

AF & QQE 2011

*Proceedings of the Annual International Conference on*

# Accounting and Finance (AF 2011)

*Edited by*

**Prof. Jianing Fang**

*Hagan School of Business, Iona College, USA*

**And**

*Proceedings of the Annual International Conference on*

# Qualitative and Quantitative Economics Research (QQE 2011)

*Edited by*

**Prof. N.V. Muralidhar Rao**

*BITS Pilani, India*

**23 – 24 May 2011**

**Singapore**



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## Preface

We are proud to welcome you to the proceedings of the Annual International Conference on Accounting and Finance (AF) 2011, and Annual International Conference on Qualitative and Quantitative Economics Research (QQE) 2011 held on 23<sup>rd</sup> – 24<sup>th</sup> May 2011 at Hotel Fort Canning, Singapore.

The AF and QQE 2011 Conferences continuously aim to foster the growth of the business industry and its benefits to the community at large. The technical content of the conference has attracted immense attention and the wealth of information spread across the papers would be extremely useful to the professionals working in the related fields.

It is with great pride and honour that I announce the participation of expert speakers from various countries in this two-day event. This truly is a unique platform for all stakeholders such as researchers, users, technology developers and distributors, and policy makers to discuss, deliberate and exchange experiences.

The Conference Proceedings documents the presentations made at AF and QQE 2011 and in total this volume contains nearly 50 papers, the end result of a tremendous amount of creative work and a selective review process. We have received research papers from distinguished participating scientists from various countries.

As we have been receiving notable contributions this year, there will be a "2011 BEST PAPER AWARD" and "2011 BEST STUDENT PAPER AWARD" for each of the co-located conferences to recognize outstanding contributions and research publications.

I want to thank all the authors who submitted papers for their participation. They contributed a great deal of effort and creativity to produce this work, and I am happy that they chose AF 2011 and QQE 2011 as the place to present it. Credit also goes to the Program Committee members, who donated enormous blocks of time from busy schedules to carefully read and evaluate the submissions.

I would also like to thank the Conference Chair, Professor the Hon. Dr. Stephen Martin, and the Editors in Chief of AF and QQE 2011, for contributing towards the success of the conference.

The Organizing Committee would like to take this opportunity to extend our sincere thanks to the Supporting Organizations for their support and encouragement to make the event a success.

**Mr. Anton Ravindran**

*AF & QQE 2011 Conference Organizing Chair*

## Foreword

This volume of conference proceedings contains a collection of technical research papers presented at the Annual International Conference on Accounting and Finance (AF) 2011 & Annual International Conference on Qualitative and Quantitative Economics Research (QQE) 2011 held on 23<sup>rd</sup> – 24<sup>th</sup> May 2011 at Hotel Fort Canning, Singapore.

The AF & QQE 2011 Conference are international events for the presentation, interaction, and dissemination of new results and scientific approaches that used to improve decision-making and efficiency. As Conference Chair of this event, I would like to express my sincere thanks to all those who submitted papers for review and those who provided manuscripts for publication in these proceedings.

A special thanks to all our speakers and attendees for making AF and QQE 2011 a successful platform for the industry, fostering growth, learning, networking and inspiration.

We sincerely hope you find the conference proceedings to be enriching.

**Professor the Hon. Dr. Stephen Martin**

*AF & QQE 2011 Conference Chair*

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Proceedings of the Annual International Conference on  
**Qualitative and Quantitative Economics Research**  
**(QQE 2011)**

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## Editorial

It is our pleasure to present to you the Annual International Conference on Qualitative and Quantitative Economics Research (QQE 2011).

The goal of the QQE 2011 is to provide a platform and opportunity for academics, researchers and professionals and industry experts to share their knowledge. The conference featured the most up-to-date research results and mantled diverse overarching tracks with stimulating technical sessions covering the conference theme of Qualitative and Quantitative Economics Research. It is an exciting and emerging interdisciplinary area in which wide variety of scientific approach to analyzing problems and improving decision-making and efficiency.

