



Military Cuops in Turkey and Effects of Last Military Coup Attempt on Turkey's Economy

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Keywords

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Abstract

As a developing country, Turkey needs stability on its macroeconomic figures like sustainable growth, inflow of foreign investment, budget deficit. It is not unique reason but military coups in the past affected development of the country negatively. In 2016, some members of Turkey's armed forces tried to stage a military coup on July 15. The coup attempt was defeated, but had some negative effects on macroeconomic indicators in a midterm period which are affecting development of the country. But as a general composition the last attempt is not so significant compared with earlier military coups. In this study, some macroeconomic indicators of Turkish economy will be analyzed over the end of the years 2015, 2016 and 2017. Within this midterm period numbers are going to be compared according with the indicators of 2015 in order to show the economic result of coup attempt.

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1. Introduction

Modern Turkish Republic was established in 1923 by Mustafa Kemal Atatürk as a constitutional democracy depending on national sovereignty. But in practice it was directed by single party regime until 1950. During Ataturk's period and his follower Inonu, priority of government was economy and development. Heritage of Ottoman Empire was a great debris. According to economic historian Aydemir, in its last decades, Ottoman Empire was a semi - colonial country and at the end of the World War I it was a colonial country (Aydemir, 1999 :325). Depending on state base mixed economic policies, first two decades of modern Turkey can be accepted successful by the perspective of economic development. Despite the great depression in 1929, average growth rate was 7,1 percent (Şahin, 2013:74). But during the World War II it slowed down radically. After World War II many changes occurred all over the world. Of course Turkey was also affected from these changes. With Bretton Woods Money System, USA became dominant power in international economic relations. Institutions like IMF, IBRID (WB), GATT (WTO), were tools of the system. By the application of Marshall Plan for reconstruction of Europe after the war II, dependency of Turkey to the neo liberal system strengthened. Development performance of economy strengthened again with an average growth rate of %6,9 in the 1950 - 60 period. On the other hand,

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atmosphere of Cold War legitimated military coups in developing countries of Latin America, Africa, Middle East, and Mediterranean countries to open a corridor for improvement of capitalism. Functions of states within the capitalist world economy depends on core, according to Wallerstein (Wallerstein, 1979 :305). Core can be accepted as capital itself. No need up to question how to spread on periphery and semi –periphery. As an economically and democratically developing country, Turkey started to face with military coups in 1960. The last one occurred in 2016 but it was only an attempt. This means that Turkey constantly faces military coups, memorandum or a post modern coup (as it was in 1997) or a coup attempt. In the study, after describing earlier military coups, it will be focused on the last one and analyze its economic effects.

2. Methodology

According to Acemoğlu and Robinson, there is a direct relation between democracy and economic development. They proved the positive connection between high income rate and democracy in a country with numerical data (Acemoğlu & Robinson, 2016: 77). On the other hand, it is not hard to say that one of the greatest obstacles of democracy in countries like Turkey are the military coups.

Because the scope of the study is related with effects of military coup on Turkey's development, first of all I summarized political reasons and results of military coups briefly. Then I analyzed the latest military coup attempt in 2016 and its economic results. I collected economic data for a midterm period of 2015, 2016 and 2017 depending on national and international institutions like National Statistical Institution (TUIK), Ministry of Economy, Central Bank Reports and IMF data. I calculated percentages of increases or decreases of economic indicators (table 1) which are affecting national economy, growth of economy and national development. In every section after describing the military coups and its reasons, I indicated its economic results. I observed economic growth rates of post military coup periods and prove the differences from economic perspective between last one and previous ones.

3. Brief History of Military Coups Between 1960 - 2016 and their Economic Results

Before starting to analyze military coups in Turkey I want to express a point. According to another investigation of Acemoğlu and Robinson, if the political authority was imperious, exclusionary economic institutions improved instead of inclusive economic institutions throughout the history especially after Industrial Revolution. Exclusionary economic institutions slow down the economic growth while inclusive economic institutions develop economic growth (Acemoğlu & Robinson, 2012). Most significant sample of imperious political authority are the dictatorial or military regimes in the Modern World.

