Introduction

Asaf Savaş Akat and Seyfettin Gürsel

Why “Crossroads”?

Probably you ask yourself: “Do we need another book on Turkey?” Our answer is yes; we do. One reason, Turkey has a mysteriously low profile in international economic literature compared to its size and level of development. The small number of books on the market are neither comprehensive nor up-to-date. More importantly, they usually lack a clear perspective and a unifying theme. We hope this to be the distinguishing feature of our book, already implicit in the two key concepts of its title: Crossroads and Challenges. These reflect a shared preoccupation, not only by the editors and contributors of this book but also by a large community of economists, intellectuals, and politicians that the country is at a critical juncture of history. To put it very bluntly: Will Turkey’s journey toward a mature market economy proceed smoothly, or will there be economic, political, and societal reversals and discontinuities, delaying, even arresting further material and human progress?

The transformation of pre-industrial societies of peasants and traditional agriculture into open market economies based on high-productivity industrial and service sectors has been the biggest challenge of the last century. It is a tricky and complicated process. History shows that it entails many wrong turns, *cul-de-sac*, failures, and much unnecessary

sufferings, as well as remarkable successes. An impressive intellectual effort by many great minds accompanied it, to understand and to tame the forces at stake during this civilizational upheaval. Hobbes, Smith, Marx, Weber, Walras, Polanyi, and others made groundbreaking contributions toward a theory of society, economy, and state. A new paradigm, part of this historical chain, gained acceptance recently: institutional economics, from the pioneering work of Douglass North, further elaborated by Daron Acemoğlu (one of our contributors) and James Robinson.

Institutions are the norms and the organizations sustaining human social interaction; they matter enormously for the performance and the evolution of human societies. They can be “inclusive” or “exclusive”, “complementary” or “contradictory”, orienting actors toward “wealth-creation” or “rent-seeking”, creating a political environment of “liberty” or “dictatorship”. Any existing society and economy reflect the outcome of the combinations and differences in institutions. In other words, an in-depth analysis of the institutional setup brings a new dimension to the usual discussions on economic performance and policy; therefore, a superior take on the past, current, and future economic trends and issues.

In a sense, this book can be considered as part of the growing literature on the applications of the theoretical tools of institutional economics to actually existing economies. The reader will encounter again and again similar efforts to establish the close casual links between institutional developments and the economic performance of Turkey today and in the recent past. The preoccupations behind the “crossroads” correspond to several indicators about the onset of institutional degradation in Turkey. This is a relatively recent phenomenon, coming after a period of visible improvements in the institutional setup. Identifying and dating the infliction point is not straightforward, with early signs going back to the beginning of the decade (2010s) and rapid acceleration toward the end.

What is at stake? Turkey seemed to have made an irreversible choice since the 1980s, by gradually adapting its institutions through a long series of reforms to the requirements of an open market economy with a high degree of integration into the global system coupled with a pluralistic

political regime. Progress rarely happens on a smooth straight line. Turkey also faced many road accidents: macroeconomic imbalances, financial crises, political instability, internal strife, etc. Nevertheless, the overall orientation of Turkish society never wavered. Turkey's determination to reform was crowned in 1995 with a Customs Union agreement with the European Union (EU), thus inserting Turkey into the European single market. A decade later, in October 2005, the Justice and Development Party (AK Parti) and its incontestable leader Recep Tayyip Erdoğan (now the President of Turkey), in power since November 2002, gave the final push to Turkey's civilizational project by starting the formal accession negotiations with the EU for full membership.

Unfortunately, it did not take long for little dark spots to spoil this rosy picture. Early signs, barely noticeable, appeared after the Global Financial Crisis of 2008; over time they have grown larger and darker. All have its origins in politics, especially in Erdoğan's political agenda. In retrospect, it is easy to extract its roots in Erdoğan's understanding of power and democracy, which is very similar to those of other contemporary "strongmen" (Victor Orban of Hungary, Vladimir Putin of Russia, among others). His early interventions were piecemeal modifications in the rules of the game, as elsewhere: strengthen the Executive Branch, curb civil liberties, take over the Judiciary, get rid of the "checks and balances". The constitutional referendum in April 2017, which abolished Turkey's traditional Parliamentary system of government and replaced it with a Presidential system dominated by the Executive branch, supplied him with the opportunity to formalize and consolidate his powers further. The aforementioned institutional degradation is the consequence of these new rules of the game.