All the papers in this conference proceeding were refereed. A "blind" paper evaluation method was used. To facilitate that, the authors were kindly requested to produce and provide the full paper, without any reference to the authors.

We are indeed honoured to have Prof. Stephen Martin as Conference Chair as well as the Technical Committee and other invited speakers, each an eminent researcher in their own right, to be here at the conference.

Finally we will like to thank all review committee members, partner universities, organising committee members and especially all the conference participants for making this conference a success.

I am sure you will all enjoy reading the proceedings and I hope it will be very much useful in your future research endeavors.

**Prof. N. V. Muralidhar Rao**

*Professor of Economics and Finance & Management,  
Dean of Educational Hardware Division,  
BITS Pilani, India*

# An Extended Study Of The Effects Of The 2008 Global Economic Crisis On Turkish Economy And Her International Relations

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## I. INTRODUCTION

This study investigates the effects of the September 2008 global financial crisis and global recession on the Turkish economy and the following developments. Turkey was praised for having recovered swiftly from the global economic crisis without aid from the IMF. Only more recently, by about March 2011, at the time of writing this study, some doubts are being raised by sundry representatives of international financial circles as well as rating organizations about the danger of continuously increasing current account deficit. A study of Turkey's economy against the background of the September 2008 global economic crisis should, therefore, provide an interesting case study.

In this study we will cover only the period since 2002, when the present AKP government implemented open economy model, outward orientation and globalization. But, the process of changing development strategy from a closed economy model to market economy and outward orientation, it should be noted here at the outset, had started long ago, since 1980. This strategy was widely expanded later, during the years 1983-89. The last thorough re-structuring had been effected in 1999 and 2001, in compliance with the IMF *stand-by* agreement. These policies were continued with the AKP government that came to power in 2002. After the 2008 global economic crisis, doubts were also raised as to whether Turkey is changing her axis. Part of the recent change in Turkey's international economic relations was necessitated by the worldwide economic conditions after the global crisis. But there are also political aspects of this question which is a topic of political science rather than economics.

## II. ECONOMIC POLICIES IMPLEMENTED SINCE 2002 UNTIL THE 2008 GLOBAL CRISIS

### A. *The Pre-2008 Global Economic Crisis Period*

As noted above, the AKP government that came to power in 2002 found before them an economy that had

already been re-structured in 1999 and 2001 in compliance with the IMF *stand-by* agreement for a better working of the market economy, outward-orientation and globalization. Therefore, credit should go to AKP not for initiating the economic re-structuring but for continuing with the economic policies and reforms already started. Similarly, closer ties with the EU had also already been achieved and Turkey had been nominated a "candidate member" in the 1999 Helsinki Summit.

In the beginning, the AKP government, despite its extremist religious roots, did stick with what is evaluated by the Turkish public as "center-right" policies and strategies. The political emphasis was pro-private sector, pro-DPIs, pro-USA, pro-EU and pro-NATO. They continued with and accelerated the privatization programme, encouraged the entry of DPIs and, along with the advent of globalization, the inflow of financial funds and external credits to the Turkish economy. All these policies and development strategies were, in principle, in the right direction. But there were, in many cases, grave errors in their actual implementation.

One such major error was with regard to the implementation of encouragement of (domestic) private capital. This principle of market economy, which is correct in essence, degenerated in its implementation to partizanship and corruption. Investment permits and support, credits from publicly owned banks were granted mostly to partizan entrepreneurs. Similarly, governmental and municipal infra-structural investment contracts were mostly awarded to partizan constructors. Since there were many such partizan constructors, the AKP government and municipalities were engaged in large volumes of construction work. It should be underlined here, however, that this defect of awarding partizan entrepreneurs and constructors is not peculiar only to the AKP government. It is a defect displayed in Turkey since a very long time. But it increased over time and accelerated during the AKP period. Note also that this partizanship is not only unlawful but it also harms the proper, efficient working of the "market economy", and also the principle of equality of opportunity.

