



Transcript

Turkey's Local Elections: A Verdict on Erdoğan?

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1 April 2014

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Baroness Hussein-Ece:

Can I just say a big welcome to everybody who's come here today, to Chatham House, for this very timely and pertinent debate and event on events that have just happened only on Sunday. So the verdict on Erdoğan is the title - the discussion might be a bit more wide-ranging, I suspect.

First of all, I want to introduce myself. My name is Meral Hussein-Ece. I'm a member of the House of Lords, a Liberal Democrat member of the House of Lords, and I'm from a Turkish Cypriot background myself. I'm the only person in Parliament from that particular background. As you can imagine, this particular subject has been absorbing myself and my family for some considerable time. I've been asked to discuss it with a wider audience as well.

Just to let everybody know, this event is on the record. The Chatham House rule usually suggests they're not, but this is on the record and it is being recorded and it will be up on the internet. Any of you who are on Twitter or social media are quite welcome to comment via Twitter using the hashtag #CHEvents.

I'm very pleased to have a very distinguished panel that will inform the debate. So I just want to introduce them very briefly. On my left here, first of all, is Sir David Reddaway, who was the British ambassador to Turkey from 2009 up until January, I believe. So he's just very, very recently returned. Then we have Turker Hamzaoglu, who's the senior economist for the Bank of America Merrill Lynch, who's going to obviously focus I think more on economic matters. Then we have Fadi Hakura, who's the associate fellow for the Europe programme here at Chatham House.

I'm going to ask them to speak for six to eight minutes each. We'll hear everybody, then I'm going to throw it open for questions. I would ask that, when we get to the questions, that people stay in their seats and a microphone will come to you. And you say: who you are and where you're from, and ask a succinct question. I think we'll start. We need to finish at 2:00 pm sharp, so we will start and I will make sure that we'll have enough time for all of you to put your questions or comments after the speakers.

First of all, I'm going to ask Sir David Reddaway to address the meeting. Thank you.

Sir David Reddaway:

Thank you very much, Meral. I'm just going to focus on the politics at the start. I won't go through the detail of the results, which has been well carried

in the press. But clearly the big winner is Prime Minister Erdoğan himself. He will take this outcome as an endorsement of his own position and of his policies.

I think it's important when looking at this election to say that certainly in the Turkish government's vision, it was always round one of three rounds. Important in its own right, but also setting the battleground for the presidential elections and the forthcoming general elections, whenever they are due to be held. It ended up, for reasons with which you'll all be familiar, as a referendum on Prime Minister Erdoğan himself, and he clearly made the right calculation on his support in his political heartland and on the numerical strength he could find there.

It was a clear policy of concentrating, from the time of Gezi Park, on consolidating his base rather than trying to win over the undecided. He's shown that he can win an election resoundingly without [the] involvement of some whose support he had before.

What this result also shows is that his core constituency still see him as their best champion. He's done well for them economically, socially, politically. They don't seem to care or believe the allegations made, circulated so widely in Turkey and internationally, nor the effect we've seen on the rule of law architecture in recent months. They seem to take the view that the tide has risen benefitting all of them and they've continued to support the prime minister. Very much a personal endorsement. I think what the result has also shown is the difficulty for the opposition in beating the AKP (AK Party), if they remain divided, and when the economy is still doing comparatively well.

If we look at what's likely to happen now, I think we're going to move straight into pre-electoral confrontation. The AKP are very energetic and we'll see if the opposition are equally energetic. But there's going to be no resting on the result and move towards harmonization, and so on. I think we're going to see continuing polarization ahead of a decision on the presidential elections, and ahead of the next general election.

The outcome we've just seen strongly places Prime Minister Erdoğan for a decision on whether to run for the presidency or to remain as prime minister. There has been a lot of speculation about which of these is more likely. There are entirely logical arguments for a decision either way. I think he possibly hadn't taken a decision until seeing what the results of these elections just past were, because now he's in a very different position for negotiations than he would have been if the results had been disappointing.

He is, of course, only barred from standing as prime minister again by a party regulation, not by legal regulation. I would argue that if he wanted to change that rule – and I don't know that he does – he could easily do it and he could justify it on the basis of needing to deal with the conspirators who now demand new conditions in Turkish politics.

So if I had to put my money on whether he'd run for president or prime minister, I wouldn't, because I don't yet have a firm basis for knowing. Some would argue that in many ways, Erdoğan is more suited to be prime minister and Gül is more suited to be president. We don't know the answer to that one, either. But there's a decision to be made now and made quickly.

