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In global economics, one of the most significant phenomenon of the past few decades has been the rise of emerging markets. By emulating the Japanese export orientation and market system, countries such as South Korea, Singapore, Taiwan, and Hong Kong have achieved rapid economic growth by pursuing outward looking policies. By doing so, they have joined the ranks of the developed world in merely a few decades. Now, China and India, as well as a number of other emerging economies, are experiencing sustainable growth at very high rates. Although there is not a clear consensus on what the term 'emerging markets' signifies, there is a general agreement about the common traits of these markets. First, emerging markets are growing economies that are able to sustain economic growth for prolonged periods. Second, emerging economies compete globally and, as a result, are transforming both economically and socially rapidly. Third, these countries are growing at unusually high rates and therefore capable of raising their living standards quickly. Hence, what the West achieved in about a century and a half is now being achieved by emerging markets at a far more rapid pace.

According to FTSE Global Equity Index Series Country Classification, there are 23 emerging economies of which 6 are advanced emerging and 17 are secondary emerging economies. In this classification, Turkey is a secondary emerging economy but has been added to the watch list for a possible upgrade to advanced emerging category. On the other hand, Turkey is also included in the MSCI International Equity Indices as one of the 22 emerging economies. According to CIA World Factbook estimates for 2008, Turkey has a population of 76,805,524 with a median age of 27.7 years. The Turkish economy is the 17<sup>th</sup>



largest economy in the world with a GDP-PPP of \$903.9 billion in 2008. Though, The World Bank ranks the Turkish economy as the 15<sup>th</sup> largest economy in the world with a GDP-PPP of \$1.028 trillion in 2008.

The strategic location of Turkey makes it a very important country in terms of economics as well as geo-politics. Approximately 1.12 billion or 16.5% of the world's population lives in close proximity to Turkey in the combined area of the EU (499 million), the CIS (277 million), and the Middle East (342 million including 76 million in Turkey). Turkey is located at the crossroads of Europe, Asia, the Caucasus, and the Middle East. It is where the East and West fuse together. In the past, the Silk Road ended in Anatolia and Istanbul and it was here that products were warehoused, became inputs to other products, and then shipped to Europe through Venice. The same is true in Turkey today, where industry, trade, and finance are still dominated by the expansive and crowded Istanbul. But, now other cities and towns in Anatolia known as the *Anatolian Tigers* are opening up, industrializing rapidly, and going through major transformation. The dynamic Turkish private sector and its new generation of young entrepreneurs are replacing the public sector in every segment of the economy. The role of the state and the central government in the economy has been declining since the early 1980s. In particular, integrating Turkey into the global economy through international trade has proven to be quite successful. Between 2000-2007 total annual trade volume rose by 19.2% annually, from \$81 billion to \$277 billion. Today, more than 94% of Turkish exports are manufactured goods with auto and auto related products leading the pack.

### **Mustafa Kemal Ataturk and His Legacy**

Ataturk was a reformist and his homegrown version of nationalism had two goals. The first was to gain political independence from Allied occupation and to secure a homeland for the Turkish nation. The second goal was to achieve modernity through reforms and economic development in order to catch up with the West (Earle, March 1925, p.74). What became known as "Kemalism" in Turkey and around the world has been a mixture of a republican form of government representing the power of the people, secular administration, and non-expansionist form of nationalism with a focus on economic development, and modernization of the country and society. Ataturk's policies were in general influenced by his drive to pull Turkey out of its economic backwardness, which caused the collapse of the Ottoman Empire. He wanted to see a modern Turkey and a well-developed national economy, which could compete on the world stage head-to-head with the most advanced economies of the time. He was interested in the prosperity of the Turkish people under the republican rule and understood that just military victories and conquests were not enough to succeed in the modern world.