Erdoğan was elected as the first president of the new regime in June 2018. Less than two months later, early August 2018, the Turkish Lira (TL) faced a massive sell-off in the global financial markets, shedding over 30% of its value in just a few days, the worst ever. It was a devastating shock to the economy. The steep fall in consumption and investment spending hit hard on domestic demand, imports, and the production of non-tradable activities. The limited increase in exports could not make up for the fall in demand; therefore, output fell for two consecutive quarters,

the official definition of recession, and unemployment reached record levels. The exchange rate shock aggravated the currency mismatches in the highly leveraged balance sheets of both real sector firms and banks, leading to a severe credit crunch, as banks tried to deleverage. Meanwhile, high pass-through effects from the exchange rate caused a big jump in inflation. The only good news was the correction in the external balance, which moved from a large deficit (above 6% of GDP) to a small surplus.

The reaction of Erdoğan and his administration to this dire economic situation was typical of such regimes when faced with economic hardships: “conspiracy theories”, denial, confusion, voodoo-economics, lack of focus and coordination, and search for administrative measures to replace the markets. These constitute the economic part of the “cross-roads”. Will the regime continue respecting the rules of the game in the economic sphere, or will it try to modify them, as in politics, toward protectionism, capital controls, fixed exchange rates, discrimination among firms, etc.? If this happens, Turkey’s drift toward an economic environment which is less open, less market oriented, and where the playing field is much less level will make the next stage of the transition to a mature open economy and society even more challenging. From the perspective of Turkey’s long-term historical trends and evolution, such an outcome seems a not negligible probability event. Nevertheless, it imposes new critical challenges to politics as well as economic policymaking.

Basic Economic Indicators

Before proceeding further, we must ease the task of readers unfamiliar with Turkey by providing some basic indicators. Turkey is a relatively large, populous, open economy, with a GDP per capita at market exchange rates in the Upper Middle-Income Countries (UMC) range of the World Bank. In a nutshell, it is neither a continent nor a small country, neither an export engine nor inward-looking; it has competitive industrial and service sectors but is not a fully developed (mature) economy. The following table shows the values as well as Turkey’s ranking in the world for each indicator.

TURKEY: Basic Indicators

Indicator	Unit	Value	Rank
Area	Thousand sq.km	770	35
Population	Million	82	18
GDP	Billion (current US\$)	767	19
GDP	Billion (PPP-current US\$)	2,300	13
GDP per capita	Thousand (Current US\$)	9.3	71
GDP per capita	Thousand (PPP-current US\$)	27.9	50
Exports (goods+services)	Billion US\$	235	30
Urban Population	% of total population	75	70

Data: World Development Indicators (all for 2018), <https://databank.worldbank.org/source/world-development-indicators#>

Turkey's overall development performance during the last half-century is neither a miracle (e.g., Korea, Singapore, later China) nor a failure (e.g., Argentina, Venezuela). For the period 1970–2018, average annual growth of GDP per capita has been at 2.7%, above the average for both the world at 1.6% and high-income countries (HIC) at 1.9%, but below that of UMC at 3.2%. Turkey has converged with the HIC at 0.8 pts, a reasonable but not impressive pace, while it underperformed the UMC by 0.5 pts, not a negligible figure. Turkey's relative performance improves somewhat when based on total GDP, due to higher population growth in Turkey compared to the world (0.1 pts) and the UMC (0.3 pts).

To get a better picture, we constructed a “peer group” for the period 1970–2018 consisting of 14 countries¹ on the following criteria: population above 20 million in 2018, GDP per capita growth rate above that of the HIC (1.9%) for the period, GDP per capita level in 1970 between 100 and 1,000 current US dollar. Turkey satisfies these criteria.² The “peer group” plus Turkey represented 49% of the world population in 2018.