I think the other factor is that all policy decisions now are going to be heavily influenced by the prospect of elections. The main interest in this is the prime minister has had an endorsement of his Kurdish policy. It will also be interesting to see, and Turker is going to talk about this, about the competition between long-term stability requirements for the economy and short-term electoral benefits. But I have no doubt that the approach of elections is going to weigh very heavily on all decision-making.

What does all this mean for Turkey's friends like the UK and others? I think there are going to be some challenges. Turkey, of course, remains an extremely important economic partner, regional player - and Syria is still a problem for us all - , and political partner, NATO ally, and so on.

But I think there will be tensions over our concerns over some of the issues of freedom of expression and the rule of law architecture. I don't think that these concerns will be tremendously welcomed in the run-up to elections. I think it's also fair to say that the prime minister of Turkey is likely to be more influenced by domestic electoral considerations than by the views of his friends. But for the outside players, I think we will be likely – and I'm out of date already – to argue for continuing reform. In the UK view, this means continuing with the EU accession process to try and help bring Turkey into line with EU norms in some of the areas that have been difficult recently.

So whatever happens, as ever in Turkey, I think the coming months are going to be lively, complex, fascinating and we're still asking questions rather than providing answers.

Baroness Hussein-Ece:

Thank you very much. Now we come to Turker Hamzaoglu. Just a few comments, really. There have been some articles, obviously written on the

back of the elections on Sunday, about what are the implications now in terms of Turkey's economic situation and investment, and what it means internationally. I know you're going to talk about that. Maybe it's still early, but the markets already have responded fairly swiftly on the election results. Perhaps you'd like to take that forward.

Turker Hamzaoglu:

Okay, let me start with that then. Markets, yes, they seem to enjoy the results. Markets do not have a taste for any political preferences. What they care is the political stability. I think their priority right now is, you know, this is something, in some certain degree a risk that they can calculate going forward.

Turkey has been like a safe haven of political risk for such a long time, and then it was first tested last year in May, and then we had, let's say, a very long summer. But over the December – March period, many were caught off guard and they were kind of thinking that maybe things can be much, much different than they had envisaged before.

The initial, or the first test, was the local elections, because you still have the presidential elections, parliamentary elections. So it's kind of a relief for the markets to see that AK Party is winning. But I'm going to just talk about that like there's a disconnect between this short-term relief and the long-term story that Turkey is facing.

I think that we shouldn't read that much from this market's reaction for basically two reasons. As I was saying, last year, since probably the second half of the year, the positioning was very light already in Turkey because from a fundamental point of view, Turkey was seeing one of the weakest investment stories. So many investors reduced their exposure to Turkish assets.

And then, over the Christmas period, over the holiday period, there was this political crisis. Many [were] caught on either holidays or off guard, as I mentioned. So they were not able to respond on this one as well. Then they were side-lined for a good three months, I should say, because they simply couldn't get their head around what's happening. I mean, imagine somebody Turkish last year thinking that this is the investment great story, the rising star of the next five to 10 years, and all of a sudden a corruption case comes up. They don't know about major players in this. They think there's a single majority government. Then they start asking questions, like: 'who are the

parts in this fight? You say this is the single majority government and popular prime minister.'

On the other hand, there is the Gülen movement. Then they ask, 'Who's the leader of this Gülen movement? Is it somebody elected, represented in Turkey?' Then the story gets more and more complicated. For the first time takers of political risk, let's put it that way, from that point of view, they just wish that this is going to go away any time soon. So this relief is related to that initial point of a too complex problem that you want to oversimplify it to an election result and the first test was the local elections.

The second point as I mentioned, the market's relation with this political risk is a different kind. Markets and politics always interact, but the market stake is a very simplistic one. On that one, of course, all those quant models or some sophisticated frameworks are there to predict market prices or the market indicators. But politics is treated as merely unpredictable.

On that regard, they were just waiting for a solid sign of how this is going to play out and the election result for them is kind of a proof. But if you consider those scenarios before the election, there are three of them. The market was thinking, or consensus was, that if AK Party gets 45 per cent: market is ready. We're going to live happily ever after. Yes, people may take it to the street. There will be further political noise. This fight is not going to be over, but as long as it doesn't change the election results, why should we care?

The second outcome was kind of 40 per cent to 45 per cent, because the last election performance was like 39 per cent for AK Party. So they thought, yes, on that scenario there might be some further uncertainties compared to 45, but eventually this is market positive: market is ready. So the only scenario that the market was very sceptic, or scared of seeing was AK Party getting below 40 per cent.