3.1. 1960 Military Coup

After state base economic policies between 1930 - 1950, Turkish economic policies radically changed. Neo liberal policies were applied again by the elected government of Democratic Party (DP) between 1950 - 1960. At the beginning of

the period high growth rates were achieved (Şahin, 2013). However, at the end of the period the first coup in the Turkish Republic took place in 1960, which saw the overthrow of the Democratic Party government led by then prime minister, Adnan Menderes. Menderes was trying to curb Atatürk's reforms, which attempted to westernize the country. With social and economic turmoil prevalent, Colonel Alparslan Türkeş along with a group of close to 38 officers took control of the nation on May 27 and stayed in power until a new democratically elected government could be put in place. The positions of both, president and prime minister were taken over by General Cemal Gürsel until 1961. According to some interpretations, military coup of 1960 was a restoration of old power holder classes and reaction of statist ideology (Ulus, 2011:14). It is generally accepted as being reformist and again it represented the interest of the industrial bourgeoisie while the DP represented the interest of the commercial and rural powers.

The military coup can be accepted as a result of socioeconomic depression. It caused a great change in economic policy of the country. State Planning Organization (DPT) was established with a new constitution (Kepenek, 2012: 139). After 1963, development plans were started to apply for every 5 years and Turkish economy started to show a mixed economic character after liberal policies of DP between 1950 – 1960. Basic development policy of the period can be described as import substitution development policy, which was applied as an economic development policy till 1980. After military coup rate of growth rapidly declined to 2,7 percent in 1961-1962 averagely and again started to recover by the effects of planning. between 1966 – 1970 average growth rate was 4.2 percent.

3.2. 1971 Military Coup

On March 12, 1971 a new word entered Turkish political vocabulary known as “memorandum”. By the end of the 60s world economy started to be affected from rise of oil prices. As an oil exporter country, Turkey was affected from this crisis known as stagflation. Which means unemployment and recession comes together. In 1971, despite the change of government, a decade later Turkey was once again facing a military coup, this time due to severe economic instability. Recession and inflation went hand in hand to induce the military to once again step in and take charge. As the 1960s wore on, violence and political instability plagued Turkey. An economic recession late that decade sparked a wave of social unrest marked by street demonstrations, labor strikes and political assassinations (Cleveland, 2004 p:283). In 1971, a coup took place and it is generally presented as a right-wing coup, against leftists. The fact is that it should be considered an anti-communist movement under the influence of the context of the Cold War. With the memorandum, the system founded by the 1960 coup was reorganized and there were efforts to strengthen civilian authority. According to Ulus social scientist have not been able to define origins of the coup clearly. Long- term causes for military intervention include student and worker discontent about social and economic inequities and broad framework of intellectual and political permissiveness. (Ulus, 2011)

According to Kepenek, 1971 Military coup was a result of Second Development Plan of DPT which was applied between 1968 – 1972. It was a “vicious circle” aiming to subsidize private sector and private entrepreneurship to accelerate

development but without national savings and surplus. It depended on foreign debts. Therefore it caused a social and political pressure (Kepenek, 2012: 149). Also it opened a new corridor, a path to the military coup 1980. If we look at the growth rates of economy after the memorandum of 1971, interestingly it can be observed that there are high growth rates due to the devaluation of Turkish lira in 1970 (Hiç, 1994: 242). Average growth rate of GDP between 1971 – 1973 was 7,6 percent. However, high rate of price increases (%28 in 1974) and scarcity of commodities in markets after 1974, were a result of OPEC's Deflation Crisis, unemployment and, military expenses of Cyprus War in 1974, which again caused a bottle neck in the economy. IMF and WB were uncomfortable from import substitution policies of economic decision makers (Kepenek, 2012: 197). Socio-economic and socio-political diseases were active again. It was time to apply a new economic regime by January 24 decisions in 1980, which was an IMF based stability program.