Another major error was made in the implementation of "privatization". There is no doubt that under the modern economic and technological conditions witnessed in the world and also reached in Turkey as well, privatization is, in principle, indispensable and correct. But again, corruption, or else miscalculations played a role in most of the privatization efforts. Many publicly owned institutions were privatized at exceedingly low prices; later resold by the initial buyer at exorbitantly higher prices. Therefore, the actual implementation incurred not only a heavy loss of revenue for the government budget but also afforded an unduly high rent to the initial, mostly partizan, buyer.

Despite these mistakes in the implementation of some of the basic principles of market economy, Turkey began to make fast economic progress under the AKP government as GNP growth rates attest. Basic economic indicators related with the growth of the economy during the period studied is presented in Table 1, below.

TABLE 1: GDP (IN US\$), GROWTH RATE OF GDP 1999-2009

| Years | GDP billion US\$(a) | Growth Rate of GDP (%) (b) |
|-------|---------------------|----------------------------|
| 1999  | 247.5               | -3.4%                      |
| 2000  | 265.4               | 6.8                        |
| 2001  | 196.7               | -5.7                       |
| 2002  | 230.5               | 6.2                        |
| 2003  | 304.9               | 5.3                        |
| 2004  | 390.4               | 9.4                        |
| 2005  | 481.5               | 8.4                        |
| 2006  | 526.4               | 6.9                        |
| 2007  | 648.6(c)            | 4.7                        |
| 2008  | 742.1               | 0.7                        |
| 2009  | 616.8               | -4.7                       |

(a) Calculated on the basis of current GDP (in TL, buyers' prices) and the current exchange rate.

(b) Calculated on the basis of real GDP in TL terms.

(c) Note that major part of the increase in GDP level and the growth rate stems from a change in the method of calculating the GDP and GNP.

Source: TÜİK (internet)

There were several reasons why the Turkish economy prospered. Firstly, there was, on the surface, political stability of a single strong party in power, following a short period of, what seemed, an unstable or undependable coalition government. Secondly, the economic re-structuring measures that had been initiated in the previous coalition government in compliance with the IMF stand-by agreement, had begun to bear fruits and show positive results. Thirdly, the world had already fully recovered from the 1997-8 global financial crisis that had emanated in the Southeastern Asian countries. Therefore, both DPIs and financial flows had already begun to rise. Thus, Turkey was able to attract large flows of both since she had reached the status of an "emerging market".

The total GNP of Turkey in US dollars placed Turkey amongst the 20 countries with the largest GNP level, hence a member of the G20 (for instance, in 2007 Turkey was 17th (re: IMF, *World Economic Outlook*, 2007). Presently Turkey ranks as the 16th. (IMF, *ibid.*, 2009).

More relevant to the September 2008 global economic crisis, the AKP government had followed a strategy of

globalization and development that had left the Turkish economy fragile for such a crisis. In addition to the encouragement of DPIs which continued to rise significantly over the years in question, the AKP government over-encouraged the flow of financial funds and credit by means of sustaining very high interest rate levels. This enabled a large flow of financial funds to Turkey which, in turn, financed the increase in imports well over exports. This policy, including flow of funds, increase of imports (most of which are energy, components, inputs and investment goods) was definitely instrumental in raising the GNP growth rates to relatively high levels. Concomitantly, privatization efforts were also accelerated and DPI flow and privatization went hand in hand. The yearly figures for DPI flows can be followed from Table 2 submitted below.

But to finance infra-structural investments and other expenditures, the AKP government also had recourse to large amounts of both internal and also external debt. The figures for external and internal debt (both public and private) are given in columns (II) and (III) and (IV), again Table 2.

