the main state powers is likely to continue to blur.
- In the medium term, it is probable that a portion of Syrian refugees will be repatriated to Turkish-controlled areas in northern Syria.
- Due to their structural presence in Turkish society, poverty, inequality and corruption are unlikely to decrease in the medium term.
- The Kurdish issue is unlikely to ease in the medium term due to (i) political repression by an islamist conservative government and (ii) intensification of PKK violence.

Increased social fragmentation coupled with crescent social inequalities are turning Turkish politics into the perfect breeding ground for the rise of populism and authoritarianism. The undergoing transformation from “Kemalism” to “Erdoganism” is disturbing many elements of the former “Modern Türkiye”. This will be reflected in a top-down approach, from politics and some of its main institutions, to the cohesion of society itself. As mentioned in the FDI section, factors of political and social stability have a direct impact on investors' decisions due to their influence on economic stability. Hence, a comprehensive analysis of Türkiye’s current political and social landscape is crucial to assess the viability of investing in the country.

Political Power

New Presidential Term Plagued with Old Challenges

Since November 2002, the AKP (*Adalet ve Kalkınma Partisi*) has been in power without interruption, setting a record for the longest-serving government in contemporary Turkish history.¹⁶³ The AKP’s 2023-2028 mandate, as all the previous, is highly likely to follow Public Choice Theory¹⁶⁴ based on

¹⁶³ Hecker Pierre, Furman, Ivo, and Akyıldız, Kaya. “The Politics of Culture in ‘New Turkey.’” Essay. In *The Politics of Culture in Contemporary Turkey*, 5–5. Edinburgh University Press, 2021.
https://edinburghuniversitypress.com/pub/media/resources/9781474490283_Chapter_1.pdf

¹⁶⁴ This theory implies that political parties in a democracy formulate policy strictly as a means of gaining votes. For more, see Aslihan Mccarthy, “Turning Crisis into Opportunity? The Syrian Refugee Crisis and Evolution of Welfare Policy for Refugees in Turkey from a Public Choice Theory Perspective,” *Critical Social Policy* 41, no. 1 (March 14, 2020): 026101832090677, <https://doi.org/10.1177/0261018320906776>.

identity politics. These imply the personification of political rule, the criminalisation of the opposition, the restrictions of freedoms of expression and assembly and the erosion of the rule of law and judicial independence.¹⁶⁵ However, electoral results have revealed a weakened support for the party, putting his mandate in danger. The results in the May 2023 elections represented a slim absolute majority of 52% of ballots cast.¹⁶⁶

This term is likely to be defined by arduous decision-making within the Parliament due to difficulties to reach consensus and the erosion of its independence¹⁶⁷. The AKP will likely seek fresh avenues to re-establish citizen support. Some of these slight changes have already been observed in the aftermath of the elections, with the monetary policy turnaround. Yet, the newly formed government cabinet, which is composed of technocrats and bureaucrats, suggests a likely shift in domestic policies by renewing the heads of almost all of his ministries.¹⁶⁸ In addition, the upcoming municipal elections in March 2024, as well as the possibility of facing his final presidential term, constitute a significant danger to political stability and predictability. The main legislative project for the upcoming term is likely to be the drafting and approval of a new Turkish constitution,¹⁶⁹ which will be further explained in the final part of this section.

The Presidential System Diminishes the Legislative Monopoly of Parliament

The AKP's lack of absolute majority in parliament does not hinder Erdogan from holding factual control over the remaining state powers, which he has gradually acquired since 2002. Not only does this imply the unlikelihood of public policy and legislative acts driven by opposition parties' initiative, but also that other branches of state power are unlikely to act in divergence of Erdogan's will.

Heading towards Future Elections

Currently, the People's Alliance holds majority in Parliament with 323 MPs: 268 MPs from the AKP, 50 from the MHP (*Milliyetçi Hareket Partisi*) and 5 from the YRP (*Yeniden Refah Partisi*). On the

¹⁶⁵ Smith Reynolds, Aron. Rep. *The "New Turkey" Might Have Come to An End: Here's Why*. SSOAR, 2-2. 2023. https://www.ssoar.info/ssoar/bitstream/handle/document/86578/ssoar-2023-smith_reynolds-The_New_Turkey_Might_Have.pdf?sequence=1&isAllowed=y&lnkname=ssoar-2023-smith_reynolds-The_New_Turkey_Might_Have.pdf

¹⁶⁶ Reuters, "Who Won Turkey's 2023 Elections? Final Results, and the High Stakes at Issue," *Reuters*, May 29, 2023, sec. Middle East, <https://www.reuters.com/world/middle-east/who-won-turkeys-2023-elections-final-results-high-stakes-issue-2023-05-29/>.

¹⁶⁷ European Commission, "Key Findings of the 2023 Report on Türkiye," *Ec.europa.eu*, November 2023, https://ec.europa.eu/commission/presscorner/detail/de/qanda_23_5630.

¹⁶⁸ Aslı Aksoy, Hürcan, Yaşar Aydın, and Salim Çevik. Rep. *Turkey's New Cabinet*. SWP, 2023. 1-1, https://www.swp-berlin.org/publications/products/comments/2023C42_Turkey_Cabinet.pdf.

¹⁶⁹ Mehmet Gün, "Erdogan Had Bureaucrats Draft a Constitution, Unbeknownst to Us All," *Yetkin Report*, October 10, 2023, <https://yetkinreport.com/en/2023/10/10/erdogan-had-bureaucrats-draft-a-constitution-unbeknownst-to-us-all/>.

opposition side, the National Alliance holds 234 seats: 169 from the Kemalist CHP and 43 from the İYİ (*Türkiye İYİ olacak!*). The remaining 65 seats are held by the Labor and Freedom Alliance, out of which 57 corresponded to the HEDEP (*Halkların Eşitlik ve Demokrasi Partisi*), the party through which former HDP (*Halkların Demokratik Partisi*, Kurdish party) members ran in the elections - the issue on the HDP will be studied in *The Kurdish issue* section.

While the AKP's popularity has declined in comparison to previous elections, the CHP's popularity has increased. The opposition party has jumped from 146 seats in 2018 elections, to 169 seats in 2023 elections. In turn, the AKP popularity decrease is reflected in the following table:

Figure 6: Parliamentary elections Electoral results of the AKP between 2015 - 2023

2015 Elections	Results	2018 Elections	Results	2023 Elections	Results
N. seats	317	N. seats	295	N. seats	268
Share of votes	49.48%	Share of votes	42.56%	Share of votes	35.62%

Source: Author's elaboration from The Daily Sabah data¹⁷⁰

Thus, in order to be able to enact legislative projects which require absolute majority¹⁷¹ for approval, the AKP is dependent on the survival of the People's Alliance. However, the alliance will exist as long as it is in Erdogan's interest, given his long-lasting strategy of allying with diverse groups and actors, but then quickly discarding and prosecuting them when he no longer needs them.¹⁷²

The (Lack of) Control of the Major Cities: the AKP's Achilles Heel

In the 2019 local elections, the AKP lost control of the major cities (Istanbul, Ankara, Izmir and Antalya) for the first time,¹⁷³ due to widespread discontent as a result of deteriorating economic conditions and the Syrian refugee crisis. These cities were lost to the secularist CHP, the AKP's main opposition party.¹⁷⁴ It stands out, that regions where social and religious minorities concentrate (Syrian

¹⁷⁰ Reuters, "Who Won Turkey's 2023 Elections? Final Results, and the High Stakes at Issue," *Reuters*, May 29, 2023, sec. Middle East, <https://www.reuters.com/world/middle-east/who-won-turkeys-2023-elections-final-results-high-stakes-issue-2023-05-29/>.

