



## A Review of the Impact of Post-2010 International & Regional Political Developments on the Downturn of Turkey's Economy

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### Abstract

In the post-2010 era, Turkey faced a volatile geopolitical landscape marked by the Arab Spring, the Syrian Civil War, shifting alliances, and heightened tensions with Western countries. These political challenges have had significant economic repercussions, including declining foreign direct investment, deteriorating currency stability, and decreased investor confidence. Additionally, domestic political shifts have exacerbated Turkey's financial vulnerabilities, such as consolidating power under President Recep Tayyip Erdoğan and increasing centralization of economic decision-making. This study examines the effects of regional and international developments (European Union, the United States, Russia) since 2010 on the decline of the Turkish economy. Literature review approach were used to gather relevant academic papers, reports, and other secondary data. The thematic analysis was taken to make this research more comprehensive and cover the pivotal aspects. The findings highlight the need for policy reforms to navigate international political tensions and financial recovery. The research underscores the intertwined nature of politics and economics in Turkey, demonstrating how political instability has deepened the economic downturn. Moreover, Turkey is geopolitically within active social structures and has powerful political, social, and economic relations with Western and Eastern societies. Therefore, any event that develops in the East or the West can quickly and effectively affect Turkey's political, social, and economic structure.

**Keywords:** *International Relations; Political Economy; Turkey's Economic; Downturn; Regional Political Development*

### INTRODUCTION

Turkey's economic trajectory since 2010 has been marked by notable shifts, with external political developments significantly shaping its performance. Following years of robust growth, Turkey's Economy entered a period of stagnation and decline, a trend that has drawn the attention of policymakers and scholars alike (Dal, 2020). In the aftermath of the global financial crisis 2008, Turkey initially weathered the storm better than many of its peers, maintaining growth and leveraging its strategic geographic position as a bridge between Europe, the Middle East, and Asia (Ercan et al., 2010). However, from 2010 onwards, a series of global and regional events—ranging from political instability in the Middle East to shifting alliances within global economic and political institutions—began to influence Turkey's financial standing (OECD, 2010). Combined with internal political challenges and policy decisions, these factors created a complex environment that has led to sustained economic challenges (Khudari et al., 2023).

Starts with the Arab Uprisings, which began in 2010 and spread across the Middle East and North Africa (MENA) region, significantly impacted Turkey's economic and geopolitical environment. As a neighbouring power with economic ties and strategic interests in the MENA region, Turkey was directly and indirectly affected by several countries' political and social upheaval. The economic downturn experienced by Turkey during this period cannot be fully understood without acknowledging the complex and multi-layered effects of the Arab Uprising (Khan, 2014).

Moreover, the Syrian Civil War, which erupted in 2011, has had profound and multifaceted consequences on Turkey's Economy. As a neighbouring country with shared historical, political,

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and cultural ties to Syria, Turkey was deeply affected by the conflict. These effects have been felt in multiple sectors of the Turkish economy, exacerbating the country's broader economic downturn in the post-2010 period. The key ways the Syrian Civil War impacted Turkey's Economy are through the influx of refugees, disruptions in trade, increased security, and defence expenditures, and shifts in regional political dynamics (Oktav, 2016).

Next, the rise of ISIS in the early 2010s had significant ramifications for Turkey, influencing both its regional security environment and its economic trajectory. As ISIS expanded its territorial control in Syria and Iraq, neighbouring Turkey found itself directly impacted by the conflict's spill over effects. These effects were multifaceted, encompassing security challenges, trade disruptions, and the broader destabilization of Turkey's regional trade partners. Since 2010, Turkey has faced numerous international and regional challenges that have influenced its economic trajectory. Among these, the Syrian refugee crisis has had a profound and multifaceted impact on Turkey's Economy, exacerbating its existing vulnerabilities and contributing to its economic downturn (Biçer & Çaşın, 2018).