Even before the end of the War of Independence and the signing of the Treaty of Lausanne, Ataturk called for a conference to gather the best minds available to discuss the future economic policies of the nation. In February 1923, during the *Izmir Economics Convention*, he declared that the failures of the Ottoman Empire were very much related to its inability to keep up with western economic and scientific progress of the 19<sup>th</sup> and early 20<sup>th</sup> centuries. In order to catch up with the West, he gave the first priority to the development of a successful national economy by declaring that national sovereignty must be followed and complemented by economic sovereignty. First, with the Treaty of Lausanne, he eliminated the “capitulations” which were granted to foreigners and were draining the Turkish economy and treasury dry for centuries. Second, following the failed attempts to create a viable capitalist class and a market economy in the late 1920’s, his administration boldly decided to become both capitalistic and entrepreneurial by embarking on a number of massive public projects to jump-start the economy. Additionally, the new administration allowed the government to enter industries that did not exist in Turkey before or the private entrepreneurs failed in establishing them the past. Also, under the new republican regime Turkey welcomed foreign direct investment and technology as long as it operated under the laws of the new Turkish Republic without any special grants or privileges. This new pragmatic approach of combining state and private entrepreneurship created a mixed economy and became the building blocks for the new national economy.

Ataturk understood that the collapse of the Ottoman Empire was inevitable because of its economic and technological backwardness and inefficiency. The Empire’s industrial base was extremely limited and consisted primarily of small-scale traditional producers, which relied on labor-intensive production methods. Several attempts were made in the 19<sup>th</sup> century to modernize and democratize the Ottoman society and economy, namely through the edict of Tanzimat in 1839, Gulhane Hatt-i Humayun of 1856, and the Constitution of 1876, whose aim was to expand individuals’ rights and contain the Sultan’s power. However, none of these reforms proved to be long-lasting (Earle, March 1925, p.76). Immediately after the War of Independence and the declaration of the new Turkish Republic, in March 1924 the new republican regime abolished the Caliphate and in April 1924 adopted the new constitution. These two events marked the initial phase of the Kemalist revolution and formed the platform to embark on a series of reforms, which were executed at a rapid pace. Ataturk was well aware that for the new Turkish Republic to survive, reforms needed to be bolder and far-reaching. As a result, he fought relentlessly for the rights of Turkish women. In a series of speeches delivered in early 1920s, he told his people that the country’s “most urgent present task is to catch up with the modern world,” and that would be impossible if only “half the population would modernize” (Lewis, 2002, p. 72). His administration also implemented reforms in the areas of law, religion, education, health care, government, and taxation, which dynamically changed the face and lifestyle of the new Turkish society. His ultimate goal was to make the new Turkey a modern, open, industrialized republic, at par with the West. In Turkey, his legacy as a leader is



unparalleled and is considered to be as one of the most influential and successful leaders of the emerging world. Because of his reforms, today Turkey is a democratic and industrialized economy which is open to global trade, new ideas, and competition.

### **Turkey's Economy and Its Importance**

Despite Ataturk's efforts to modernize the Turkish society and economy, achieving economic growth, and establishing a viable democracy has been a long battle in the Turkish Republic. The process of transforming the country from a monarchy to a republic and from a one-party republic to a multi-party democratic system has been an agonizing process with a lot of political turmoil. When *Time* magazine (1958) called prime minister Menderes "an impatient builder," the country was still earning most of its foreign exchange by exporting its traditional cash crops, more than 65% of Turkey's 20 million citizens were illiterate, about 80% of the country's 36,000 villages had no proper drinking water, and most of the population had almost no influence on the country's political decisions.

Nonetheless, today Turkey is a multi-party democracy with a range of political parties representing a variety of ideologies. Even though there are serious frictions among various political factions, the democratic principles are strongly engrained and widely accepted by the general public. The vibrant Turkish private sector and its new generation of young entrepreneurs are replacing the public sector in every segment of the economy. Against all odds and after 10 economic crises in 86 years, Turkey has the world's 17<sup>th</sup> largest economy with a purchasing power parity adjusted gross domestic product (GDP) of about \$904 billion in 2008. Given Turkey's estimated population as well as its per capita GDP in 2008 of about \$12,000, Turkey ranks as an upper middle class country (see Table 1).