¹⁷¹ Türkiye, "Constitution of the Republic of Türkiye. Article 96, Grand National Assembly of Türkiye, "Constitution of the Republic of Turkey." (1982) <https://www.ilo.org/dyn/natlex/docs/ELECTRONIC/39950/112944/F1991929622/TUR39950%20Eng2.pdf>.

¹⁷² Soner Çağaptay, *The New Sultan : Erdogan and the Crisis of Modern Turkey | Chapter 1: Growing up Poor and Pious in Secular Turkey* (London ; New York Bloomsbury, 2020).

¹⁷³ Stefano Fella, "Turkey under Erdoğan: Recent Developments and the 2023 Elections" (House of Commons Library, 2023), <https://researchbriefings.files.parliament.uk/documents/CBP-9806/CBP-9806.pdf>.

¹⁷⁴ Yeni Şafak, "Elections 2019: Local Election Results - March 31 2019 Municipal Election Results," Yeni Şafak, September 11, 2023, <https://www.yenisafak.com/en/yere-secim-2019/secim-sonuclari>.

refugees and Kurds among others) were won by parties other than the AKP (mainly the CHP and the HDP)¹⁷⁵. Having recovered from the shock of the May 2023 election defeat, prospects for the March 2024 local election signal that the opposition parties altogether are likely to reinvent their political strategy, possibly engaging in a more inclusive agenda in order to seize votes from minority parties. These parties will likely struggle to reach civil society due to government-controlled media.

The AKP's Survival Rule for the 2028 Presidential and Parliamentary Elections

Unpredictability in politics complicates calculating the chances of Erdogan and the AKP being re-elected in 2028. If eroding social cohesion and dissatisfaction continue rising and the AKP lost major cities in the 2024 local elections, Erdogan is likely to face severe struggles regarding the 2028 elections. Despite the Turkish Constitution limiting presidency to one re-election (two terms in power),¹⁷⁶ existing legal paths which could be used by the AKP to secure presidency must be considered as plausible future scenarios: (i) an anticipated dissolution of the Parliament (which would require three-fifths majority)¹⁷⁷ and (ii) the approval of a new constitution. The possibility of such scenarios materializing must not be ruled out.

Cause and Effect Tree

Research Question: *What would be the impact of the approval of a new constitution in the medium term (2024-2025) in Türkiye?*

Initial considerations: The approval of a new constitution is a scenario worthy of study due to its plausibility and significant impact if realized. The approval of a new constitution would require 396 votes in favor ($\frac{2}{3}$ of Parliament). Despite the People's Alliance currently does not currently hold such a representation, it is likely Erdogan will keep seeking supporters within the opposition. The re-election of President Erdogan in the May 2023 elections has provided him with the opportunity to carry out a project he has for years been announcing within the Parliament. As he reiterated in the Parliament's opening session last September, the drafting and approval of a new constitution is part of his agenda for this term, which will last until 2028.

This initiative is driven by the declining popularity of the AKP (as was evident in the May 2023 elections) along with the possibility that this may be his last term in office. It is expected that the new

¹⁷⁵ *Ibid.*

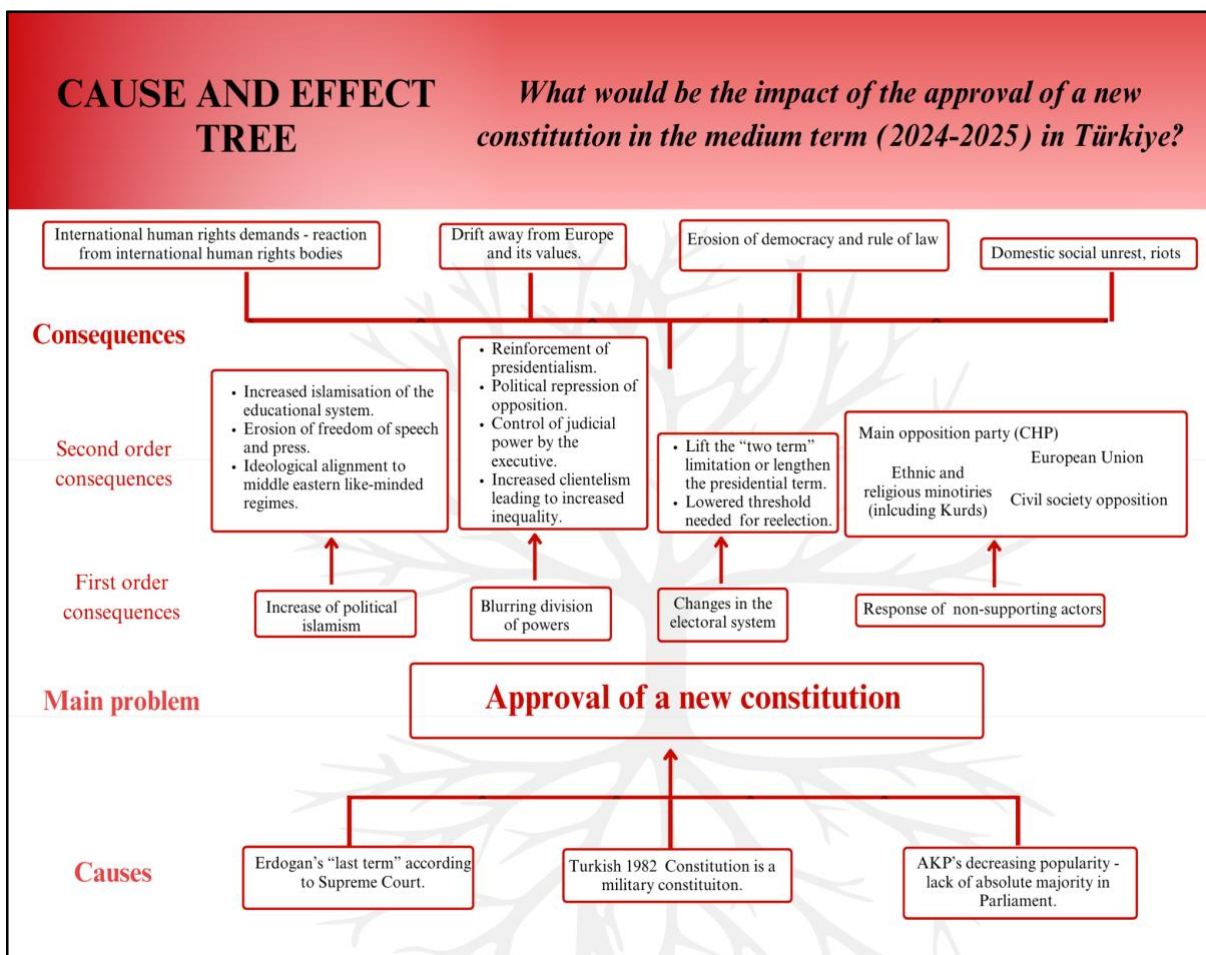
¹⁷⁶ Türkiye, "Constitution of the Republic of Türkiye. Article 101, Grand National Assembly of Türkiye, "Constitution of the Republic of Turkey." (1982)
<https://www.ilo.org/dyn/natlex/docs/ELECTRONIC/39950/112944/F1991929622/TUR39950%20Eng2.pdf>.