After that, the Kurdish Issue has been a long-standing political and social challenge for Turkey, significantly influencing the country's internal stability, security, and economic development. Post-2010, the Kurdish Issue became more prominent in shaping both domestic and regional policies, contributing to the broader economic downturn that Turkey has experienced in recent years (Akyol, 2021).

The review of this critical issue of Turkey's economic downturn is prominent. Where economic downturn means there is a problem within governance and relation between government and society. Once this problem resolved a sustainable economy, production mechanism, welfare and peaceful society will be founded. Moreover, with the maintenance of these gains with society (welfare, sustainable economy, and production) inclusiveness will be increased. On the other hand, gains and success of a certain society or country in terms of elimination of problems and barriers in front of sustainability and inclusiveness sets an example for the other societies and countries in terms of resolving their own problems. Right now, many academicians and researchers are observing the Argentinian economic developments. How they succeeded the closing the foreign trade deficit kind of problems to explore better economic solutions for Turkey and to better and more efficiently criticize economic decision of the government for correcting their mistakes regarding economical decisions (Akyüz, 2018).

This article will critically analyse how geopolitical shifts, including the Syrian Civil War, the refugee crisis, the Kurdish Issue, Turkey's relations with the European Union and the USA, and changing global market dynamics, have impacted its economic performance. Moreover, it will examine the internal political responses to these external pressures and how government strategies have mitigated and exacerbated economic vulnerabilities.

By focusing on the period following 2010, this study aims to contribute to the growing body of literature on the intersection of international politics and economic trends in emerging economies, offering insights into the multifaceted influences that have shaped Turkey's financial landscape in the past decade.

## **LITERATURE REVIEW**

### **Historical Context of Turkey's Political Economy**

Turkey's political economy has undergone significant transformations throughout its modern History, marked by periodic shifts between liberalization and state-led development, often influenced by both internal dynamics and external pressures. These phases, rooted in the late Ottoman Empire's efforts to modernize and further solidified after the establishment of the Turkish Republic in 1923, provide essential background for understanding the economic challenges of the

post-2010 period. In the Republic's early years, Turkey pursued a state-led economic model shaped mainly by Mustafa Kemal Atatürk's vision of building a self-sufficient, industrialized nation. During the 1930s, the country adopted a strategy of etatism, where state enterprises played a dominant role in key sectors such as agriculture, transportation, and manufacturing. This period saw rapid industrialization but left a legacy of state control over the economy that would persist for decades. However, the post-World War II era brought about a new phase of liberalization. Turkey aligned itself with the West, particularly the United States and Western Europe, joining NATO in 1952 and receiving significant economic aid through the Marshall Plan. This period introduced more market-oriented reforms, especially during the rule of the Democrat Party (1950-1960), but these efforts were inconsistent and often accompanied by economic instability and inflation (Altuğ, 1967).

In the 1980s, under Prime Minister Turgut Özal, Turkey experienced a more robust shift towards neoliberalism. Özal's reforms sought to open the Turkish economy to global markets through deregulation, privatization, and export-oriented growth. This period also saw the integration of Turkey into international financial markets, boosting foreign investment and trade. However, economic liberalization was accompanied by increased inequality and vulnerabilities to external shocks, which became evident during subsequent financial crises in the 1990s and early 2000s (Öniş, 2012).

The turn of the 21st century marked another crucial phase for Turkey's political economy. After a severe financial crisis in 2001, the country implemented structural reforms under the guidance of the International Monetary Fund (IMF), leading to rapid economic growth. The Justice and Development Party (AKP), led by Recep Tayyip Erdoğan, capitalized on this growth after coming to power in 2002, pursuing a development agenda that combined elements of neoliberal economic policies with decisive state intervention in strategic sectors. Between 2002 and 2010, Turkey's Economy grew consistently, with an average annual growth rate of around 7% (Arkan & Aldemir, 2023).