Table 1: World's Largest Economies (Million USD)

		CIA World Factbook
		2008 GDP (Purchasing Power Parity) in million \$s
	World	\$69,490,000
	EU	\$14,820,000
1	US	\$14,290,000
2	China	\$7,800,000
3	Japan	\$4,348,000
4	India	\$3,267,000
5	Germany	\$2,863,000
6	UK	\$2,231,000
7	Russia	\$2,225,000
8	France	\$2,097,000
9	Brazil	\$1,990,000
10	Italy	\$1,821,000
11	Mexico	\$1,559,000
12	Spain	\$1,378,000
13	Canada	\$1,307,000
14	S. Korea	\$1,278,000
15	Indonesia	\$915,900,
16	Turkey	\$906,500,

Source: Based on figures for 2008 as reported in the CIA World Factbook.

<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html?countryName=Turkey&countryCode=tu&regionCode=me&rank=17#tu>

Despite three military coups in 1960, 1971, and 1980, many economic and political crises, past policy mistakes, and current difficulties, Turkey stands as a force of stability and prosperity in its region. The economic frontiers of the state have been pulled back significantly since the early 1980's, and in the process a lot of government owned and operated enterprises have been privatized. Today, Turkey has a thriving market economy and its political system is defined as a representative democracy. In fact, Turkey has been the first, predominantly Muslim country, which has chosen to become a secular republic, as well as adopt market economics and democratic rule.

In its 86 years of history, the Turkish Republic went through six deep and four mild economic recessions (Kazgan, 2005, p. 2). In addition, the Turkish economy suffered in the



past from many balance of payments problems, currency devaluations, and depreciations (see Table 2).

Table 2: The Depreciation of the Turkish Lira

Years	Depreciation of the Turkish Lira (%)
1946	53.3
1958	68.8
1970	66.6
1978	23.0
1979	5.6
1979	24.2
1980	32.8
1994	38.8
2001	25.3
2002	31.2
2006	29.2
2008	40.0

Source: Based on figures as reported in Hurriyet by M. Rauf Ates, October 27, 2008 - <http://hurarsiv.hurriyet.com.tr/goster/haber.aspx?id=10217965&yazarid=254&tarih=2008-10-27>

During the global financial crisis of late 1990s, the country went through one of its worst economic crises' to date. The Turkish GDP first contracted by 3.4% in 1999, then expanded by 6.8% in 2000, and then contracted again by 5.7% in 2001—one of the worst performances since the Great Depression (See Table 3). Despite the depth of the recession, with the help and timely funding of the IMF, the economy bounced back in a short period of time and grew at an average rate of 6.8% between 2002 and 2007. Today, because of the recent global economic crisis, once again the Turkish economy is being tested. Even in the trough of the recession, not a single private Turkish bank became insolvent and needed government bailout despite the fact that the country suffered from double digit unemployment rates and significant contraction in domestic and export markets.

Table 3: GDP Growth/Decline in Constant 1998 Prices (Billion TRL – Turkish Lira)

	GDP TRL Billions	GDP Percentage Change
	Constant 1998 Prices	
1998	TRL 70.20	--

1999	TRL 67.84	-3.36
2000	TRL 72.44	6.77
2001	TRL 68.31	-5.70
2002	TRL 72.52	6.16
2003	TRL 76.34	5.26
2004	TRL 83.49	9.36
2005	TRL 90.50	8.40
2006	TRL 96.74	6.89
2007	TRL 101.21	4.62
<b>2002-2007</b>	<b>Average Growth Rate</b>	<b>6.78</b>
<b>1998-2007</b>	<b>Average Growth Rate</b>	<b>4.52</b>

Source: Türkiye Cumhuriyeti Maliye Bakanlığı. 2008 Yıllık Ekonomi Raporu. Republic of Turkey Ministry of Finance. (2008). 2008 *Annual Economic Report*, p.8. Ankara; Ministry of Finance.

In 2002, the “Justice and Development Party” - *Adalet ve Kalkınma Partisi, AK Parti*, or simply *AKP* - came to power, and since then has been pushing for a greater integration of the Turkish economy into the global market place. Interestingly enough, *AKP* is a socially conservative, Islamic-oriented, economically liberal, and mostly pro-Western political party which is also in pursuit of full European Union membership for Turkey. With all the turmoil and political bickering, the rapid growth of the Turkish economy in recent years is mainly due to Turkey’s commitment to free trade as the way to achieve greater prosperity and peace in its region, and its desire to fully integrate into the global economy. Consequently, the total trade volume has grown on average at an annual rate of 17.46% between 1999 to 2008 and 23.64% between 2002 to 2008 (See Table 4).