¹⁷⁷ Stefano Fella, "Turkey under Erdoğan: Recent Developments and the 2023 Elections" (House of Commons Library, 2023),
<https://researchbriefings.files.parliament.uk/documents/CBP-9806/CBP-9806.pdf>.

constitution will include reforms in accordance with the conservative Islamism ideology which has already defined the constitutional amendments carried out in recent years: the strengthening of the presidential system, removal of Atatürk's secularism, and a consequent Islamization of politics and society, among other aspects.

On this assumption, it is likely that the approval of a new constitution will generate the reaction of several non-supporting groups. At the domestic level, it is likely to fuel opposition demonstrations of different nature by political parties and ethnic and religious minorities. Political repression of the opposition, erosion of basic human rights and freedom of speech and press; and increased inequality caused by a reinforced clientelism, are likely to fall out into social unrest and riots in the short and medium term. At the international level, opposition by the EU and international human rights bodies is likely to take place. However, due to Türkiye's strategic position and role on international trade, the plausibility of the EU imposing sanctions is low. In turn, international human rights bodies will likely come forward to demand a return to the rule of law. All in all, the approval of a new constitution would likely entail a further erosion of the principles of democracy and the rule of law in Türkiye, leading to a drift away from the EU due to ideological divergence.

Figure 7: Cause and Effect Tree



Armed Forces: From “Guardianship to Servitude”

The army’s role has shifted from “guardianship of Kemalism” to “servitude to Erdogan”. In the medium term, Erdogan is likely to keep maintaining the army as a limb of power, eroding its effectiveness and independence. Political and social unrest caused by the military is unlikely to arise as long as this advisory and subordinate role is maintained.

CMR (Civilian-Military Relationship) in Türkiye is characterized by successive military coups, the last one having taken place in 2016. The Turkish Armed Forces (TAF) can be considered one of the most interventionist armed forces in developing countries.¹⁷⁸ The fact that the AKP renewed the army’s high personnel after the 2016 failed coup attempt has granted Erdogan control over the military from the inside of the institution itself as well as its morality (Islamization of the army). The government has achieved full control of the army by subordinating, on the one hand, the Ground, Naval and Air Force Commands to the Ministry of National Defense, and on the other hand, the Gendarmerie and the Coast Guard to the Ministry of Interior.¹⁷⁹

The scenario of an opposition party winning the 2028 elections cannot be disregarded, as it could likely entail a harsh rejection from the military to a smooth transition of power leading to social unrest. In the event of the winning party being the Kemalist CHP, a reaction from Türkiye’s Islamized army would moreover be motivated by its strong rejection of secularism.

Political Islamism vs Secularism

Since the turn to conservative authoritarianism in 2013 as a consequence of the Gezi protests, the AKP defines itself as a conservative Islamist party that represents Turkish “national identity” as opposed to secularist elites.¹⁸⁰ In the medium term, it is likely to see religious freedoms and liberties eroding. Although a robust opposing civic space is likely to arise,¹⁸¹ opposition to the imposition of Islamism is unlikely to successfully organize coming from an extremely polarized society.¹⁸²

¹⁷⁸ Berk Esen, “Praetorian Army in Action: A Critical Assessment of Civil– Military Relations in Turkey,” *SWP-Berlin* (SAGE, 2020), https://www.swp-berlin.org/publications/products/fachpublikationen/Berk_Esen_Civil_Military_Relations_in_Turkey.pdf.

¹⁷⁹ İmet Akça, “The Army of One,” *carnegie-mec.org*, September 2018, <https://carnegie-mec.org/diwan/77330>.

¹⁸⁰ Adar Sinem and Seufert Günter, “Turkey’s Presidential System after Two and a Half Years: An Overview of Institutions and Politics,” *Ssoar.info* (Stiftung Wissenschaft Und Politik (SWP), 2021), https://www.ssoar.info/ssoar/bitstream/handle/document/76383/ssoar-2021-adar_et_al-Turkeys_presidential_system_after_two.pdf

¹⁸¹ *Ibid.*

¹⁸² Bilge Yabancı, “Religion, Nationalism, and Populism in Turkey under the AKP,” Middle East Institute, October 6, 2022, <https://www.mei.edu/publications/religion-nationalism-and-populism-turkey-under-akp>.

This identification of the Turkish nationality with conservative Islamism is highly likely to perpetuate social marginalization among those who do not fit within the label, mainly ethnic and religious minorities.¹⁸³ The fact that 99.8% of the Turkish population is Muslim (of Sunni majority)¹⁸⁴ leaves room for civil support of political Islamism.

However, not only politics and the military will be increasingly influenced by Islamism, but other areas of public life such as education are likely to be affected. The consequences of the implementation of a religious-based public education (*Imam Hatip*) will likely arise in the long term in an increasingly islamized society which will more strongly oppose status-quo alterations. Furthermore, the control of religious institutions (the *Dyanet*), as well as religious non-state actors¹⁸⁵ remains significant in enlarging Erogan's social network of sympathizers.

The Refugee Issue

From Humanitarianism to Repatriation

The AKP's discourse on Syrian refugees is a clear exemplification of public choice theory, as Erdogan has emphasized diverging factors over time depending on the rhetoric that most fit his political target group. In this way, he has shifted from an open border policy based on Muslim solidarity considerations, passing through an economic opportunism discourse based on the large cheap workforce refugees represented, to a current rhetoric focused on repatriation commitments. In the short and medium term, the majority of Syrian refugees are likely to remain in Türkiye. However, increasing social and political hostilities towards Syrian refugees and an uphill effective social integration are likely to amount to the willingness to leave Türkiye among Syrian refugees. Recent polls show only 61% of interviewed refugees want to stay in Türkiye in the long term.¹⁸⁶

The Era of “*Reluctant Local Integration*”

In July 2023, Türkiye was host to 3.4 million Syrian refugees, along with 327,000 asylum seekers from other nationalities (mainly Afghans, Iraqis and Iranians).¹⁸⁷ The non-Syrian refugee group is mainly

¹⁸³ *ibid.*

¹⁸⁴ World Population Review, “Turkey Population 2020 (Demographics, Maps, Graphs),” worldpopulationreview.com, 2022, <https://worldpopulationreview.com/countries/turkey-population>.

¹⁸⁵ Birol A. Yeşilada, “The AKP, Religion, and Political Values in Contemporary Turkey: Implications for the Future of Democracy,” *Turkish Studies* 24, no. 3-4 (March 12, 2023): 1–24, <https://doi.org/10.1080/14683849.2023.2186784>.

¹⁸⁶ Nienke Van Heukelingen and Friedrich Püttmann, “Clingendael Alert with or without Erdoğan, We Need to Talk about Refugees Again MAY 2023,” 2023, https://www.clingendael.org/sites/default/files/2023-05/Clingendael_Alert_With_or_without_Erdo%28C4%29Fan_we_need_to_talk_about_refugees_again.pdf.