¹ Bangladesh, Chile, China, Columbia, Egypt, India, Korea, Malaysia, Morocco, Pakistan, Philippines, Sri Lanka, Thailand, Uganda.

² Data: consumer price inflation from IMF Financial Statistics, the rest from the World Development Indicators.

The weighted average growth³ of GDP per capita in the “peer group”, at 5.3%, is double of that of Turkey, at 2.7%. The difference is driven especially by high performance of two populous countries, China and India. Turkey ranks 8th among the 15 countries, right in the middle. This confirms that Turkey’s secular growth performance has been decent, but also mediocre.

Economic growth, a purely quantitative indicator, may give an inadequate image as it hides essential qualitative aspects of the development process. Price stability is one such indicator, it signals to the coherence of the macroeconomic policies sustaining economic growth. The “peer group” has an average annual consumer price inflation of 7.2%. Turkey is a big outlier compared to the “peer group”, with average annual inflation of 35.4% over the last half-century. Only three countries in the “peer group” have consumer inflation rates in double-digits: two from Latin America (Chile 27.5%, Columbia 15.1%) and one from Africa (Egypt 11.1%). The remaining 11 countries all have inflation at single digits. Very high inflation rates have been one of the idiosyncrasies of Turkey’s development experience. Price instability may go a long way in explaining Turkey’s relative underperformance compared to the “peer group”.

The external account is the other critical qualitative indicator; it is a meaningful measure of the domestic effort and mobilization for economic development. The “peer group” has an average annual current account surplus of 0.3% of GDP, compared to a current account deficit of 2.7% for Turkey. Three countries (Malaysia, China, Korea) produce the surpluses which dominate the group average. Eleven countries have deficits. Turkey’s place is below the middle among deficit countries; six have smaller deficits (Columbia, Egypt, Philippines, India, Bangladesh, Thailand), from 2.2% to 0.3%, and five have bigger deficits (Chile, Pakistan, Morocco, Uganda, Sri Lanka), between 2.9% and 4.4%. The size and persistence of current account deficits has been another critical characteristic of Turkey’s development process. Recurrent foreign exchange crises increased the volatility of economic growth, contributing to the mediocre development performance.

³The weights for this and all other averages below are mid-period (1995) GDP values of the 14 countries.

At this point, a few words are warranted about the natural environment. Turkey's vast landmass is not endowed generously in natural resources. Overall, we can confidently claim Turkey to be a resource-poor country. Anatolia is a high, mountainous, and arid plateau where fertile agricultural land is limited to coastal areas. Production barely meets domestic needs; the exportable agricultural surplus is negligible. Of higher significance, Turkey has no reserves of fossil fuels worth mentioning: a geological puzzle in terms of its location (eastern neighbors Iran, Iraq, Syria, Azerbaijan are major oil/gas producers). It also lacks large deposits of essential minerals for commercialization.⁴ This resource base has critical implications. First, Turkey did not have the sizable natural resource surpluses to finance the early phases of industrialization. Second, for resource-poor countries, economic growth and development necessitates, by definition, ever-larger trade deficits in primary commodities (energy, raw materials).

Brief Historical Background

The Republic of Turkey, a nation-state founded in 1923, is the successor to the Ottoman State, a multiethnic, multireligious empire ruling over Southeast Europe and the Middle East from the 14th century until its defeat in WWI. This continuity from Empire to Republic and the absence of a history (and experience) of direct colonial rule by imperialist powers is a distinguishing feature of Turkey among its peers. The Ottoman legacy manifests decisively on the institutional evolution of the Republic. Other sources of the heritage emerge from the repercussions (often unintended) of the sequence of events leading to the disintegration of the Empire in the first two decades of the 20th century. Both these threads allow precious insights into the history of the Republic.