Table 4: Exports, Imports, and Foreign Trade Balance (Thousands US\$)

Years	Exports	Imports	Trade Balance	Trade Volume	% Change
1998	26,973,952	45,921,392	-\$18,947,440	\$72,895,344	
1999	26,587,225	40,671,272	-\$14,084,047	\$67,258,497	-7.73%
2000	27,774,906	54,502,821	-\$26,727,914	\$82,277,727	22.33%
2001	31,334,216	41,399,083	-\$10,064,867	\$72,733,299	-11.60%
2002	36,059,089	51,553,797	-\$15,494,708	\$87,612,886	20.46%
2003	47,252,836	69,339,692	-\$22,086,856	\$116,592,528	33.08%
2004	63,167,153	97,539,766	-\$34,372,613	\$160,706,919	37.84%
2005	73,476,408	116,774,151	-\$43,297,743	\$190,250,559	18.38%
2006	85,534,676	139,576,174	-\$54,041,498	\$225,110,850	18.32%





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2007	107,271,750	170,062,715	-\$62,790,965	\$277,334,464	23.20%
2008	132,271,750	201,963,574	-\$69,936,378	\$333,990,770	20.43%

Source: Retrieved September 3 2009 from TUIK – Turkiye Istatistik Kurumu / Turkish Institute of Statistics website. [http://www.tuik.gov.tr/VeriBilgi.do?tb\\_id=12&ust\\_id=4](http://www.tuik.gov.tr/VeriBilgi.do?tb_id=12&ust_id=4)

Furthermore, despite the cultural, racial, and religious differences, trade volume grew dramatically between Turkey and the European Union, Middle East, and the Commonwealth of Independent States. Although Turkey is not a member of the European Union, its international economics is dominated by its international trade, direct investments, and tourism flows with the European Union (See Table 5).

Table 5: Turkey and European Union (EU) Trade Balance (Thousands USD)

	Exports		Imports		Trade
	To EU	% Change	From EU	% Change	Deficit/Surplus
2008	63,390,419	4.95%	74,802,380	9.02%	-\$11,411,961
2007	60,398,502	26.00%	68,611,562	15.51%	-\$8,213,061
2006	47,934,746	15.88%	59,400,922	12.72%	-\$11,466,176
2005	41,364,962	13.08%	52,695,793	9.55%	-\$11,330,831
2004	36,580,859	33.54%	48,102,744	36.89%	-\$11,521,885
2003	27,393,762	34.18%	35,140,139	36.79%	-\$7,746,377
	Average	21.58%	Average	15.79%	

Source: Retrieved September 3 2009 from TUIK – Turkiye Istatistik Kurumu / Turkish Institute of Statistics website. [http://www.tuik.gov.tr/VeriBilgi.do?tb\\_id=12&ust\\_id=4](http://www.tuik.gov.tr/VeriBilgi.do?tb_id=12&ust_id=4)

In addition, Turkey's trade, investments, and tourism flows with the Middle East and the CIS grew even faster as opposed to the flows with the European Union due to the oil and gas boom in recent years (See Tables 6 and 7).

Table 6: Turkey and Commonwealth of Independent States (CIS) Trade Balance (Thousands USD)

	Exports		Imports		Trade
	To CIS	% Change	From CIS	% Change	Deficit/Surplus
2008	13,938,226	38.16%	42,613,879	36.30%	-\$28,675,653
2007	10,088,336	44.27%	31,262,659	33.76%	-\$21,174,323
2006	6,992,529	38.28%	23,372,924	35.47%	-\$16,380,395

2005	5,056,779	27.64%	17,252,743	33.46%	-\$12,195,965
2004	3,961,619	33.72%	12,926,894	66.22%	-\$8,965,275
2003	2,962,593	30.00%	7,777,111	40.01%	-\$4,814,518
	Average	29.87%	Average	30.03%	