TABLE 2: YEARLY FLOW OF DPIs, EXTERNAL AND INTERNAL DEBT, 2002-2009

| Years | (I)                   | (II)                                    | (III)   | (IV)   |
|-------|-----------------------|---|---|--|
|       | DPI flow million US\$ | Gross Public External Debt billion US\$ | Gross Public Internal Debt in terms of billion US\$ | Private Sector External credits billion US\$ |
| 2002  | 939                   | 88.4                                    | 54.8  | 29.2   |
| 2003  | 1.322                 | 96.2                                    | 144.5   | 30.0   |
| 2004  | 2.005                 | 102.9                                   | 174.9   | 36.8   |
| 2005  | 8.967                 | 99.0                                    | 193.6   | 50.6   |
| 2006  | 19.261                | 108.6                                   | 190.8   | 82.2   |
| 2007  | 19.941                | 133.7                                   | 234.6   | 121.4  |
| 2008  | 16.955                | 151.2                                   | 196.5   | 140.1  |
| 2009  | 6.858                 | 146.0                                   | 230.7   | 127.7  |

Source: Ministry of Finance, State Planning Organization and Under-secretary of the Treasury.

This policy enabled the Turkish government to finance the rising level of total imports, by causing a large rise in the trade and current account deficits. Turkey's exports, imports, trade and current account balance is given in Table 3, below.

TABLE 3: EXPORTS, IMPORTS, TRADE AND CURREN ACCOUNT BALANCE  
2001-2010 ALL FIGURES IN MILLION US\$

| Years | (I)<br>Total Exports(a)<br>(fob) | (II)<br>Total Imports<br>(Cif) | (III)<br>Trade Balance |
|-------|----------------------------------|--------------------------------|------------------------|
| 2001  | 34.729                           | 38.092                         | -3.363                 |
| 2002  | 40.719                           | 47.109                         | -6.390                 |
| 2003  | 52.394                           | 65.883                         | -13.489                |
| 2004  | 68.535                           | 91.271                         | -22.736                |
| 2005  | 78.365                           | 111.445                        | -33.080                |
| 2006  | 93.612                           | 134.669                        | -41.056                |
| 2007  | 115.361                          | 162.213                        | -46.852                |
| 2008  | 140.800                          | 193.821                        | -53.021                |
| 2009  | 109.647                          | 134.497                        | -24.854                |
| 2010  | 120.925                          | 177.277                        | -56.356                |

(a)Note that since 1996, hence during the years taken up in this Table, suitcase sales (that is, goods sold to tourists) are also included in total exports.

Source: Turkish Central Bank (TCMB), Through

To keep the flow of external financial funds, credits, portfolio investments and also to make sales of government bonds and treasury bills attractive, the interest rate had been raised far above that generally prevailing in the world markets. This means high volumes of the yearly servicing of external debt and interest, that was to be financed by incoming foreign exchange flows. For instance, in 2005 servicing of the external debt, yearly backpayments plus the interest rate, amounted to 36.8 billion in 2009 and 2010 it was over 58 billion US\$ (TÜİK, Under-secretary of the Treasury, internet). But this policy made the Turkish economy fragile when the September 2008 global economic crisis broke out, on account of consequent decreases in DPLs, financial flows as well as exports ( Tables 2 and 3).

Another major negative effect of the above explained wrong globalization strategy showed itself particularly in the field of employment and unemployment. The inflow of large amounts of foreign exchange by means of DPLs and financial funds, in addition to exports, during the pre-crisis period had depressed the value of foreign exchange. Foreign exchange had become "under-valued" and Turkish lira "over-valued". This, in turn, should have somewhat repressed Turkey's export potential, despite the fact that actual figures show significant increases. In addition, propensity to import should also have increased. But the more important negative effect of the over-valued lira was on the agricultural sector. Since agricultural support prices were to be in conformity with the world prices, over-valued lira meant actually too low support prices in terms of Turkish lira. At the same time, because income taxes could never be adequately increased, tax revenue was obtained in large part by means of raising indirect taxes. This caused, during the period in question, abnormally high indirect taxes on petroleum and diesel fuel, an important cost element in agriculture as well as in manufacturing. Thus, the agricultural sector was squeezed both by abnormally low support prices in lira terms as well as rising costs, both decreasing the agricultural revenue precipitously. As a result, the growth rate of the agricultural sector began to fall significantly since 2002, also bringing down agricultural

employment, and hence raising total unemployment. The increases in the production and hence employment in industry and services just about compensated the fall in agricultural employment. But with yearly increases in the workforce added to the picture, the ratio of (total) unemployment began to rise all throughout the pre-period crisis when GNP was rising. Thus, we witnessed since 2002 a period of GNP growth accompanied with increasing – not decreasing – unemployment. Employment and unemployment figures for the relevant period is presented below, in Table 4.