3.3. 1980 Military Coup

The third coup came in September 1980 when General Kenan Evren, the Chief of the Turkish General Staff, led the military against the government of Suleyman Demirel. Following the military coup of September 1980, Turkey was ruled by the NSC (National Security Council). The summer of 1980 was a chaotic time in Turkey. Political violence and sectarian unrest mounted in the cities and spread through the countryside. The work of parliament had come almost to a standstill, and the country was left without an elected president. The 1980 coup had great impact on economy policy making than it had been the case in earlier military interventions. In January 1980, a few months before the military's seizure of power, Demirel's minority government ("AP" Justice Party founded instead of "DP" Democratic Party) launched a major economic stabilization program with the active support and cooperation of IMF (Nas & Odeon, 1992). Thanks to this program logic of Turkish economic policy changed completely.

Instead of import substitution development policy, export oriented policy was adopted. Şahin argued that, according to this export oriented development policy Keynesian policies should be abandoned; there is no relation between unemployment and inflation. Obviously theoretical framework of program was based on new liberalism such as supply side economy and monetarism (Şahin, 2013: 190). By applying this program, Turkish economy became an open market, completely free out flow and inflow of capital, privatization of state owned companies (KIT), to subsidize export and after a few years convertible lira as a Turkish currency. After that transformation, Turkey started to approach the EU (European Union). In 1987 it applied for full membership to the EU.

Before 2 decades of the new millennium, in order to make Turkey one of the emerging markets in the world, IMF-based January 24th. Program in 1980 was being exited, but on the other hand it was not pleasant for leftist groups and working classes. Program strengthened the movement of labor unions.(Koç, 1997) In the short run it can be accepted as the economic result of military attempt in 1980. On the other hand junta administration which came power after 12th September military coup was the main practitioner of economic program. Labor

unions closed, fiscal and monetary policies applied according to 24th economic program.(Akıncı, 2013)

Within the short period after military coup, the 1981 – 1983 period economy soured and GNP grew only 4 percent. The military coup in 1980 has a greater impact on economic growth of Turkey. But if we take consider a wider period 1980-1988 under direction of new neo liberal leader of Turkey Turgut Özal, average growth rate was 5,2.(Kolsuz & Yeldan, 2014)

3.4. 1997 Postmodern Coup

The military coup attempt in 1997 named “postmodern coup” was given to the clash between the army and the political leadership on Feb. 28, 1997 in which the military overthrew the coalition government led by Necmettin Erbakan of the now-defunct Welfare Party (RP). The military again helped engineer the ouster - popularly dubbed a "postmodern coup" - of the then Islamic-oriented government. The military demanded that Erbakan stop or reverse policies seen as promoting Islam in government affairs. Enough members of the junior coalition partner defected to cause the Erbakan government to fall and force Erbakan to step down. In all of these coups, the majority of the Turkish public accepted the military's actions because they felt they were necessary for the well being of the state and because the military did not seek to impose permanent military governance. Bulaç argues that intervention in 1997 was not an open military coup but it changed the course of politics in terms of its outcome. Feb. 28 cost Turkey \$ 54 billion as the economy reeled from political intrigue (Bulaç, 2015: 16). But according to daily newspaper Sabah news' which is based on Turkish National Assembly Investigation Commission of 28 February Reports total cost of postmodern coup is \$ 291 billion. This amount consist of loss in potential GNP in following years, increase of debt interest payments because of interest rate increase, financing requirements of state owned banks and account guarantee funds (Sabah, 2018)

It is hard to find a tangible economic reason for postmodern coup in 1997 but I should note that it was only three years after the April 5 Economic Program of 1994, which was a result of high level Balance of Payments problem. Borrowing requirements of state was very high, high level inflation (e.g. 120,7 percent in 1994) and high level of foreign trade deficit. End of the 1993 Export/Import balance was 0,52 (15,3 billion total exports and 29,4 billion total imports) (Şahin, 2012:220).