¹⁸⁷ UNHCR, “Refugee Statistics,” UNHCR, October 27, 2022, <https://www.unhcr.org/refugee-statistics/>.

heterogeneous, thus more difficult to track. Thus, this section is focussed on discussing Syrian refugees' forecasted situation in Türkiye. This section will use the term “*refugees*” to refer to this group in knowledge and despite the Turkish government qualifies them as “*foreigners under temporary protection regime*”.¹⁸⁸

Türkiye has hosted a total of 3.7 million refugees since the start of the Syrian war,¹⁸⁹ constituting the most severe refugee crisis in the country's history. The accumulation of refugees in Turkish territory finds cause in the 2015 EU-Türkiye Joint Action Plan, by which the AKP committed to halting Syrian refugee crossings into the EU in return for €3.34 billion.¹⁹⁰ Only 3% of registered Syrian refugees currently live in camp shelters, which accounted for 63,000 people in May 2023,¹⁹¹ while the vast majority live in cities and towns.¹⁹² This may be attributed not only to social integration but also to camps' inability to accommodate such a large number of refugees. The heterogeneous distribution of Syrian refugees among Turkish cities and towns has spread their presence among Turkish nationals: while Istanbul, Gaziantep, Hatay and Sanliurfa host half of the total refugees, the rest are distributed among 26 other provinces.¹⁹³ The fact that the CHP won three of the five top hosting provinces in the 2019 elections is likely to be caused - among other factors - by social discontent regarding the AKP's management of the refugee crisis.

Real social integration of Syrian refugees is also burdened by the reluctance shown by Turk citizens to foster this process. On the contrary, 40.7% of Turks affirm “*Syrian refugees are dangerous people who will cause us a lot of troubles in the future / They are people who will cause social and economic problems in our country in the future*” and 38.1% agree that “*They are a burden on us*” when asked about the Syrian refugees.¹⁹⁴ Not only civil society, but also opposition parties have increasingly positioned themselves against the hosting of Syrian refugees. The CHP, İYİ and the Victory Party (*Zafer Partisi*) have used the refugee crisis as an opportunity to foster public dissatisfaction with the

¹⁸⁸ The government maintains a geographical limitation to the 1951 Refugee Convention. For more, see United Nations High Commissioner for Refugees, “The Republic of Turkey,” n.d., <https://www.refworld.org/pdfid/5541e6694.pdf>.

¹⁸⁹ Ibrahim Saylan and Müge Saylan, “Discourses of Turkish Opposition Political Parties towards Syrian Refugees: Securitization and Repatriation,” *Dergipark.org* (Eskişehir Osmangazi Üniversitesi, 2023), <https://dergipark.org.tr/tr/download/article-file/2969455>.

¹⁹⁰ Upinion, “Long Road to Return III,” *11.Be*, 2022, <https://11.be/sites/default/files/2022-03/202203-11paper-Upinion-Syrian-Refugees-in-Turkey.pdf>.

¹⁹¹ BDP, “Syrians in Turkey,” bpb.de, July 5, 2023, <https://www.bpb.de/themen/migration-integration/laenderprofile/english-version-country-profiles/522820/syrians-in-turkey/#:~:text=acquire%20Turkish%20citizenship.->.

¹⁹² The Day After and Orient Policy Centre, “Syrian Refugees in Turkey: Perceptions on Return to Syria” (The Day After, 2020), <https://tda-sy.org/wp-content/uploads/2020/05/Syrian-Refugees-in-Turkey-Perceptions-on-Return-to-Syria.pdf>.

¹⁹³ BDP, “Syrians in Turkey,” bpb.de, July 5, 2023, <https://www.bpb.de/themen/migration-integration/laenderprofile/english-version-country-profiles/522820/syrians-in-turkey/#:~:text=acquire%20Turkish%20citizenship.->.

¹⁹⁴ MÜGAM (Ankara University - Mülkiye Migration Research Center), “A Framework for Achieving Social Cohesion with Syrians in Türkiye” (Egiten Book Publishing, November 2022).

AKP's management. Thus, the refugee issue has increasingly gained space in the political agenda, to the point where, recently, the country has faced the creation of the first explicitly anti-immigration party; the Victory Party, as well as the initiation of the "repatriation debates".¹⁹⁵ Such harsh social and political rejections have resulted in the rising willingness of Syrians to leave Türkiye, which they are however unable to do due to the system of "temporary protection" which hinders them from lawfully pursuing resettlement in foreign countries of their choosing.¹⁹⁶ Harsh economic conditions that affect the Turks have also fuelled reluctance to hosting refugees. Social cohesion between Syrian refugees and Turks has deteriorated since 2019,¹⁹⁷ leading to frequent hostile acts against Syrian refugees.

Security Concerns: Extremist Menace

Since the beginning of the crisis, there have been concerns about the use of refugee camps as hubs for Islamic terrorist radicalisation. However, given the current geographical distribution of refugees and the insufficient integration policies and security measures,¹⁹⁸ it is likely that this risk has shifted to urban centers where there is a greater presence of this population group. Moreover, Türkiye's deeply polarized society and rising political Islamism is likely to serve as the perfect ground for terrorist groups to strengthen.

The Repatriation Alternative

The viability of full repatriation is highly unlikely. However, what is likely is that the AKP will continue seeking alternatives to repatriate as many refugees as possible. Up until this day, the AKP has achieved the voluntary return to safe areas of at least 600.000 Syrians,¹⁹⁹ through mechanisms whose legality and morality have been questioned by human rights bodies. Amnesty International has proven many Syrians had been coerced or misled when signing so-called "voluntary return" documents.²⁰⁰ The government has an ongoing project to relocate 1 million Syrian refugees to Northern

¹⁹⁵ Discourses of Turkish Opposition Political Parties towards Syrian Refugees: Securitization and Repatriation- article.

¹⁹⁶ Durukan Imrie-Kuzu and Alpaslan Özerdem, "Keeping Syrian Refugees in Turkey Is Not a Good Idea: A New Concept of 'Reluctant Local Integration,'" *Third World Quarterly*, April 10, 2023, 1–19, <https://doi.org/10.1080/01436597.2023.2197205>.

¹⁹⁷ Nienke Van Heukelingen and Friedrich Püttmann, "Clingendael Alert with or without Erdoğan, We Need to Talk about Refugees Again MAY 2023," 2023, [https://www.clingendael.org/sites/default/files/2023-05/Clingendael Alert With or without Erdo%C4%9Fan we need to talk about refugees again.pdf](https://www.clingendael.org/sites/default/files/2023-05/Clingendael%20Alert%20With%20or%20without%20Erdo%C4%9Fan%20we%20need%20to%20talk%20about%20refugees%20again.pdf).

¹⁹⁸ Multifaith Alliance for Syrian Refugees, "Overcoming the Three Great Fears: Responding to the Most Prevalent Fears about Syrian Refugees," *Ohchr.org*, 2018, <https://www.ohchr.org/sites/default/files/Documents/Issues/Religion/Islamophobia-AntiMuslim/Civil%20Society%20or%20Individuals/MultifaithAllianceforSyrianRefugees-1.pdf>.