TABLE 4: EMPLOYMENT AND UNEMPLOYMENT, 2002 AND 2006

| Years  | 2002   | 2006   |
|--|--------|--------|
| (1) Total Civilian Work Force                  | 24.234 | 25.075 |
| (2) Total Employment (3+4)                     | 21.975 | 22.800 |
| (3) Agricultural Emp.                          | 7.961  | 6.488  |
| (4) Non. Agr. Emp.                             | 14.014 | 16.372 |
| (5) Unemployment (1-2)                         | 2.259  | 2.127  |
| (6) Unemployment Rate (5) ÷ (1)                | 9.3%   | 8.8%   |
| (7) Unemployed who do not seek emp.            | 944    | 1.912  |
| (8) Total (broader definition) (5) + (7)       | 3.203  | 4.127  |
| (9) Unemp. Rate (Broader definition) (8) ÷ (1) | 13.2%  | 16.5%  |

Source: DPT, Relevant Yearly Programmes, 2003, 2007.

Therefore, as the above statistics indicate, the Turkish economy came face to face with the 2008 global economic crisis with a large external as well as internal debt, large yearly payments for servicing the external debt, over-reliance on the ample flow of DPLs and financial funds to make these payments and to meet the foreign exchange requirements of the current account deficit, as well as a large volume of unemployment.

*B. The Effects of 2008 Global Economic Crisis on The Turkish Economy; Measures Implemented and Results Obtained*

*1) The Effects of the Global Economic Crisis on the Turkish Economy*

The September 2008 global economic crisis hit the Turkish economy on two important counts. The first was the decline in both the flow of DPLs (re: Table 2) and financial funds, thereby reducing the supply of foreign exchange. The second was the decline in total exports (re: Table 3). This was because the major part of Turkey's exports went to the EU countries which were faced with a serious financial crisis as well as recession. The main part of DPLs and financial funds to Turkey also flowed from the EU. The decline in exports further squeezed the supply of foreign exchange to Turkey to finance her imports as well as the yearly backpayments of external debt.

As a consequence, imports, thereby GNP and industrial production declined considerably while unemployment further increased. In fact, Turkey was one of the countries worst hit by the global economic crisis in terms of the fall in the level of GNP and industrial production (re: Table 1, figures for 2008, 2009).

2) *Measures Taken to Combat the Crisis and Results Obtained*

Turkey, nonetheless, recovered rather swiftly from the global economic crisis on account of several reasons. Firstly, at the time the 2008 global economic crisis broke out, the Turkish financial sector had already become strong as a result of the thorough restructuring of the banks in conformity with the 1999 and 2001 IMF *stand-by* agreement. The Turkish banks had one more advantage compared to the European. By law, they are not permitted to buy derivatives and valuable papers from banks abroad. For instance, the European banks which had derivatives and shares of the US banks had found the value of these dwindle following the crisis in the US financial sector which, in turn, had worsened their own liquidity and drifted them to insolvency. The Turkish banks faced no such serious drawback.

Immediately following the outbreak of the global economic crisis, the Turkish Central Bank started to implement a very correct policy of reducing the interest rate (down from nominal 16.0% in 2008 to 5.75% by November 2010; TCMB: internet).