Most significant unfavorable effects of military coups on country's development are observable at economic growth rates after 1997 in Turkish economy. Average growth rate of economy in 1997,1998 and 1999 was only 2 percent (Şahin, 2012:215). When all these are put together, Turkish economy faced a great depression in 2000 and 2001, which resulted a new standby agreement with IMF. Then, a new movement started in Turkish economy which is called “program of transition to the strong economy”.

3.5. 2016 Military Coup Attempt

Finally, the last military intervention attempt as generally accepted was realized by Gulen Movement followers in Turkish Army and its US based leader Fetullah Gulen

(FETO). FETO orchestrated the defeated coup of July 15, 2016, which left 251 people martyred and nearly 2,200 injured. Ankara also accuses FETO of being behind a long-running campaign to overthrow the state through the infiltration of Turkish institutions, particularly the military, police, and judiciary.

According to Yavuz and Koç, when the Justice and Development Party (AKP) came to power in 2002 an administrative support from the Gulen movement enabled the AKP to govern the country and closely monitor the military with the help of police force. As a moderately liberal Muslim leader, Recep Tayyip Erdogan, endorsed Turkey's joining into the EU, believing that membership in the EU would help growing the economy and build a democratic society. Erdogan's most effective strategy was to ally with the highly successful and well informed Gulen Movement, the most powerful Islamic faction at the time. The staff of Gulen who were dominant in most governmental organizations, who would control key state institutions worked together with Erdogan's governments until 2013. (Yavuz and Koç, 2016:136). But after December 2013 with the corruption claims against AKP government the roads of Gulen Movement and Erdogan began to separate. Finally in 15th July of 2016 unexpected attempt of Gulen and its followers (who were a minority) in Turkish Armed Forces attempted the last military coup in Turkish political history.

After this point, I am going to analyze some economic indicators before and after military coup attempt which are affecting country's development. Most significant parameter of economic development is growth rate of GDP as it is shown in Table 1 there were no great decrease on growth rate, as it is calculated 3,2 percent at the end of the 2016 and 7,41 percent at the end of the 2017. GDP current prices in US dollars decreased due to increase in foreign currency rates but GDP per capita according to purchasing power parity PPP is 10,93 higher at end of the 2017 comparing with end of the 2015.

Budget deficit sharply increased with comparing to 2015 but budget deficit / GDP ratio is only 1,53 percent which is under the 3 percent Maastricht Criteria of EU. Foreign debt stocks have an increasing trend but again it is not a big disease compared to the GNP. Public debt stock / GDP, which is not given at the table is only 31 percent at the end of 2016 (Eğilmez, 2017). This figure is also under the Maastricht Criteria of EU.

So far I can say that the last military coup attempt has no direct relation on development supporting the scholars Aydın and Çetin which they prove the economic effects of 15th July in their articles with econometric analysis (Aydın and Çetin, 2017: 107).

3.6. What is Wrong after Military Coup Attempt 2016

According to a Ministry of Economy Report, Turkey started to attract high level of foreign direct investment at the beginning of 2000s as a result of stability program. A short period of failure was faced in 2008, but it recovered rapidly in 2010 and level of foreign direct investments was sufficient until 2016 (2017:10). Negative effects of coup attempt can be observed on foreign direct investment which is an important issue for a developing country. Inflow of foreign direct investment sharply decreased in 2016 from 12 billion dollars to 7,5 billion dollars. This

indicator was not able to recover rapidly because of several political and institutional reasons. This figure can be accepted as the most important negative effect of the coup attempt. Because there is a great need to the foreign savings in Turkish economy.