¹⁹⁹ Burcu Karakas et al., "Turkey's Erdogan Faces Struggle to Meet Syrian Refugee Promise," *Reuters*, May 31, 2023, sec. Middle East, <https://www.reuters.com/world/middle-east/turkeys-erdogan-faces-struggle-meet-syrian-refugee-promise-2023-05-31/>.

²⁰⁰ Amnesty International, "Turkey Is Illegally Deporting Syrians into War Zones," Amnesty International, October 25, 2019, <https://www.amnesty.org/en/latest/press-release/2019/10/turkey-syrians-illegally-deported-into-war-ahead-of-anticipated-safe-zone/#:~:text=The%20Turkish%20government%20claims%20that>.

Syria “*liberated region*” within a year, for which international financial backing is being sought.²⁰¹ Thus, it is likely that more conjoined initiatives, such as the Jaralabus project, may emerge in the medium term.²⁰² If these returns continue to be pursued, it is highly likely that the international community will respond, in defense of the principle of non-refoulement.

Social Cohesion

Poverty Rate

Relative poverty rate in Türkiye has remained stable during the past few years, successfully recovering from an increase due to the Covid-19 pandemic. In 2022, the relative poverty rate in Türkiye was 14.4%.²⁰³ On another note, the extreme poverty rate is currently below 3%, which means less than 0.5% of the global population currently living in extreme poverty live in Türkiye.²⁰⁴ Peaking inflation in 2022 could have dragged many down into poverty conditions.²⁰⁵ However, Erdogan’s government managed to keep poverty rates afloat in the months previous to the May 2023 elections through high levels of public expenditure which increased the population’s purchasing power²⁰⁶ by proportionally increasing minimum and average wages over the CPI. The World Bank identifies a strong private sector as the main driver to a stable poverty rate reduction in the medium and long term.²⁰⁷ Therefore, the maintenance of an economic “*orthodox*” policy which favors the revitalisation of the private sector through privatization, incentivisation of FDI and increase of exports is likely to be beneficial to poverty reduction. However, public spending must not be disregarded in the face of the upcoming elections.

Poverty as a Motor of Social Unrest

Falling into poverty raises the risk of decreasing civic and political participation.²⁰⁸ Hence, people living in poverty conditions are rather unlikely to promote protests and riots leading to social unrest.

²⁰¹ Francesco Siccaldi, Alper Coskun, and Marc Pierini, “What to Expect from Erdoğan’s New Term” (Carnegie Endowment for International Peace, June 2023), <https://carnegieendowment.org/2023/06/14/what-to-expect-from-erdo-s-new-term-pub-89960>.

²⁰² Burcu Karakas et al., “Turkey’s Erdogan Faces Struggle to Meet Syrian Refugee Promise,” *Reuters*, May 31, 2023, sec. Middle East, <https://www.reuters.com/world/middle-east/turkeys-erdogan-faces-struggle-meet-syrian-refugee-promise-2023-05-31/>.

²⁰³ Turkish Statistikal Institute (TUIK), “Poverty and Living Conditions Statistics, 2022,” data.tuik.gov.tr, May 8, 2023, <https://data.tuik.gov.tr/Bulten/Index?p=Poverty-and-Living-Conditions-Statistics-2022-49746>.

²⁰⁴ World Data Lab, “World Poverty Clock,” 2023, <https://worldpoverty.io/map>.

²⁰⁵ Jeni Klugman, “A Sourcebook for Poverty Reduction Strategies. Volume 2: Macroeconomic and Sectoral Approaches. A Sourcebook for Poverty Reduction Strategies,” (12.2 the Links between Macroeconomic Policy and Poverty Reduction, 2002).

²⁰⁶ Ayşe Aylin Bayar, Öner Günçavdı, and Haluk Levent, “Evaluating the Impacts of the COVID-19 Pandemic on Unemployment, Income Distribution and Poverty in Turkey” (ELSEVIER. Economic Systems Volume 47, Issue 1, March 2023, 101046, September 10, 2022) <https://www.sciencedirect.com.ezproxy.unav.es/science/article/pii/S093936252200108X?via%3Dihub>.

²⁰⁷ *Ibid.* page 5.

²⁰⁸ Carina Mood and Jan O. Jonsson, “The Social Consequences of Poverty: An Empirical Test on Longitudinal Data,” May 17, 2015, <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4863915/>.

The epicenter of social and political mobilization is therefore more accurately found in social groups belonging to lower income households, but not at the poverty level. The Turkish Statistical Institute operationalised this index and labeled it as the “risk-of-poverty or social exclusion rate”,²⁰⁹ which was 32.6% in 2022, much higher than the 14.1% relative poverty rate. Guided by this percentage, and even though it is higher than the poverty rate, it has remained stable in recent years, during which there has been no nationwide serious social unrest stemming solely from economic unease. This, along with a forecast of economic improvement at the macroeconomic level, can further reduce the chances of social unrest motivated by economic factors.

Inequality and Development

Despite the GINI coefficient has slightly lowered from 0.419 in 2019 to 0.415 in 2021,²¹⁰ it still remains above the main advanced economies. According to the 2022 World Inequality Report, the top richest 10% of Turks possess 68% of national household wealth;²¹¹ the middle 40% hold 29% and the bottom 50% a scarce 4%. Female labor share was 23% in 2021, still far from the 50% parity share. On another note, Türkiye’s HDI has been gradually and uninterruptedly increasing since the 1990s. In 2021, Türkiye ranked 48th in the world (out of 191 countries) with a 0.838 mark.²¹²

Geographical Economic and Development Disparities

Eastern regions’ economic and development inequalities with the west persist as a significant concern in national politics and development policy. Both are unlikely to decrease in the medium term owing to structural economic and migration trends which are hard to reverse. Among OECD countries, Türkiye has the largest regional disparities in terms of GDP per capita across small regions,²¹³ mainly due to structural development gaps between the east and the west which. Currently, GDP growth and per capita income concentrate in industrial and financial hotspots such as Istanbul, Ankara and İzmir, who were the three main regions receptors of internal migration in 2022.²¹⁴ Geographical underdevelopment of the east not only manifests economically, but also in terms of life expectancy at

²⁰⁹ The proportion of those at-risk-of-poverty or social exclusion is defined as the deprivation of at least one of the indicators of relative poverty, severe material and social deprivation, low-work intensity (Turkish Statistikal Institute (TUIK), “Poverty and Living Conditions Statistics, 2022,” data.tuik.gov.tr, May 8, 2023, <https://data.tuik.gov.tr/Bulten/Index?p=Poverty-and-Living-Conditions-Statistics-2022-49746>.)

²¹⁰ ICEX, “Ficha País: Turquía,” April 2022.

²¹¹ Household wealth is the sum of all financial assets (e.g.: stocks and bonds) and non-financial assets (eg.: housing), net of debts. World Inequality Lab, “World Inequality Report 2022,” World Inequality Report 2022, 2022, <https://wir2022.wid.world/>.

²¹² UN Development Program, “Human Development Index - Türkiye,” September 8, 2022.

²¹³ OECD, “Regions and Cities at a Glance 2018 - Turkey,” March 5, 2019, <https://www.oecd.org/cfe/TURKEY-Regions-and-Cities-2018.pdf>.