However, this growth period also introduced new risks as the economy became increasingly dependent on foreign capital inflows and debt-fuelled consumption. The vulnerabilities created by these policies and an unstable global economic environment laid the groundwork for the economic downturn that would follow in the 2010s. This historical context highlights how Turkey's political economy has been shaped by alternating state intervention and liberalization phases, with the state often playing a significant role in directing economic outcomes. As the global and regional political environments changed after 2010, these structural features became increasingly strained, setting the stage for the financial challenges discussed in this article (Pamuk, 2019a).

### **International and Regional Political Factors**

Since 2010, Turkey's economic performance has been influenced by internal dynamics and a complex array of international political factors. These factors, including strained diplomatic relations, geopolitical shifts, and global economic policies, have critically exacerbated Turkey's economic downturn. This study has broadly analysed the most significant Political Factors (Cömert & Çolak, 2014).

In the post-2010 period, Turkey's economic performance has been deeply influenced by regional political developments. Situated in a geopolitically complex region, Turkey's Economy has been shaped not only by domestic policies but also by the intricate dynamics of its neighbours and broader regional conflicts (Sönmez, 2018). Three key factors have driven Turkey's economic downturn: instability in neighbouring countries, shifting alliances in the Middle East, and Turkey's military engagements (Öniş, & Güven, 2010).

**Table 1.** International and regional conflicts that affect Turkey's economy downturn

No.	Arab Uprising	Syrian Civil War	Emergence of the ISIS	Kurdish Issue	Refugees Crisis
1	Disruption of trade and economic relations	Refugee crisis and public expenditure	Trade disruptions and border security	The emergence of a state of conflict	The influx of refugees and demographic pressure
2	Expenditures and regional instability	Trade disruptions and loss of regional markets	Tourism decline	Increase in security expenditures	Labour market disruptions and informal employment
3	Energy security and economic vulnerabilities	Increased defence and security spending	Refugee crisis and social costs	Loss of qualified human resources	Social and economic integration challenges
4	Shifts in foreign policy and economic isolation	Regional political instability and diplomatic costs	Military expenditures and geopolitical uncertainty	The loss of the environment of trust required for the entry of foreign capital, and investments	Fiscal strain and rising debt; regional instability and trade disruptions; long-term economic implications

*Arab Uprising*

1. Disruption of Trade and Economic Relations

Before the Arab Uprising, Turkey pursued an active foreign policy of "zero problems with neighbours," aiming to enhance diplomatic and economic ties, particularly with the Arab world (Köse, & Ozgur, 2018). Trade with MENA countries formed a substantial part of Turkey's export market, and the Turkish construction industry had a significant presence in the region, especially in countries like Libya, Iraq, and Syria (Kara, 2015). The Arab Uprising, followed by regime changes, civil wars, and instability, disrupted these economic ties. Turkey's exports to the region suffered a sharp decline due to border closures, damaged infrastructure, and the collapse of consumer demand in conflict zones. This disruption to trade and the contraction of construction projects in war-torn regions, such as Libya and Syria, adversely affected Turkish businesses and tiny and medium-sized enterprises (SMEs) reliant on regional trade (Uygur, 2010).

2. Expenditures and Regional Instability:

The collapse of stable governments in countries like Syria and Libya and the subsequent rise of non-state actors such as ISIS and another armed group in Syria and other neighbouring countries, which have impacted Turkey, further complicated Turkey's regional security environment and increased its security expenditures (Yilmaz, 2020). The protracted Syrian Civil War, in particular, became a key concern for Turkey, both in terms of border security and the influx of millions of Syrian refugees. As Turkey became increasingly involved in the Syrian conflict, both militarily and diplomatically, the country's defence and security expenditures surged. The economic strain from increased military spending and the costs associated with managing the refugee crisis contributed to fiscal pressures within Turkey (Demir & Yilmaz, 2020). The Turkish government had to divert resources to address these immediate challenges, which placed additional burdens on an already strained economy. Furthermore, the volatility in the region deterred foreign investment, as

investors viewed Turkey as part of a more unstable and unpredictable neighbourhood (Köse, & Şimşek, 2016).