Thirdly, the stand of the Turkish government in dealing with the crisis was very important. It is interesting that following the global crisis the IMF did start lengthy negotiations with Turkey for giving out aid, presumably over 20 billion US dollars and making another *stand-by* agreement. The negotiations were prolonged and cut twice in futility. It seemed, at the time, that the AKP government did not want to have the budget expenditures to come under strict IMF controls because it was going to face municipality elections in March 29, 2009. The AKP won the municipality elections handily (Hiç, 2009). What is surprising and positive was that the AKP government did not indulge in over-spending for the elections, and also later. There was, relatively speaking, self-imposed controls on the budget and budget expenditures. So, this was another factor why Turkey recovered rather swiftly from the economic crisis and the decline in GNP and industrial production.

Still another important reason was the effort of the Turkish government to increase export opportunities to countries other than EU members and Europe. For instance, Turkey made in February 2009 an agreement with Russia that trade between the two countries was to be carried in terms of Turkish lira and ruble (Russian monetary unit). She also tried to strengthen her economic relations with the Near and Middle Eastern and North African, Moslem countries, including Iran, Sudan and Libya. Close economic ties and passport formalities were forged with Iraq, Syria and Lebanon.

And finally we had one more factor, an external factor this time, that worked in Turkey's favor. On account of several reasons, DPs and financial funds started to flow to Turkey once again. Firstly, Turkey showed a relative economic strength as well as political stability. This was in stark contrast to some European, EU member countries in the Euro zone, including Greece, Spain, Portugal, which all

staggered seriously required large doses of aid from the EU budget as well as the IMF. Secondly, though the Turkish Central Bank had reduced the interest rate, it was still high compared with the worldwide interest rates, bearing in mind that the FED in the USA had reduced the interest rate down nearly to zero. Thus, Turkey offered higher profitability as well as relative security. So much so that in the more recent years and months the Turkish trade and current account deficit again increased along with an increase of the GDP growth rate up to 8.9% in 2010 as well as the increase in the yearly price rise to 10.8% (consumer price index). For 2010 the current account is estimated to rise again above 50 billion US dollars. Such a development, this time, caused concerns about the relative stability of the Turkish economy and concerns began to be expressed by March 2011 about the fragility of the Turkish economy. As a counter measure, the Turkish Central Bank this time raised both the interest rate and the legal deposit reserve ratio of banks in order to check on bank credits, private expenditures, growth, price increases and the current account deficit.

3) *Does the Tilt in Turkey's International Relations Mean She Is Changing Her Axis*

The question often asked in the political circles is whether the AKP government is recently changing Turkey's axis, away from the EU and towards Middle Eastern and North African Islamic Countries. A correct answer to this question cannot be given based only on economic analysis. Because as explained above, following the 2008 global economic crisis, the EU countries did suffer considerable recession, hence Turkey's exports to these countries had fallen while DPs and financial funds which came to Turkey, again in major part from these countries had also decreased. This, as an economic consequence, did necessitate Turkey's search for increasing her trade and economic relations with other countries. Moslem Countries, in turn, needed Turkey's exports of agricultural and manufacturing goods as well as construction work Turkey could afford to give. In turn, these countries, including Iran and also Russia, could offer Turkey petroleum and natural gas. A giant pipeline project carrying Russian oil and natural gas, called the "Blue Flow" is already working. In turn, much construction work by Turkish constructors are being carried in Russia. In addition, an agreement had been reached that Russia would build a nuclear plant in Mersin, a Southern province of Turkey. Visas would be waived between the two countries by April 2011. The number of tourists to Turkey coming from Russia has, in the more recent years, surpassed those coming from Germany.

The change in the country group distribution of Turkey's international trade, confined to exports as representative, is given below with the aid of figures and ratios for the years 2003 versus 2010. The figures and ratios reflect both the economic changes in the world scene following the 2008 global economic crisis as well as the fruitful results of Turkish government's deliberate efforts to open to international trade worldwide, with particular weight falling on Middle Eastern and African Moslem Countries. Country distribution of imports are not given but show a pattern

similar to that of exports, except for a greater weight of countries that supply petroleum and natural gas to Turkey.