From Table 1 we can observe some macroeconomic indicators including foreign direct investment inflow within a three years period to show a specific period in Turkish Economy.

Table1: Some Economic Indicators Before and After Military Coup Attempt

INDICATOR	2015	2016	change %	2017	change %	Acc. to 2015 %
Inflation *	8,81	8,53	-3,18	11,92	39,74	35,30
Exchange rate (\$)**	2,72	3,02	11,03	3,65	20,86	34,19
Exchange rate (€) **	3,02	3,34	9,58	4,54	35,93	50,33
Foreign direct investments***	12077	7534	-37,62	7437	-1,29	-38,42
Budget deficit TL billion ****	23,5	29,3	24,68	47,4	61,77	101,70
Budget Deficit / GDP (%)****	1,01	1,12	10,89	1,53	36,61	51,49
GDP TL (current prices thousand) nominal*	2337530	2608526	11,59	3104907	19,03	32,83
GDP \$ (current prices thousand) nominal*	861467	859791	-0,19	851046	-1,02	-1,21
GDP fixed prices 2009=100 real *	152,9	157,8	3,20	169,5	7,41	10,86
GDP per capita \$ *	11019	10883	-1,23	10531	-3,23	-4,43
GDP per capita ppp*****	24240	24990	3,09	26890	7,60	10,93
Number of tourist (000)*	41618	31365	-24,64	38620	23,13	-7,20
Tourism revenue (000 \$)*	31465	22107	-29,74	26284	18,89	-16,47
Average tourism income per capita*	756	705	-6,75	681	-3,40	-9,92
Indicator interest rate end of year*4*	10,88	11,12	2,21	13,5	21,40	24,08
Total foreign debt stock end of the year (million \$)*5*	399459	408195	2,19	453207	11,03	13,46
Total foreign debt stock / GDP*5*	46,3	47,3	2,16	53,3	12,68	15,12
Exports (000)*	143839	142529	-0,9	156996	10,7	9,15
Imports (000)*	207234	198618	-4,2	233798	17,7	12,82

Sources of Table:

* TÜİK National Statistical Institute of Turkey (2018)

** TCMB Central Bank of Turkey(2018)

*** Ministry of Economy(2018)

**** General Directorate of Budget and Fiscal Control

***** IMF Data Base

4 Bloomberg

5 Republic of Turkey Prime Ministry Undersecretariat of Treasury

From table 1 another important decline can be observed regarding the numbers of foreign tourists visiting Turkey and tourism revenue. It has sharply declined in 2016 but rapidly recovered in 2017. This decline is not solely from military coup attempt it is also effected from contention between Turkey and Russia in 2015. Average tourism income per capita has a declining tendency continuously because of increase in foreign exchange rates especially US dollar and Euro rate in front of Turkish lira, which does not have a direct relationship with the military coup. But high exchange rates have created a pressure on inflation and rate of inflation was increasing.

Foreign trade of the country fluctuated from political instabilities after military coup but decrease in exports was coming from earlier instabilities. This figure also recovered but foreign trade deficit has an increasing tendency.

Finally, the macroeconomic tool rates of interests were affected badly from political instabilities related with credibility of the economy. Rate of interests were increased. As an economic rule, the reverse relation between interest rates and investments in the economy has negative effects on country's development. Throughout political pressure on Central Bank, rate of interests has an increasing tendency in 2018 otherwise it is not possible to break increasing of foreign currency rates.

