AMERICAN FOREIGN POLICY COUNCIL

Erdogan’s Chinese Gamble

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For over a year now, Turkey has lurched toward full blown economic crisis, propelled by a major devaluation of the national currency and ballooning external debt. These economic troubles have come at a significant political cost for President Recep Tayyip Erdogan and his ruling Justice & Development Party (AKP). In its August survey of Turkish public opinion, polling firm MetroPOLL found that Erdogan's once-robust approval rating had dropped to 44 percent – down nearly 10 points from a year earlier. And this summer, the Turkish electorate delivered Erdogan's government a very public rebuke when it voted resoundingly to confirm opposition candidate Ekrem Imamoglu as mayor of Istanbul in a re-run of the country's contested regional elections. The bloom, it seems, has well and truly come off Erdogan's rose.

Turkey's wily autocrat, however, is far from finished. Erdogan is now seeking ways to reclaim the political high ground and outmaneuver his various domestic opponents. The latest weapon in this struggle is a new – and wildly ambitious – economic agenda designed to recapture the country's lost dynamism.

The three-year plan, unveiled on September 30 by Finance Minister (and Erdogan son-in-law) Berat Albayrak, lays out a "new economic program" that envisions reducing national inflation from its current rate of nearly 13 percent to 6 percent by 2021, and less than 5 percent by 2022. It also aims to boost national economic growth (currently less than 1 percent) to 5 percent by next year – and then to keep growth rates there. That, in turn, should generate roughly one million new jobs annually, according to government projections.

Such promises are clearly intended to woo Turkish voters, who have progressively soured on Erdogan's authoritarian leadership. Yet it isn't immediately apparent how, exactly, Erdogan's government plans to achieve those benchmarks, in light of its current deeply troubled financial situation.

Turkey today is saddled with more than $440 billion in external debt from lenders like the International Monetary Fund (IMF), more than double the country's annual average between 1989 and 2018. Roughly half of these outstanding loans are denominated in U.S. dollars, and more than $100 billion are due for repayment this year – creating a major financial burden the Turkish government won't be able to fulfill without extensive assistance from foreign sources.

In the past, Ankara could look to Washington for help. But the previously-robust bilateral ties between the U.S. and Turkey have deteriorated precipitously in recent years over a variety of disagreements. Of these, perhaps the most jarring (at least from Washington's perspective) was Erdogan's decision this summer to go ahead with the purchase of Russian air defense systems over the objections of the U.S. and other NATO nations – a move that American lawmakers saw as a litmus test of Ankara's deepening anti-Western orientation. In the aftermath of that fateful decision, the U.S. government has moved to bar the sale of advanced F-35 fighter jets to Turkey, and any sort of additional assistance has become well nigh impossible to contemplate.

Nor is more aid from Europe likely. The country is already the largest recipient of EU aid among prospective member states, with some $4.5 billion in "pre-accession support" allocated for the period spanning 2014-2020. But in recent years Brussels has concluded that its generosity simply hasn't prompted Turkey to enact desired reforms in the rule of law, civil society and governance. As a result, Europe is increasingly sidelining Ankara in its financial plans; when the European Commission released its 2021-2027 Western Balkan strategy last year, for instance, the plan conspicuously omitted any aid for Turkey.

Greater dependence on international institutions isn't a workable solution either, at least as far as Erdogan is concerned. Although Ankara has received assistance from such lenders in the past, the strings attached – including austerity measures that put a crimp in the government's foreign policy ambitions – have left a bad aftertaste. Erdogan himself has thus denounced the possibility of more IMF bailouts, describing them as a conspiracy designed to keep his country "subservient."

Not surprisingly, Ankara has of late relied on more sympathetic regional sources, in particular the emirate of Qatar. Turkey's support for the Gulf nation during its recent diplomatic stand-off with the other Gulf Cooperation Council states translated last year into a generous multi-billion dollar aid package from Doha that helped to at least temporarily prop up the country's ailing economy. But even Qatar's largesse has its limits, and it's hardly a certainty that Doha will be willing to further bankroll profligate Turkish domestic spending, and its foreign adventurism in Syria and elsewhere.

All of which has forced Turkey's government to look east, toward China and its sprawling Belt and Road Initiative. Indeed, Ankara's economic ties to Beijing have warmed notably of late. This summer, China's Central Bank made a $1 billion cash infusion into Ankara's tottering economy, earning the heartfelt gratitude of Erdogan's government in the process. Other economic sweeteners have followed (including a $3.6 billion package for Turkey's energy sector, and assorted Chinese bailouts for Turkey's poorly performing banks).

This deepening partnership marks a major policy change. Not all that long ago, Turkey's government was savvy enough to fear the potential detrimental side effects of Chinese money, with officials citing the growing dependency on Beijing now visible throughout Central Asia and beyond as a cautionary tale for their country.

But desperate times, it seems, call for desperate measures. Erdogan's current, ambitious foreign policy vision (which includes the purchase of advanced fighter jets from Russia and a massive, multi-billion dollar stabilization plan for northern Syria) carries a steep price tag – one that Ankara would be hard pressed to foot alone. Domestically, meanwhile, Erdogan appears to have reconciled himself to the idea of accepting stabilization funds from Beijing in order to stay in power, no matter the strings that might be attached.