Before the 2008 global economic crisis; a substantial part of Turkey's exports were directed to the EU and other European countries, as well as the OECD as a whole. For instance, in 2003, 27 EU countries accounted for 58.0%, other European countries for 7.1%, OECD as a whole accounted for 67.6%, of Turkey's total exports. The share of North Africa was only 3.3%, other African countries 1.2%. Near and Middle Eastern countries had a share of 11.6%, other Asian 5.0%. Union of independent states, including Russia was responsible for 6.3%; Islamic Conference states for 15.2%.

In 2010, after the global crisis, the share of 27 EU countries was down to 46.2% also implying a significant fall in the absolute level of exports. The share of other European countries was 10.0%. The share of OECD, as a consequence, had gone down to 54.0%. The share of North Africa had risen up to 8.2%, other African countries had also risen up to 6.2%. Near and Middle Eastern countries had risen to 20.9%, a substantial rise; other Asian was also up, 7.5%. Russia and union of independent states had also gone up to 9.0%; Islamic Conference states were responsible for a substantial 28.5% (TÜİK internet). Note also that the major bulk of Turkey's construction undertakings went to Near and Middle Eastern, Northern African countries, to Russia and to some near-by Balkan countries.

Thus, looking only at the economic facts and figures, we may conclude that the more recent shift in Turkey's economic relations is caused by economic factors, that is, the effects of 2008 global crisis on the world economy, and hence an inevitable consequence of the process of globalization and of changes in economic conditions.

A search at political developments recently taking place, on the other hand, may lead us to serious doubts and towards other conclusions. Just to list some of the major such political developments, the AKP government, after coming to power in the 2002 parliamentary elections speedily concluded major political reforms and thus EU membership negotiations were started in October 2005 by the EU Brussels summit decision dated December 2004. The reforms, in major part, diminished the authority of the Turkish armed forces, which owns a strongly laicist and pro-Atatürk stand. But other political reforms slackened over time. There was a drift in the negative direction in both parties. Some EU countries, notably the EU motors, France and Germany, joined by Austria seemed unwilling to make Turkey a full member. At any rate, Turkey's membership had lost priority after USSR collapsed in 1991 and Balkan and Eastern European countries took over EU membership priority. The living habits of Moslems in France and (Moslem) Turks in Germany may have been another factor.

Still another was increased Moslem terrorism in the EU and the world in general. So, the Cyprus question was only one factor of discrepancy between the EU and Turkey in the open, and it is doubtful whether a solution of the Cyprus question, however difficult, could lead to Turkey's membership. In turn, the Turkish public opinion in general also lost enthusiasm with EU membership. Note that this political drift between Turkey and the EU was witnessed well before the September 2008 global economic crisis broke out.

Another crucially important development was witnessed in Turkey's relations with Israel which began to get sour with the January 2009 Davos panel that included Simon Perez and Tayyip Erdoğan as panelists. For an insightful and correct analysis of Turkish-Israeli relations refer to: Efraim Inbar (2011). Turkey's deliberate souring of relations with Israel, her stand in favor of Hamas as well as Sudan, all radical in their world stand, and political overtones in carrying her relations with Middle Eastern countries cannot be explained solely by the economic contingencies created by the 2008 global economic crisis. This stand of AKP government had, at any rate, again started before the global crisis broke out.

And at the same time as Turkey's economic and political attention turned away from the EU towards Moslem countries, there had been many steps taken by the AKP government to expand religiosity within the country. The major steps included the strengthening of tarikats, the insistence on the freedom to wear the turban in universities, high schools as well as government bureaux, harsh controls and limitations concerning the sales of alcohol, etc.

Therefore, the question whether Turkey is changing her axis cannot be answered merely by studying the developments of the Turkish economy. It calls for an in depth research of political developments, that should also include anti-democratic tendencies of the present government, including the pressure on the media, the influence of the government on courts, judges and prosecutors. Hence, as indicated above, it is a topic to be studied by a political scientist.

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