### 3. Energy Security and Economic Vulnerabilities:

The Arab Uprisings also disrupted energy markets, particularly in Libya and Iraq, which are key energy partners for Turkey. The instability in these countries affected the flow of oil and gas supplies to Turkey, increasing the country's vulnerability to fluctuations in global energy prices. Turkey, which relies heavily on energy imports to fuel its growing economy, faced rising energy costs as regional supplies were curtailed or became more uncertain. Furthermore, the broader political instability in the region contributed to volatility in global oil prices, adding to Turkey's import costs. This and an already high current account deficit exacerbated Turkey's economic challenges during this period. The energy market disruptions created inflationary pressures, contributing to rising costs of living and increased economic vulnerability (Balat, 2010).

### 4. Shifts in Foreign Policy and Economic Isolation:

The Arab Uprisings forced Turkey to reassess its regional foreign policy approach (Keyman, 2017). The breakdown of alliances, particularly after Turkey's early support for the Muslim Brotherhood in Egypt and its involvement in the Syrian conflict, strained relations with other regional powers such as Saudi Arabia and the UAE (Aras, 2019). These geopolitical shifts reduced political cooperation and economic engagement with certain Gulf states, isolating Turkey from regional economic initiatives (Akalın, 2018). This diplomatic isolation impacted Turkey's access to investment and capital flows from the Gulf, traditionally a significant foreign direct investment (FDI) source. The economic downturn in Turkey during this period was thus compounded by a more challenging regional investment climate, with fewer opportunities for trade and cooperation with Gulf economies (Stergiou & Kollias, 2021).

## *Syrian Civil War*

### 1. Refugee Crisis and Public Expenditure

One of the most immediate and visible impacts of the Syrian Civil War on Turkey has been the influx of millions of Syrian refugees. According to official estimates, by 2023, Turkey was hosting over 3.6 million registered Syrian refugees. The government's response to this humanitarian crisis has put significant pressure on Turkey's public resources, particularly healthcare, education, and social services. The financial burden of integrating such a large population, providing social support, and creating infrastructure to manage refugee camps and urban accommodations has strained the state budget. In addition to direct expenditures, the refugee crisis has contributed to rising unemployment and competition for low-skilled jobs, affecting local economies, especially in border regions like Gaziantep, Kilis, and Şanlıurfa (Dal, 2017).

### 2. Trade Disruptions and Loss of Regional Markets

The Syrian Civil War broke Turkey's key trading corridors. Before the war, Syria was an important trading partner for Turkey and served as a gateway to other Middle Eastern markets, including Iraq, Jordan, and the Gulf countries. The conflict severely disrupted these trade routes, making land transportation through Syria nearly impossible. Additionally, Turkish exports to Syria plummeted, leading to significant revenue losses for Turkish businesses that relied on this market. The instability in the region also deterred foreign investment, further weakening Turkey's trade position, and contributing to its current account deficit (Demir & Toprak, 2020).

**Increased Defence and Security Spending:** The civil war has significantly affected Turkey's defence and security expenditures. Both internal security concerns and external military

operations necessitated this increase (Estrada et al., 2018). Internally, Turkey has faced challenges from spill over effects, including cross-border terrorism, smuggling, and the presence of radical militant groups near its borders. Externally, Turkey has launched several military interventions in Syria, such as Operation Euphrates Shield (2016), Operation Olive Branch (2018), and Operation Peace Spring (2019), aimed at securing its borders and curbing the influence of Kurdish militant groups. These military interventions and increased security needs have placed additional pressure on the Turkish budget, diverting resources from domestic economic development (Demir & Demir, 2021).

