

However, for the next decade, the Turkish economy remained very volatile, with high inflation (peaking at 106% in 1994) and periodic currency devaluation. In 2001, Turkey needed another IMF-led support programme in which the government committed to economic liberalization and tight fiscal policy.

In 2003, the Justice and Development Party won parliamentary elections and Recep Tayyip Erdoğan became prime minister. Under his leadership, Turkey advanced economic reforms, not only stabilizing and liberalizing the economy but also aligning the regulatory framework with the EU. Moreover, Turkey pursued solid macroeconomic policies, including monetary policy led by an independent Central Bank focused on controlling inflation and government budget deficits that were stable. Banks appeared properly supervised and had strong balance sheets.

Thus Western European companies considered Turkey an attractive location for business. Since the

labour force was younger than in Western Europe, and wages were substantially lower too, especially labour-intensive manufacturing plants were built. For example, *Flat* and *Renault* invested with Turkish joint venture partners in new car assembly plants, while *Ford* expanded its existing operations. The qualifications of the workforce (outside the elite) were still substantially lower and on many aspects of the business environment, Turkey was less sophisticated than, for example, Spain and Italy. However, compared to other emerging economies, Turkey showed promising development on several dimensions (Table 2.1).

Despite the praise for a predictable environment for business, and annual economic growth of almost 4% in real terms, many potential investors were concerned about the country. The policies of the AKF government gradually shifted towards value-conservative policies, such as promoting traditional family values

Table 2.1 Institutional environment: Turkey and benchmark countries

	Turkey	Spain	Italy	Hungary	Romania	Russia	India	China
Quality of education and research institutions ¹	45.5	48.9	46.3	39.5	30.5	50.0	32.3	49.2
Quality of technology infrastructure ¹	45.7	64.3	61.8	52.3	55.1	47.5	44.1	57.9
Openness and effectiveness of markets ¹	47.8	59.0	52.6	41.5	44.2	47.1	51.9	54.7
Cost and time of procedure to start a business ²	87.6	86.7	89.4	87.6	89.7	93.0	75.4	85.5
Cost and time of procedure to enforce a contract ²	68.9	70.0	54.8	73.8	72.3	72.2	40.8	78.2
Strength of the legal protection of minority shareholders ²	71.7	70.0	58.3	50.0	60.0	61.7	80.0	48.3
Transparency (absence of corruption) ³	41	58	47	48	48	29	40	40
Constraints on political power ⁴	37.3	83.6	75.7	73.3	73.5	73.1	70.2	n/a

Note: All indices have been scaled such that a high index reflects a more market-oriented economy. EU = member of the European Union; EE = emerging economy.

Sources: (1) Global Innovation Index 2016, INSEAD, www.globalinnovationindex.org, Scale 1 to 100 (100 = innovation friendly); (2) Doing Business Index, version 2017, World Bank, www.doingbusiness.org; (3) Corruption Perception Index 2016, Transparency International, www.transparency.org; (4) PolCon Index 2012, scale 0 to 100, original multiplied by 100; (5) Henisz, W., 2000, The institutional environment for economic growth, *Economics and Politics*, 12(1): 1–31, <https://mgmt.wharton.upenn.edu/profile/1327>.