The Empire suffered from the economic and military superiority of the rising Occident long before others. However, it failed to undertake the necessary transformations to meet the challenge of the West. By the beginning of the 20th century, it was evident the Ottomans had missed

⁴Turkey's only abundant "natural" resource is the rich history of Anatolia and its sunny beaches. But tourism is a very competitive modern service industry.

the opportunity even to imitate the institutional framework necessary to replicate the Industrial Revolution. The contrast with the 19th century Japan, late in the contact but prompt in responding to the challenge is striking. From the 1830s onward, Ottomans initiated institutional reforms to reverse the decline, often to appease Big Powers. Early timid experiments with the rule of law and constitutional monarchy (1876 and 1908) were too little, too late, and could not prevent the disintegration of the Empire.

The distinct institutional characteristic of the Empire was the heavily centralized structure of power, the dominant form of government in Asia in the past. The mighty state bureaucracy, with the Sultan at the top, firmly kept the whole society under its iron grip, making sure to destroy all potential centers of political power at the source. The land belonged to the State; state regulatory institutions controlled most economic transactions and severely constrained any private property on productive assets. Centrifugal tendencies intensified in the 19th century, along with the integration of the economy into the global markets and the rise of nationalism among Christian minorities. Still, the Empire managed to protect its essence of a strong centralized state, and pass it onto the new Republic. We also note that the Ottomans had already dissolved local tribal-kinship identities (and the corresponding elites) in Anatolia, except for the Kurdish populated Southeast.

This continuity has critical consequences. Positively, the existence of a strong state tradition (backed by the military), internalized by the elites as well as the general public, reduces the probability of falling into anarchy and social violence; i.e., Turkey faces no risk of turning into a failed state. Negatively, this strength is a hindrance to the emergence of private property and markets, of civil society, of “inclusive” institutions, which in turn delays economic and societal development. Deeply entrenched *Etatism* of the republican elite has been a serious brake on Turkey’s economic performance. Also, by suppressing civil society and eulogizing authority, the tradition of a strong state clears the ground for the rise of popular authoritarian regimes. Current trends in Turkish politics bear witness.

The transition from the Empire to a modern nation state in the early 20th century was not exactly a smooth process. The Republic was

preceded by a period of intense trauma and enormous human suffering and tragedies. These are beyond our scope, but their impact on the economy was a substantial contraction in the human capital stock of Republic. The cause is the evolution of a peculiar ethnic/religious division of labor in the Empire, more pronounced after the 19th century. Muslim subjects (mainly Turks) concentrated in farming and the public administration; non-Muslims (Greeks, Armenians, Jews) dominated commerce and urban trades (artisanal manufacture). Before 1923, first the Armenians, then the Greeks were expelled from Anatolia, only in small part replaced by Turkish farmer refugees from the Balkans. This was a big blow to commerce in general, to urban trades and commercial agriculture, reducing output for at least a generation. On the other hand, the depopulation of Anatolia reversed the relative factor scarcity many societies faced in the early stages of development, by making land, not labor, the abundant factor of production.

The disappearance of commercial and urban Christian bourgeoisie, combined with the Ottoman legacy of small landholdings in agriculture (mainly subsistence farmers) had an important corollary for the young Republic. Large landowners were the exception rather than the rule in Turkey; limited to commercial farming in few coastal plains and to Kurdish areas in the Southeast where bondage relations still prevailed. Therefore, in contrast to most countries at the onset of development, Turkey did not have to overcome the resistance of a politically powerful landowning oligarchy for the institutional reforms required by development. This also implied a more equal initial wealth distribution, despite the widespread poverty due to low productivity in subsistence farming.

The Republic was founded by nationalist officers of the Imperial Army, issued directly from and with organic links to the reformist “Young Turks”, who held power through the Union and Progress Party in the last decade of the Empire. Civilians provided support, but their decision-making power was limited. The founders, led by Mustafa Kemal Pasha — later Atatürk (father of Turks) — consolidated their power in 1923. Facing grave security challenges from abroad and determined to transform the pre-modern society they inherited, they opted for an authoritarian “single-party regime” (in the official terminology), in order to accelerate the top-down project of nation-building and “westernization”. The project’s

blueprint had a rich civilizational content, but was vague and deficient on economic issues.