²¹⁴ Turkish Statistikal Institute (TUIK), “Internal Migration Statistics, 2022,” data.tuik.gov.tr, August 14, 2023, <https://data.tuik.gov.tr/Bulten/Index?p=Internal-Migration-Statistics-2022-49727>.

birth and years of schooling, which tend to be lower in south-eastern regions.²¹⁵ As a result, eastern regions present Human Development Indexes slightly lower than the western ones.²¹⁶ Non-economic factors affecting southeastern areas such as the government's policy on Kurds, international migration, civil war and terrorist activity are likely to hinder the development of regions exposed to it,²¹⁷ likely neutralizing the effectiveness of government's efforts such as place-based subsidies to reduce geographical inequality.²¹⁸

Divisions Eroding Social Cohesion

Identity politics heavily erodes democracy and social cohesion in Türkiye, as it is conducted on the basis of an “us versus them” discourse which opposes social groups as a vote capturing strategy. As long as this strategy is pursued, the repression of minorities will continue, hence intensifying the disaffection of these groups from the political elites. The main divisions identified in Turkish society are the following: (i) kemalists (secularists) vs Islamists (non-secularists); (ii) Sunni Muslims vs Alevis; and (iii) Turkish nationalists vs ethnic minorities (mainly Kurds). If nation-wide social unrest in the form of riots were to arise, they would likely be based on confrontation within these divisions.

Firstly, an increased Islamization of politics and the identification of national identity with Sunni Islam have come in hand with the political repression of secularism. A plausible trigger for social unrest arising from this group is the approval of a new constitution by the AKP, which would most likely imply the rewriting of Article 2²¹⁹ and changes in the electoral and political system would likely trigger reactions from CHP supporters. Secondly, the AKP qualifies Alevis²²⁰ as a “*heterodox Muslim sect*” categorizing its worship as cultural rather than religious.²²¹ In 2022, among the 36 hate crimes reported

²¹⁵ Gezici, F and G JD Hewings (2007), “Spatial Analysis of Regional Inequalities in Turkey”, *European Planning Studies* 15 (3): 383–403.

²¹⁶ Global Data Lab, “Subnational HDI - Subnational HDI - Table - Global Data Lab,” [globaldatalab.org](https://globaldatalab.org/shdi/table/shdi/TUR/?levels=1+4&interpolation=0&extrapolation=0), 2023, <https://globaldatalab.org/shdi/table/shdi/TUR/?levels=1+4&interpolation=0&extrapolation=0>.

²¹⁷ Hacer Simay Karaalp-Orhan, “Regional Disparities in Turkey: A Socio-Economic Perspective” (*European Journal of Sustainable Development* (2020), 9, 3, 103-115 ISSN: 2239-5938 Doi:10.14207/ejsd.2020.v9n3p103, 2020. , October 1, 2020), <https://ecsdev.org/ojs/index.php/ejsd/article/view/1073>.

²¹⁸ Enghin Atalay et al., “Micro- and Macroeconomic Impacts of a Place-Based Industrial Policy,” June 6, 2023, <https://enghinalatay.github.io/turkey.pdf>.

²¹⁹ Article 2 of the Turkish Constitution establishes Türkiye as a “*secular and social state [...] loyal to the nationalism of Atatürk*”. (Türkiye, “Constitution of the Republic of Türkiye. Article 96, Grand National Assembly of Türkiye, “Constitution of the Republic of Turkey.” (1982) <https://www.ilo.org/dyn/natlex/docs/ELECTRONIC/39950/112944/F1991929622/TUR39950%20Eng2.pdf>.)

²²⁰ Alevis who constitute the largest religious minority in Türkiye (between 10-20% of the total population). (Adam Zeidan, “Who Are the Alevis in Turkey? | Britannica,” [www.britannica.com](https://www.britannica.com/story/who-are-the-alevis-in-turkey), May 16, 2023, <https://www.britannica.com/story/who-are-the-alevis-in-turkey>)

²²¹ Office of International Religious Freedom, “2022 Report on International Religious Freedom: Turkey (Türkiye),” United States Department of State, 2022, <https://www.state.gov/reports/2022-report-on-international-religious-freedom/turkey/#:~:text=individual%20religious%20foundations>

by the Freedom of Belief Initiative (İÖG), 15 targeted Alevis.²²² In the medium term, repression is likely to continue as part of conservative Islamism politics. Concerning the Kurdish issue, both a future ban of HDP and a revival of the PKK (*Partiya Karkerên Kurdistan*) armed conflict would most likely generate deep social unrest. The possibility of intersectional mobilizations encompassing all minorities or repressed groups must not be disregarded as a plausible scenario, as it already happened in the Gezi Park protests in 2013.

Corruption: The Fourth State Power

Türkiye's Corruption Perception Index (CPI)²²³ was 36 out of 100 in 2022. Türkiye globally ranked 101 out of 180 countries.²²⁴ The possibility of EU accession was the major driver of anti-corruption efforts in Türkiye during Erdogan's first period.²²⁵ However, the turn to a conservative Islamic authoritarian government in 2013 brought with it a regressive trend in the CPI that has continued to this day. Empirical analysis finds that high-level corruption is closely linked to political instability, weakened institutions and – in the most extreme cases – violent conflicts.²²⁶ As long as the political and economic benefits of corruption continue to be higher than the social unrest generated by the mistrust and disaffection it causes, it is unlikely that corruption will improve on the government's own initiative in the medium term. However, the known existence of it continuously erodes public trust.

Clientelism and Cronyism

Clientelism and cronyism are likely to keep causing the wrongful allocation of public economic resources marked by political interests, hence perpetuating territorial and sectoral inequalities.²²⁷ Recently, the February earthquakes brought up endemic corruption cases in Türkiye's political system.²²⁸ Unless efforts of “*orthodox*” disintervention are conducted in the medium term, the government is likely to continue controlling the private business sector through the creation of jobs and the granting of subsidies to companies, especially in rural low-income areas. On another note,

²²² SCF, “Most Religion-Based Hate Crimes in Turkey Targeted Alevis, Christians in 2022: Report,” Stockholm Center for Freedom, August 8, 2023, <https://stockholmcf.org/most-religion-based-hate-crimes-in-turkey-targeted-alevis-christians-in-2022-report/>.

²²³ CPI measures public sector corruption using a scale from 1 to 100, in which 100 relates to “very clean” and 0 to “highly corrupt”. (Transparency International, “Corruption Perceptions Index,” Transparency International, 2022, <https://www.transparency.org/en/cpi/2022>.)

²²⁴ Transparency International, “Corruption Perceptions Index,” Transparency International, 2022, <https://www.transparency.org/en/cpi/2022>.

²²⁵ Transparency International, “Turkey and Western Balkans: National Integrity Systems - Projects,” Transparency.org, 2018, <https://www.transparency.org/en/projects/turkey-and-western-balkans-national-integrity-systems>.

²²⁶ Transparency International, “Corruptions Perception Index Report 2022,” 2023, page 13 https://images.transparencycdn.org/images/Report_CPI2022_English.pdf.

²²⁷ *Ibid.*

²²⁸ Hürcan Aslı Aksoy and Salim Çevik, “Political and Economic Implications of the Turkish Earthquakes” (SWP, March 19, 2023), https://www.swp-berlin.org/publications/products/comments/2023C19_TurkishEarthquakes.pdf.

institutional corruption through the politicization of the judiciary and the military²²⁹ is highly unlikely to reverse in the medium term.