Source: Retrieved September 3 2009 from TUIK – Turkiye Istatistik Kurumu / Turkish Institute of Statistics website. [http://www.tuik.gov.tr/VeriBilgi.do?tb\\_id=12&ust\\_id=4](http://www.tuik.gov.tr/VeriBilgi.do?tb_id=12&ust_id=4)

Table 7: Turkey and Middle East Trade Balance (Thousands USD)

	Exports to Middle East	% Change	Imports From Middle East	% Change	Trade Deficit/Surplus
2008	25,430,395	68.62%	17,627,603	39.44%	\$7,802,792
2007	15,081,322	33.28%	12,641,279	19.62%	\$2,440,043
2006	11,315,751	11.11%	10,568,063	32.65%	\$747,688
2005	10,184,230	28.57%	7,966,854	42.65%	\$2,217,376
2004	7,921,284	44.95%	5,584,836	25.36%	\$2,336,448
2003	5,464,810	58.87%	4,455,199	39.85%	\$1,009,610
	Average	29.86%	Average	22.17%	

Source: Retrieved September 3 2009 from TUIK – Turkiye Istatistik Kurumu / Turkish Institute of Statistics website. [http://www.tuik.gov.tr/VeriBilgi.do?tb\\_id=12&ust\\_id=4](http://www.tuik.gov.tr/VeriBilgi.do?tb_id=12&ust_id=4)

Today, Turkey shows the signs of a newly industrialized country. Currently, Turkey is the largest economy in the Middle East, and if it were a member of the European Union it would be its sixth largest economy. As a result of rapid and sustained economic growth and industrialization, today about 95% of Turkish exports are manufactured products. Motor vehicles and transportation equipment, iron and steel, knitted apparels, and mineral oils and lubricants are the leading export products (See Table 8).

Table 8: The Composition of Exports (Thousands USD)

2008	Export Products (\$US)
Motor vehicles	\$18,326,711
Iron and steel	\$14,946,358
Mechanical machinery, equipment, boilers	\$10,258,590



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Electrical machines, equipment	\$8,003,852
Knitted apparels and accessories	\$7,971,713
Mineral fuels, mineral oils and lubricants	\$7,531,776
Apparel and accessories	\$5,326,729
Plastics	\$3,563,148
Ships and water vehicles	\$2,647,859

Source: Retrieved September 3 2009 from TUIK – Turkiye Istatistik Kurumu / Turkish Institute of Statistics website. [http://www.tuik.gov.tr/VeriBilgi.do?tb\\_id=12&ust\\_id=4](http://www.tuik.gov.tr/VeriBilgi.do?tb_id=12&ust_id=4)

In line with the growth and development of the economy, over time the sectorial composition of the Turkish economy has changed as well. For example, in 2007 only 8.9% of the GDP was generated in the agricultural sector, while 26.8% was generated in the industrial sector, and 64.6% in the services sector (See Table 9). These percentages suggest and prove that the Turkish economy has become a newly industrialized economy.

Table 9: The Sectoral Composition of the Economy (% of GDP)

	2002	2003	2004	2005	2006	2007
Agriculture	12.2	11.4	10.7	10.5	10.0	8.9
Industry	25.1	25.7	26.1	26.2	26.5	26.8
Services	62.7	63.0	63.2	63.3	63.5	64.6

Source: Turkiye Cumhuriyeti Maliye Bakanligi 2008 Yillik Ekonomi Raporu  
 Republic of Turkey Ministry of Finance. (2008). *2008 Annual Economic Report*, p.19. Ankara; Ministry of Finance.

Moreover, during the past two decades Turkey has become a tourism hotspot for travelers, especially Europeans. According to World Tourism Organization, in 2007 Turkey was the 9<sup>th</sup> country in the world in terms of tourism revenues and 10<sup>th</sup> in tourist arrivals. Turkey's tourism revenues stood at \$18.5 billion in 2007 with an annual growth rate of 12.72% since 2000, and with 22.2 million arrivals (UNWTO, 2008, June, p. 10).