A set of cultural, legal, administrative reforms attempted to reorient society toward “Civilization” by adopting Western calendar, metrics, dress code, laws, legal procedures, etc. In parallel, to tighten its grip over an essential part of the civil society, the Republic banned all Muslim religious organizations and transferred their functions to the state. The nationalization of religion is still called, bizarrely, the separation of the state and religion or “laicity” (after the French “*laïcité*”⁵). The hostility of large segments of the population to the civilizational reforms had economic consequences. The reforms exhausted the political capital of the founders and decreased the political feasibility of enforcing on the public the hardship required by the massive economic mobilization that rapid industrialization entails; the state left the economy on its own.

WWII and its political and geostrategic implications triggered a new period of transformation in Turkey. Multiparty elections in 1950 permitted the peaceful transition of power to the opposition, kick-starting the slow process of democratization, although the tutelage of the army persisted for half a century, with three overt and several aborted or implicit military interventions. The Cold War put Turkey in a valuable geostrategic position, securing a special status within the US-led Western military alliance, permitting membership in the North Atlantic Treaty Organization (NATO), along with the Council of Europe, Organisation for Economic Co-operation and Development (OECD), and an association agreement (in 1963) with European Economic Community (EEC), the forerunner of EU. Turkey’s insertion into the Western civilization outlived the end of the Cold War, and remains a work-in-progress, with mounting stress lately.

The period after WWII has been one of rapid economic and social transformation. Competitive elections refocused the political agenda from civilizational to economic issues. Populism, in the positive sense of destroying the privileges of the old elite revolutionized the political discourse, elevating concepts like “economic development”, “free enterprise”,

⁵Please note: “*laïcité*” when translated into English as “secularism” increases further the conceptual confusion. Secularism means taking the state out of the religion and the religion out of the state; the exact opposite of the situation in Turkey.

“investment in infrastructure” to positions of domination. The alliance with the West, in turn, created an opportunity in the form of substantial military and economic aid. These external subsidies permitted rapid industrialization without the large-scale mobilization of domestic resources, thus alleviating its hardships and political handicaps. Turkey discovered its distinct model of “development with external resources” in such circumstances.

Turkey was basically a private property economy. Even during the official *Etatism* of the 1930s, state-owned enterprises (SOEs) existed only in the utilities and a limited number of sectors, either monopolies for tax purposes or suppliers to the administration and the bureaucratic elite. Their quantitative impact on the rest of the economy was negligible; their contribution controversial. Private enterprises dominated agriculture, domestic and foreign trade, small-scale manufacturing, and most services. From the perspective of property relations, Turkish *Etatism* never went anywhere near socialism; its origins lay either in pragmatism or the bureaucratic reaction to private business. First, the rapid rise of the private industry after the 1950s, then the waves of privatization since the 2000s decreased the share of the SOEs in output to practically nil.

In turn, very heavy state intervention in the markets has been the trademark of the Turkish economy. A complex system of administrative controls over markets, prices, and quantities, erected during the WWII evolved into a full-scale “command economy” with industrialization in the 1950s. Its advantages outweighed its inefficiencies and the corruption in its implementation. The rents created and distributed by state intervention constituted the main instrument for the first phase of the accumulation of private capital. It also projected the power of the state (politics) over the economy, in perfect harmony with the heritage of the strong state. Its inability to generate foreign exchange through manufacture exports led to its demise at the end of the 1970s. Although the transition to an open market economy after the 1980s was successful, the re-emergence of heavy state intervention — should things get tough in the future — cannot be ruled out.