Lack of Transparency

Controlling information flows is key to the AKP's aim of dominating the narrative that reaches civil society, which is crucial for the maintenance of political power. The AKP's decrease in popularity is likely to encourage the continuation and intensification of freedom of press and speech repression, which may add to mistrust and disaffection between society and the government. Government institutions have on many occasions been accused of data manipulation and censorship to which the AKP has responded by judicially and politically repressing national instigators.²³⁰ By way of example, in October 2022 the Council of Europe warned on the passing of the "*disinformation law*", which could lead to subduing public debate and the jailing of journalists.²³¹

The Kurdish issue

Türkiye's Kurdish and PKK policy has implications for the country's democracy and security, as well as its relations with neighboring countries.²³² The Kurdish struggle is unlikely to soothe in the medium term due to continuous political and social state-repression on Kurds and the revival of the armed conflict by the PKK, which could likely lead to serious social unrest. This section concludes with the construction of possible scenarios regarding the evolution of the Kurdish issue in the short term.

The Political Scope

The current AKP's identity politics is likely to continue seeking to push Kurdish political representation to the margins of politics through state-led political repression and censorship on Kurdish political parties, which the government legitimizes by claiming they hold ties with the PKK.²³³ Historically, the shutting down of parties and the imprisonment of Kurdish politicians and activists has

²²⁹ Adar Sinem and Seufert Günter, "Turkey's Presidential System after Two and a Half Years: An Overview of Institutions and Politics," *Ssoar.info* (Stiftung Wissenschaft Und Politik (SWP), 2021), https://www.ssoar.info/ssoar/bitstream/handle/document/76383/ssoar-2021-adar_et_al-Turkeys_presidential_system_after_two.pdf?sequence=1&isAllowed=y&lnkname=ssoar-2021-adar_et_al-Turkeys_presidential_system_after_two.pdf.

²³⁰ Mustafa Sonmez, "Turkish Opposition Leader Barred from Data Center as Mistrust in Data Grows - Al-Monitor: Independent, Trusted Coverage of the Middle East," *www.al-monitor.com*, December 6, 2021, <https://www.al-monitor.com/originals/2021/12/turkish-opposition-leader-barred-data-center-mistrust-data-grows>.

²³¹ Ruth Michaelson, "Turkey: New 'Disinformation' Law Could Jail Journalists for Three Years," *The Guardian*, October 13, 2022, <https://www.theguardian.com/world/2022/oct/13/turkey-new-disinformation-law-could-jail-journalists-for-3-years>.

²³² Soner Cagaptay, *The New Sultan*, "Chapter 10 The Future of the Turkish Kurds: Peace or Fire?" Essay. In *The New Sultan: Erdogan and the Crisis of Modern Turkey*, 143. London, UK: I. B. Tauris, 2017. (Bloomsbury Publishing, 2017).

²³³ *The Economist*, "Turkey's Kurds Are Joining the Coalition to Oust Erdogan," *The Economist*, April 5, 2023, <https://www.economist.com/europe/2023/04/05/turkeys-kurds-are-joining-the-coalition-to-oust-erdogan>.

not been able to silence the Kurdish political movement. An example of this has taken place in 2023, when the HDP has reorganized under the HEDEP, motivated by the risk of the former being banned by the Constitutional Court due to an indictment presented demanding its shutdown. Social unrest and riots are likely to arise if the HDP is finally banned in forthcoming months. Amnesty International has already affirmed the HDP's closure would violate rights to freedom of expression and association.²³⁴

The Armed Fight Scope: the PKK

The repression and bans on Kurdish society highly contributed to the emergence of the PKK in 1978, which was able to build a popular base among Kurds.²³⁵ Despite the fact that the PKK's violent actions are currently more prominent in areas close to the Turkish borders with Syria and Iraq, and that the overall fatality rate has decreased since 2017²³⁶ - which suggests an improvement in security concerns for Turkish civil society - the PKK issue still represents a preoccupying source of political disaffection and social instability in Türkiye's Kurdish regions.²³⁷

In the short term, domestic violence arising from the PKK is likely to represent a greater issue than that from Kurdish groups in Syria and Iraq. The September 30th attack in Ankara - which the PKK claimed responsibility for - is highly likely to further harden Erdogan's position on the Kurds through the conduction of military repression. He states: "We will continue our struggle with determination until the last terrorist is eliminated."²³⁸ Hence, violent actions by both the PKK and the Turkish military are likely to surge in the short term, leading to unrest in Turkish regions with Kurdish presence. On another note, the scenario of the Syrian and Iraqi governments taking control over the semi-autonomous and autonomous Kurdish organizations settled in their territory is highly implausible. Currently, the Kurdistan Regional Government in Iraq even advocates for a "*constructive and stable partnership with Baghdad*".²³⁹ However, were this scenario to take place, it is highly likely the Kurdish population in those areas would seek to reorganize in Turkish territory near their respective borders.

²³⁴ Amnesty International, "Türkiye: HDP Closure Would Violate Rights to Freedom of Expression and Association," Amnistia Internacional, April 11, 2023, <https://www.amnesty.org/es/documents/eur44/6663/2023/en/>.

²³⁵ Soner Cagaptay, *The New Sultan*, "Chapter 10 The Future of the Turkish Kurds: Peace or Fire?" Essay. In *The New Sultan: Erdogan and the Crisis of Modern Turkey*, 143. London, UK: I. B. Tauris, 2017. (Bloomsbury Publishing, 2017).

²³⁶ International Crisis Group, "Türkiye's PKK Conflict: A Visual Explainer," www.crisisgroup.org, October 6, 2023, <https://www.crisisgroup.org/content/turkiyes-pkk-conflict-visual-explainer>.

²³⁷ Soner Cagaptay, *The New Sultan*, "Chapter 10 The Future of the Turkish Kurds: Peace or Fire?" Essay. In *The New Sultan: Erdogan and the Crisis of Modern Turkey*, 143. London, UK: I. B. Tauris, 2017. (Bloomsbury Publishing, 2017).

²³⁸ Ben Hubbard and Safak Timur, "Turkey Strikes Kurdish Rebels after Suicide Attack in Ankara," *The New York Times*, October 1, 2023, sec. World, <https://www.nytimes.com/2023/10/01/world/europe/turkey-bomb-attack-ankara.html>.

²³⁹ Kurdistan Regional Government. "Erbil-Baghdad Relations." Kurdistan Regional Government. <https://gov.krd/english/the-governments-mission/erbil-baghdad-relations/>.

In such a case, heavy military repression from the Turkish government would likely be conducted in order to avoid the settlement of these populations, likely triggering deep social and violent unrest.