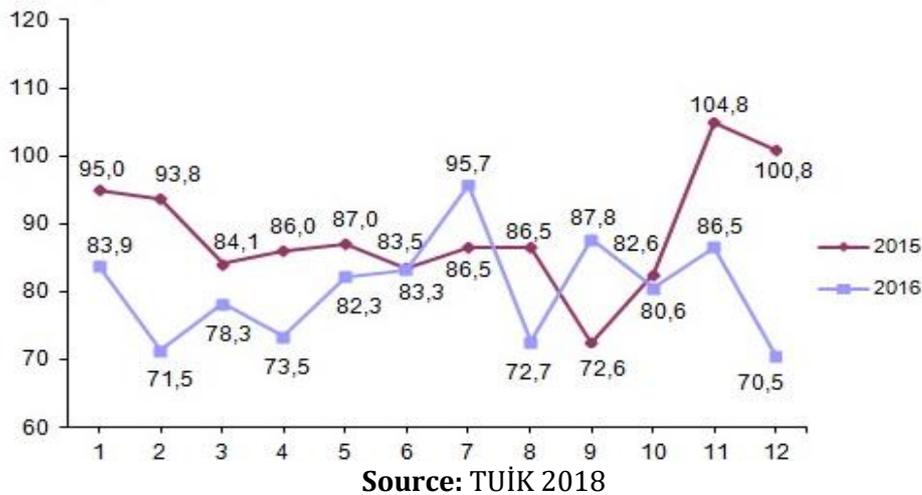
Figure 1: Stock exchange market istanbul (bist100) index between 2014 – 2018



Source: <https://www.investing.com/news/stock-market>

An interesting insensitivity can be observed on Istanbul Stock Exchange Market Index (BİST 100) as it shown in red cycle in Figure 1. There is no serious movement after short period of military coup attempt. However, the stock exchange has an increasing trend starting from last part of 2016 and reached an all the time record in January 2018.

Figure 2: Economic confidence index



Another important economic indicator is economic confidence index. Economic confidence index is a composite index that encapsulates consumers' and producers' evaluations, expectations and tendencies about general economic situation which is reported every month by Turkish National Statistical Service (TÜİK).

The index is combined by means of a weighted aggregation of sub-indices of consumer confidence, seasonally adjusted real sector (manufacturing industry), services, retail trade and construction confidence. In the calculation of economic confidence index, each sectoral weights are not directly applied to the five confidence indices themselves but to their normalised individual sub-indices series as equally-distributed in each sector. Within this scope, totally 20 sub-indices of confidence indices for consumer, real sector, services, retail trade and construction are used in the calculation. Sub-indices used in the calculation of economic confidence index are calculated with data collected in the first two weeks of each month. It indicates an optimistic outlook about the general economic situation when economic confidence index is above 100, whereas it indicates a pessimistic outlook when it is below 100.

If compared with graphics of two years there are no great differences between 2015 and 2016. Index changes monthly according to daily improvements. Only a sharp decline can be observed in July 2016 from 95,7 to 72,7 but again it is rebounded. In 2016, it was more pessimistic than 2015 but it is not related with military coup attempt. Gap between two year's graphics was already big before July 2016.

4. Conclusion

Generally if we compare the last military coup attempt with the previous ones, its effects are weak on economy. One of the main reasons of this is that the last coup attempt was unsuccessful and the previous ones were successful in terms of those who realize it.

It is not possible to say that last military coup attempt in July 2016 has no effect on Turkish economy and economic development. But the findings show that this

effect is very limited. If we take consider to the economic growth rate which is main indicator of development, there is no relation with military coup attempt because economic growth rates are above the expectations in last two years.

Inflow of foreign direct investment was negatively affected from military coup attempt. Foreign direct investments, of course, are not a solely parameter on development of a country. But like many other foreign resource dependent countries, importance of foreign direct investments on Turkey's development cannot be ignored, it is also very important on country's balance of payments. If we consider foreign resource inflow of direct investments, bad signals were received after the military coup attempt, and it is becoming a current and chronic problem of the economy. Military coup was a static event, but current state of emergency in Turkey is a dynamic event which is negatively influencing foreign investors. Turkey needs more legal regulations and low pressure of political tension in order to open doors to the foreign investors. Improving rational and optimistic political relations with EU and Western World as it was in the first half of 2000's is another important point on this subject.

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