One final general observation is needed before moving to the topics covered in the book. Despite early institution building, multiparty politics, and a poor resource base, Turkey failed to develop its critical asset, i.e., to invest adequately in education and human capital. The Republic inherited

a population with a tiny minority able to read and write, plus extremely low enrollment ratios. Unfortunately, large-scale mobilization for education was neglected over several decades. Primary school student enrollment ratio reached 100% only in the late 1970s; compulsory education was increased to eight years (from five) in the late 1990s and to 12 only in 2012, which places Turkey well below its peers in terms of educational attainment. Education, especially quality issues, will remain a controversial yet vitally important topic in the foreseeable future.

Range of Topics

The first chapter, “Economic Policies, Institutional Change, and Economic Growth since 1980” examines the evolution of the new economic policies and institutions after 1980. Şevket Pamuk is an eminent economic historian with expert knowledge of the late Ottoman Empire as well as the Republican period. Why 1980? Because it corresponds to a historical turning point in Turkey’s post-WWII development strategy, the beginning of a transition from the previous inward-looking import substitution regime to an open economy where exports play a more significant role. He distinguishes two long-run cycles: the first starts in 1980, the second in 2001. Severe economic and political crises precede both dates. His analysis highlights the reciprocal interactions and interdependencies between the economic and political spheres in recent Turkish history. He makes a note of the troubling inconsistencies between the intentions of the “new economic policies” and what actually happened in practice. The role of the state in the economy is of particular importance in this evolution. Pamuk agrees that the Turkish economy has achieved, step by step, full integration with the global economy. However, the theoretical model behind the policies had predicted a smaller role for the state, which simply did not materialize. Turkish state remained unchallenged *vis-à-vis* the private sector; thus, “the government continued to have a great deal of power and discretion to decide the winners in the economy.”

The second chapter, “High-Quality Versus Low-Quality Growth in Turkey: Causes and Consequences”, covers the relations between institutional development and the quality and sustainability of Turkey’s growth in the long run, within a comparative perspective. We already referred

earlier to Daron Acemoğlu's pioneering work in institutional economics; E. Murat Üçer is a macroeconomist of global reputation, one the best analysts of Turkish economy. Low-quality growth is a process driven by consumption, credit, and government spending, without sufficient investment that enhances significant productivity and technological improvements. This type of economic growth, to paraphrase the authors, "tends to run out of steam more rapidly and may even prepare conditions for subsequent economic crashes." In contrast, "high-quality" and "shared growth", defined as a "growth driven by productivity improvements" and as "growth from which the population at large benefits" is faster and as well as sustainable over the long run. The success of the growth process, in turn, depends on the quality of the economic and political institutions. The chapter investigates and discusses in detail the causes of successes in some periods and failures at others, as well as the challenges faced by Turkey in institution building to generate the kind of high quality and shared growth.

The third chapter, "Productivity, Reallocation, and Structural Change: An Assessment" supports and complements the analysis of the second chapter, by further elaborating on the technical issues of measuring productivity. İzak Atiyas and Ozan Bakış are top academic experts on growth accounting in Turkey. Rapid increases in productivity constitute the foundation of sustainable economic development. The authors renew and update total factor productivity (TFP) estimates, extending these to sub-periods and the four major productive sectors (agriculture, industry, construction, services). This new research, published for the first time, provides several valuable insights on the possible causes of the low-quality growth for sub-periods and sectors. Typically, the use of growth accounting method for the analysis of the construction sector, which lost one-third of its employment over the last six quarters, points to its impact on the severe recession in the second half of 2018 and the abrupt rise of unemployment ratio in Turkey. Another important finding relates to the slowdown in the quality of Turkey's exports in recent years, a serious challenge to the search for sustainable growth.

The fourth chapter, "Financial Cycles of the Turkish Economy: How Will It End This Time?" focuses on a crucial aspect of the modern economies, namely the identification and analysis of the financial cycles in

Turkey, especially in the last two decades. M. Ege Yazgan is an excellent financial and macroeconomist, as well as econometrician. In opposition to business cycles, measured using output data, financial cycles are complex phenomenon involving the formation of bubbles in credit and asset prices, which attracted the attention of economists recently, in the wake of the financial crisis of 2008. His pioneering research, published for the first time, establishes the causes and the lifespan of the last financial cycle in Turkey through state-of-the-art econometric methods. He is especially interested in the interaction of the financial cycle with the business cycle in order to assess more realistically the causes and consequences of the recession in the second half of 2018. His findings point to the possibility of a slower and longer recovery this time, due to deleveraging by banks and the corporates, compared to similar events in the past.