Why? Because they thought that in such a scenario, presidential elections are going to be at risk and then AK Party may even lose the parliamentary elections, that there might be a coalition government. This is something they didn't see in Turkey over the last 10 to 12 years. So they kind of thought that this is the ugliest scenario: market is going to sell off.

As you see, this is an over-simplified version of markets' take on politics. Thank God, in Bank of America Merrill Lynch it complies on legal [and] doesn't allow me to write purely political analysis or do any election scenarios, because I would just turn those scenarios upside down. I would just argue that the short-term relief of the market is going to be a risk for the medium term, like less than 45 per cent. I would say this is probably going to be a risk

factor. Then below 40, initially it might be negative, but then I would argue that in the medium term, maybe it will just offer a silver lining, a chance for a change for the better in Turkey, because I think politics is turning a liability for outlook.

Why do I say that? Just very quick couple of points and then maybe we can discuss more in [the] Q&A session. Think in this way: Turkey's growth model is no longer sustainable. Why do I say so? Because Turkey levels heavily on the domestic demand or domestic market, but they don't have the domestic savings. So what they need is capital inflows. This is a very high current account deficit-creating growth model, but the global backdrop is changing. The abandoned dollar [US] liquidity is not out there. It's getting less. It is getting more expensive. So you have to pay the price to get those dollars, if you just carry on as you have been doing for the last couple of years.

The second point is the government – and these are Prime Minister Erdoğan's own words – they don't care what the rest of the world is thinking about what they're doing. So they're more like inward looking. So think about a government that is becoming more inward looking, but an economic model completely outward looking depending on the capital inflows. So there's a fundamental inconsistency between these two tendencies.

The second part of this equation, for me, is looking at local markets, because AK Party for example is now kind of vindicated with their election results, but there's a good half of the society that didn't vote for AK Party. They feel uncomfortable; they feel a threat over their lifestyle. And think about Turkish domestic savings, the savings I mentioned. Small, in terms of emerging market scale, but they're held mostly by those highly educated urban dwellers, like both couples are working. So a little bit like non-AK Party voters.

In a way, they feel like the last five years' comparison, they're no longer happy to carry on with this negative real interest rates on their savings. From a domestic resources or savings perspective, this is not fundable as well, because those people are seeing for example their saving habits kind of as a reflection, as a safety buffer for their lifestyles. Not anymore, just a pure economic decision.

If you add these two together, you see that actually the last couple of years, last five years, Turkish potential growth has been coming down. Now this potential growth is close to nearly three per cent, coming down from four-and-a-half per cent. Before [the] 2008 crisis, it was five-and-a-half per cent. Rather than these low real interest rates generating a growth boom in Turkey, it just created a misallocation of capital over the last five to eight years.

But in order for us to discuss these kinds of fundamental problems, we have to actually maybe keep our eyes away from these short-term political distractions, or short-term political preferences on macro policies, and we have to focus on medium and long term. On that one, we suggest the preferences in terms of the political preferences, if you compare with what Turkey needs to do for the medium term, they are inconsistent in the way that Turkey seems to be in a middle-income track for the time being. In order to get out of this middle-income track, what they need to do is actually like go for innovation rather than imitation, like just improve the property rights, rule of law. They have to invest in human capital.

If you think of this polarization in the country, diminishing rule of power, or diminishing separation of power and rule of law, those are not good signs for the medium term. Even many [people] think that the verdict on Erdoğan and government is going to be probably dependent on the economic outcome, and it may not create any imminent threat. I think from a medium and long-term perspective, there is a significant inconsistency between short-term political preferences and what Turkey needs to do.

Baroness Hussein-Ece:

Thank you very much, Turker. Now I'm going to bring in Fadi Hakura, who's the associate fellow of the Europe programme here at Chatham House. You're summing up, really, on this panel, and some of the questions, [the] implications of these local elections, that rather extraordinary balcony speech of Recep Tayyip Erdoğan in the evening, with his family around him. Again, where does that leave the Turkish public? Is it an 'us' and 'them' mentality? Perhaps you can touch on some of those.

Fadi Hakura:

I will explain first of all: why did Prime Minister Erdoğan win the elections?, because I think this has not been adequately, I think, dealt with in the media and policy institutes. And secondly, what the future holds for Turkey.