In addition to developments in industry, tourism, housing, and infrastructure, in recent years Turkey became an important recipient of foreign direct investment (FDI). In 2007, Turkey was ranked 26<sup>th</sup> with a FDI stock of \$145.56 billion, and the annual FDI inflow was \$22 billion, a 10% increase compared to 2006 (YASED, 2007, July, p. 3). Interestingly, between 2002 and 2006, 74.7% of all FDI in Turkey originated from the European Union, and only 12.6% from the cash rich Middle East (YASED, 2007, July, p. 5). In 2006, with the

exception of the United Arab Emirates, most of the FDI in Turkey came from countries such as Austria, Greece, and the Netherlands that are culturally quite distant to Turkey (See Table 10). In fact, the first ranked Netherlands is not too keen on accepting Turkey into the EU membership; the third ranked Greece has been Turkey's historic archrival in the region, and the fifth ranked Austria openly opposes to Turkey's EU membership. Surprisingly, from the culturally closer Middle East, United Arab Emirates was the only foreign direct investor country in Turkey in 2006.

Table 10: Source Countries of FDI Inflow to Turkey in 2006 (Billions USD)

Netherlands	\$5.171	29.0%
Belgium	\$3.456	19.4%
Greece	\$2.787	15.6%
UAE	\$1.548	8.7%
Austria	\$1.108	6.2%
UK	\$0.883	5.0%
USA	\$0.693	3.9%
France	\$0.444	2.5%
Germany	\$0.366	2.1%
Luxemburg	\$0.246	1.4%
Other	\$1.115	6.3%
Total	\$17.817	100%

Source: YASED – International Investors Association of Turkey (2007). Foreign Direct Investment Report, p.4

With the rise in living standards in the region, the demand for energy has risen significantly in recent years. Turkey is poor in terms of oil and gas resources but very close to rich oil and gas fields of the Middle East, Caspian Sea, and Central Asia. With its strategic location between the East and the West, Turkey is poised to become an energy hub and distributor for Europe's energy-hungry economies. The Baku-Tbilisi-Ceyhan (BTC) Pipeline is a 1,768 kilometer (1,099 mile) crude oil pipeline which stretches from the Azeri-Chirag-Guneshli oil field in the Caspian Sea to the Mediterranean seaport of Ceyhan. The new pipelines and projects, such as NABUCCO, South European Gas Ring, Turkey-Greece Interconnector, and the Blue Stream Pipeline, that are either under construction or at the proposal stage are likely to improve oil and gas flows from the Middle East, Caspian Sea, and Central Asian fields to Europe's urban and industrial centers.



## Conclusion

One thing that really differentiates Turkey from the rest of the Middle East is that even though Turkey's population is 99.9% Muslim, there is no state supported religion written in the Turkish Constitution. It is a secular and Western style representative parliamentary democracy. But, it is important to understand that the Turkish democracy is no different than other democracies and thus it is constantly changing and evolving. Interestingly, it is the current administration of the Islamic oriented AKP which has been pushing for a full EU membership since it came to power in 2002. Even the most recent brawl between the AKP administration and the Turkish Army is not likely to change this secular order. Democratic principles are widely accepted by the general public and embedded within the country's culture. However, establishing a viable democracy and democratic life has been a long battle in the Ottoman Empire as well as in the Republican Turkey. The process of transforming the country from a monarchy to a republic and from a one-party republic to a multi-party democratic system has been an agonizing process with many ups and downs and political turmoil. Against all odds and after 15 economic crises and 3 military coups in 85 years, the Turkish experience teaches us that democracy, free-markets, and open society are all very possible in a predominantly Muslim country. So far, Turkey has been the only country in the greater Muslim Middle East which successfully fused modernity, democracy, industrialization, and Islam into a viable system.

Trough greater economic cooperation, growing international trade, and investments flows with its proximity, Turkey does not only contribute to the well being of its citizenry but also adds value to its region's political and economic stability. Given the fact that Turkey's 79.77% of exports and 66.16% of imports are with the EU, Middle East, and CIS makes Turkey a pivotal country in maintaining peace and bringing greater prosperity to Southeastern Europe, the Middle East, and the Caucasus. The very existence of Turkey as a modern secular republic and free market system is a proof that the new global economic order and stability requires cooperation and specialization. After all, Turkey's foreign and economic policies were shaped eloquently long time ago in the words of Mustafa Kemal Ataturk: "Peace at Home, Peace in the World" which has become the motto of the Turkish Republic.

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