The fifth chapter, titled “Structural Transformation and Income Distribution in Turkey”, focuses on two critical challenges of Turkey’s economy, not covered in the previous chapters, namely the transformation of the economic structure and its impact on the distribution of income. Öner Günçavdı and Ayşe Aylin Bayar are pioneers of the field in Turkey. The chapter shares with the first chapter the observation that structural transformation can be traced back to the 1980s, when Turkey changed direction, from a closed command economy toward integration with the global system. The authors’ contribution is based on two key concepts: “tradable and non-tradable dichotomy” and “de-industrialization”. They find a new intentional orientation after 2003 “partly due to deteriorations in relative prices between tradable and non-tradable goods and partly because of a change in sectoral preferences of the government in favor of non-tradable economic activities such as construction, trade, and banking.” They interpret this as the eagerness of the new government to obtain electoral approval, while de-industrialization is an unintended outcome of these policies. Finally, the chapter looks into income distribution and inequality, the worst in Europe, establishing improvements in periods of high growth and a reversal lately.

The sixth chapter, “Labor Market Challenges in Turkey”, completes the macroeconomic and structural analyses of the preceding chapters, by looking at Turkey’s labor market. Gökçe Uysal, Hande Paker and Selin Pelek are well-known academic experts on the labor market, social policy,

and gender studies. The volatility of growth in the last two decades implied an unstable path in employment, characterized by large fluctuations in unemployment. The authors examine in great detail the complex dynamics governing unemployment cycles, with differences in the behavior of the leading labor market indicators, namely the labor force participation ratio, employment ratio, and the growth elasticity of employment, as well as “labor market flexibility”. Meager rates of female participation and employment ratios get special attention, with an original analysis of the gender gap. To paraphrase the authors, “increasing women’s labor force participation is the main challenge that Turkey faces today.” Finally, the authors tackle the burning issue of integrating into the labor market the millions of Syrian refugees painfully trying to survive under miserable conditions.

The seventh chapter, “European Union and Turkey: Why It Failed? What is Next?” is the compact and analytical history of Turkey’s difficult relations with the EU. Cengiz Aktar is one of the best specialists on the subject, with hands-on experience of the lengthy process. Although Turkey’s first attempt to join the Club was initiated in 1963; as mentioned earlier, relations were kept in the freezer until the late 1980s. They rewarmd in the early 1990s, resulting in the Customs Agreement of 1995, followed by membership negotiations in 2005. The last two events, especially the second, made a sizable contribution to Turkey’s growth performance in that period. Lower risk premia due to confidence in policymaking, a big jump in the inflows of foreign direct investment (FDI), series of democratic and legal reforms improving the institutional framework were the multiple channels that benefited the economy. Aktar explains how both Turkey and the EU missed on that historical opportunity and why the membership negotiations turned into a deadlock. With this failure, the risk of divergence between the two parties are now bigger, further amplifying Turkey’s challenges, especially by driving the country “towards uncharted waters”.

The eighth and final chapter, “Turkey’s Development Conundrum: Three Scenarios for the Next 10 Years” is a courageous effort to predict how Turkey will evolve in the next 10 years from a perspective of economic and societal development, in line with the major themes of this book. Atilla Yeşilada is an influential analyst and media commentator,

respected for his opinions both in Turkey and abroad. He starts with the observation that Turkey went through an unfortunate political and institutional decline in the last decade, especially after the move to the executive-dominated Presidential system, leading to substantial loss of momentum in the development process. He summarizes his forecasts at the crossroads by depicting three distinct development scenarios, attaching each a different probability. These will help the interested reader to concretize the “crossroads” and “challenges” facing Turkey in the near future.