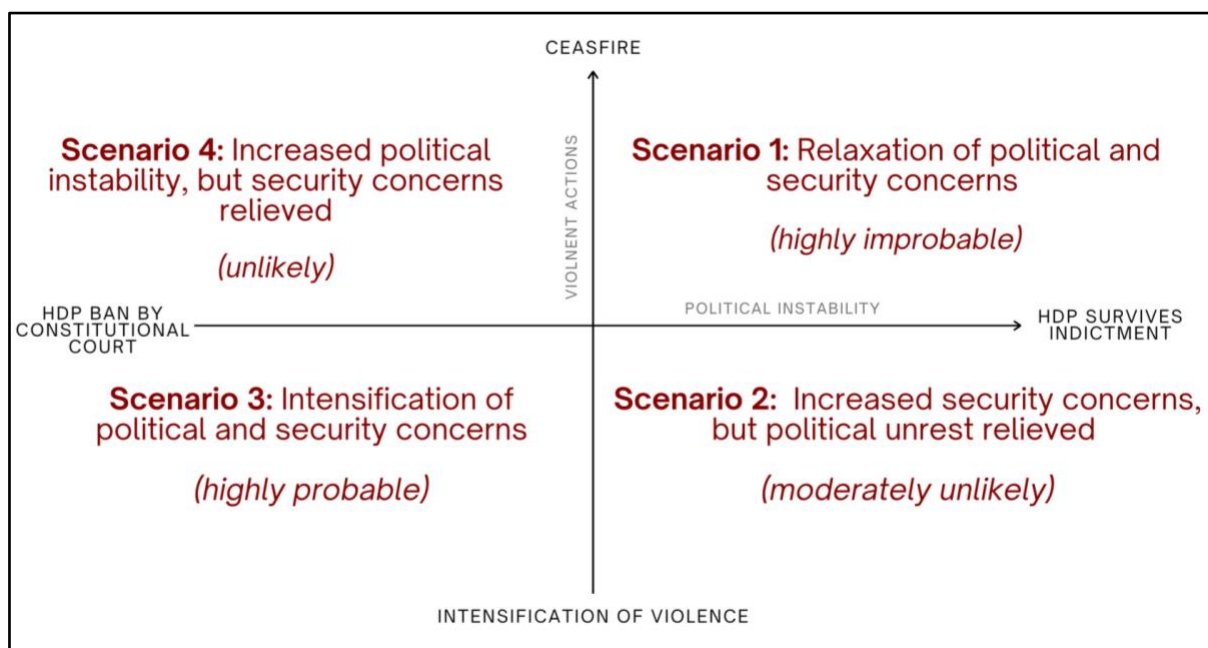
Obstacles to the End of the Struggle

The AKP’s current political distancing from the Kurdish spheres, added to repression exercised on the HDP in 2023, are likely to add to a greater political and social disaffection from the Kurds. Hence, no rapprochement may be expected in the short term. Moreover, at this point in the struggle, it is unlikely that the recognition of cultural and linguistic rights would be enough without being complemented by the granting of political rights and administrative autonomy concessions. Engagement in violent actions by the PKK heavily undermines Kurdish peaceful social and political movements, preventing a peaceful solution through dialogue.²⁴⁰ PKK violence favours Erdogan’s “*us versus them*” discourse, which presents Kurds as a source of insecurity for Turkish society.²⁴¹ This discourse contributes to the alienation of Kurdish society, which is criminalized before the rest of Turkish society.

Scenario Construction

Research Question: *Evolution of the Kurdish issue in the short-term.*

Figure 8: Evolution of the Kurdish issue in the short-term (until November 2024)



²⁴⁰ Cağaptay, Soner. “Chapter 10 The Future of the Turkish Kurds: Peace or Fire?” Essay. In *The New Sultan: Erdogan and the Crisis of Modern Turkey*, 150. London, UK: I. B. Tauris, 2017.

²⁴¹ Murat Akser, “News Media Consolidation and Censorship in Turkey,” *Mediterranean Quarterly* 29, no. 3 (September 1, 2018): 78–97, <https://doi.org/10.1215/10474552-7003180>.

Scenario 1: Relaxation of political and security concerns (*highly improbable*)

The current presidential system hinders an inclusive peaceful ceasefire process through political consensus within the Parliament. Moreover, this scenario is highly improbable because it would lead to a crackdown of the AKP's alliance with the MHP (who strongly oppose any form of dialogue with the Kurds), which it currently depends on for absolute majority. However, a possible “*black swan*”²⁴² which could lead to this scenario in the medium term may be identified: if the AKP's results in the March 2024 elections suggested a high risk of losing the 2028 general elections, the option of Erdogan shifting its identity politics by reformulating “Turkish identity” in order to seek support from other minority groups in Parliament must not be disregarded, which could involve a rapprochement to Kurdish political representation complemented by a relief of military repression.

Scenario 2: Increased security concerns, but political unrest relieved (*moderately unlikely*)

This scenario is implausible given that an increase in security concerns is highly unlikely not to lead to political and social instability and tension. In the case the HDP was not eventually banned by the Constitutional Court, manifestations and riots would not arise from this issue, but the overall political and social tensions would not disappear. State-controlled media would likely continue to criminalize Kurdish political movements on grounds of continued PKK violence.

Scenario 3: Intensification of political and security concerns (*highly probable*)

The shutdown of the HDP would plausibly trigger social mobilizations on the argument of long lasting political repression, leading to increased social and political disaffection. State-controlled media would likely play a key role in misinformation issues. Although this scenario would likely reinforce the AKP's alliance with the ultra-nationalist MHP, it would certainly decrease its overall popularity among civil society.

Scenario 4: Increased political instability, but security concerns relieved (*unlikely*)

A ceasefire of the Kurdish conflict with the HDP party being banned would signify a victory for Erdogan. Reaching a ceasefire would unlikely involve a Parliamentary debate, implying that any ceasefire would be Erdogan-led. This “*victory*” would likely imply a high public expenditure to cover conflict costs, particularly through the development of the drone industry. The unfolding of this

²⁴² A Black Swan is an “unpredictable event that is beyond what is normally expected of a situation and has potentially severe consequences”. (Investopedia, “Black Swan in the Stock Market: What Is It, with Examples and History,” Investopedia, September 29, 2023, <https://www.investopedia.com/terms/b/blackswan.asp#:~:text=Error%20Code%3A%20100013.>)

scenario would probably deteriorate the AKP-MHP alliance, but not extinguish it as the common position against the Kurds would persist. However, social unrest would not arise from security concerns.

Conclusion

It is in the Turkish government's priorities to develop mainly the industrial, high-tech, energy and infrastructure sectors. To this end, Türkiye is likely to foster the conduction of medium and long term projects with high potential to generate large volumes of revenues. As Türkiye depends on foreign investment in order to finance the totality of such far-reaching endeavors, it is likely to ease investment to the greatest extent possible. Structural changes taking place since June 2023 within the main economic state institutions such as the Central Bank, and the implementation of a more "*orthodox*" economic policy suggest that the quest to attract foreign investment is among the priorities of this new legislature. Nonetheless, the currently devalued TRY - which decreases the profitability of lira revenues due to high exchange rates - is likely to deter some potential investors, hence becoming a main obstacle to overcome. In the medium term, there are no signs that the lira will appreciate.

On another note, a number of contingencies have been identified in the political and social scope that may affect the country's macroeconomic stability and should be taken into account when choosing Türkiye as an investment destination. These include the polarization of the political arena, the deep social division caused by the repression of minorities - especially Kurds, seculars, Syrian refugees and Alevis -, systemic corruption and the politicization of institutions such as the judiciary and the military.

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