In terms of why did Prime Minister Erdoğan win – first advantage that Prime Minister Erdoğan has is if you look at the distribution of Turkish voters, the vast majority of Turkish voters are on the right wing of Turkish politics. That is on the conservative, religious, nationalist right. Around two-thirds of the Turkish voters are on the nationalist, religious right. And about 30 per cent are on the left, which means Kemalism. And in the middle you have an assortment of centre right and the Kurdish nationalists. Immediately, Prime

Minister Erdoğan has a built-in advantage. All he needs to do is appeal to two thirds of the Turkish electorate, and if he gets a majority of them, he gets 45 per cent. That's what his strategy has been in the elections.

The second reason, I think it's the economy. I don't think that Prime Minister Erdoğan's voters do care too much about corruption or they care too much about media freedoms. Their main concerns are bread-and-butter economic issues. You find that in survey after survey. If you ask voters in Turkey, respondents: 'What priorities do you have?' Number one is the economy. Corruption comes at the bottom, or near the bottom. Media freedoms come near the bottom.

So for the average Turkish voter, the economy comes number one. And for that, the urban poor in Turkey, the rural voters, and the working class have tended to see Prime Minister Erdoğan as a champion for the poor. This is a reversal of Europe. In Europe, traditionally it's the left-wing parties seen as in favour of the poor and the working class, and the right-wing parties in favour of the elites. In Turkey, it's the reverse. Left-wing parties are seen as elitist, and the right-wing parties, conservative religious parties, are seen as in favour of the poor. Prime Minister Erdoğan's manifestation of that image has helped him to continue winning over sizeable segments of the Turkish population.

The third is that we've seen - I think that these elections have put, at least people should allow, should push people to question the romanticization of social media websites. We've seen when Turkey, when Prime Minister Erdoğan banned Twitter, we saw a lot of comments in the media that Twitter, about the Twitter generation, and about Twitter helping mobilize the Gezi Park protests in the summer of last year.

One has to keep the issue of social media into perspective, if only 34 per cent of Turks access the internet. It's just a third. Fifteen per cent of Turks access Twitter. So when you take Twitter, it's only 15 per cent of the Turkish population, and the Turks who do access Twitter tend to be tech savvy, globally connected Turks. It's fair to assume that they tend to vote against Prime Minister Erdoğan. So saw a lot of the romanticization of this social media, networking websites in the media. I think that these elections should put the importance of social media into perspective.

Now the second part I'm going to talk about is what does the future hold. I think that Turkey is entering a new era now. In the past, if you look in the past 50 years, Turkey had a boom and bust economy, pretty much. Populist

spending, high inflation, then followed by economic retrenchment, cutting budgets and so forth. So you had the boom and bust.

I think what Turkey now is entering is economic stagnation. I think this is the first time that Turkey's modern republic is entering into such a - what I mean by stagnation, it's moving sideways. Neither booming, but nor is it collapsing. What we're seeing is stagnation. As Turker mentioned, three per cent growth rates over the long term. That's very, very slow for a country like Turkey. For a developing country like Turkey, that's a very, very slow growth rate.

What does that mean in terms of Prime Minister Erdoğan's future? I think it's the beginning of the decline of Prime Minister Erdoğan. These elections show that it's the beginning of the decline, despite the excellent result that he achieved. Why? If you look at each election, Prime Minister Erdoğan received a higher and higher percentage of the vote. In 2002, Prime Minister Erdoğan got 34 per cent of the vote, 2002 general elections. In the 2004 local elections he got 42 per cent. So already he climbed from 34 to 42 in a matter of two years. Then in [the] 2007 general elections, he got 47 per cent. 2009, it went down to 39. Then it went back up in the 2011 general elections to 50 per cent. Now it's down to 45.

If you take out 2009, you will see that each vote at each election, whether local or general, his vote went up and up and up. This is the first time his vote went down for domestic reasons. The 2009 elections, there was a global recession. So we cannot blame Prime Minister Erdoğan for the impacts of the global recession on the Turkish economy. That was not his fault, or the fault of his policies. So one can exclude that. That was a unique event.

But this year's election, we've seen a decline from 50 to 45, simply because his economic numbers are beginning to deteriorate. If you ask Turkish voters now, we're seeing more and more Turks are beginning to have a negative view of the government's economic performance. It's still starting now. The negativity is starting to go up, but still it's early days. I think over time, over the long term, we'll see his numbers begin to slip gradually, not suddenly, but gradually. A few percentage points, perhaps every few months.

This indicates to me in the longer term that Turkey is entering now a prolonged period of political and economic instability, whether Prime Minister Erdoğan is president or prime minister. Thank you.