**Regional Political Instability and Diplomatic Costs:** The Syrian Civil War also brought shifts in regional alliances and heightened geopolitical tensions, particularly between Turkey and significant regional and international actors such as Russia, the United States, and Iran (Yilmaz, 2021). Turkey's foreign policy approach, particularly its stance against the Assad regime and its support for opposition groups, has caused friction with this power (Arslan, 2020). In addition to the direct costs of military engagement, these diplomatic tensions have sometimes led to political isolation and strained Turkey's trade and energy relations, especially with key suppliers like Russia. Furthermore, the instability in Syria has contributed to the volatility of the Turkish lira, as uncertainty in the region continues to shake investor confidence (Yilmaz, 2020).

### *Emergence of the ISIS*

#### 1. Trade Disruptions and Border Security

The conflict in Syria and Iraq, exacerbated by the rise of ISIS, disrupted key trade routes that Turkey relied on for commerce with the Middle East. Both Syria and Iraq were among Turkey's essential trading partners, and the instability caused by ISIS severely affected these economic ties. In particular, Turkey's exports to Iraq, which was Turkey's second-largest export market in 2013, were significantly reduced due to the fighting, border closures, and the breakdown of Iraq's internal infrastructure. Furthermore, the conflict complicated border security, leading to increased costs associated with managing the influx of refugees and ensuring border control, which drained public resources and affected Turkey's Economy.

#### 2. Tourism Decline

ISIS's rise coincided with a surge in terrorist attacks across the region, including within Turkey. The group carried out several high-profile attacks on Turkish soil, including in major cities such as Istanbul and Ankara. This heightened security concerns and discouraged foreign tourists from visiting Turkey, a country heavily reliant on tourism as a source of foreign exchange. The decline in tourism revenue directly impacted Turkey's economic growth, especially in regions heavily dependent on tourism for employment and economic activity (Asgary & Ozdemir, 2019).

#### 3. Refugee Crisis and Social Costs

The emergence of ISIS contributed to a massive refugee crisis, as millions of Syrians fled the violence. Turkey became the largest host of Syrian refugees, with over 3.5 million registered by 2016. While Turkey initially benefited from international aid to manage the influx, the long-term economic costs of supporting such a large refugee population strained public services and increased social spending. The pressure on housing, healthcare, education, and labour markets also contributed to social tensions, burdening the already struggling Turkish economy (Bahcekapili & Cetin, 2015).

#### 4. Military Expenditures and Geopolitical Uncertainty

Turkey's involvement in the fight against ISIS also required increased military spending. As ISIS's activities threatened Turkey's southern border, the country escalated its military operations, both within Turkey and in cross-border operations in Syria. This led to higher defence expenditures at a time when the Turkish economy was facing other structural challenges. Additionally, the geopolitical uncertainty caused by ISIS's rise led to fluctuations in investor confidence and capital flows into Turkey, contributing to economic volatility and discouraging long-term investment (Adaçay & Misirlioğlu, 2023).

##### *Kurdish Issue*

One of the main factors is the resurgence of violent conflict between the Turkish state and the Kurdistan Workers' Party (PKK) following the collapse of the peace process in 2015. The ensuing armed conflict resulted in widespread destruction in south-eastern Turkey, a region already economically disadvantaged. The destruction of infrastructure, displacement of populations, and disruption of economic activities exacerbated the region's underdevelopment. The government had to divert substantial resources toward military operations and reconstruction efforts, straining the national budget and increasing public spending on security, which detracted from investments in other key sectors like education, healthcare, and infrastructure.

##### 1. Kurdish Issue and Turkey's international relations

The Kurdish Issue has also affected Turkey's international relations, particularly with its neighbours in the Middle East. The rise of the Kurdish autonomous region in Iraq and the growing influence of Kurdish groups in northern Syria have further complicated Turkey's foreign policy, resulting in costly military interventions (Kirisci, 2004). Operations such as "Euphrates Shield" and "Olive Branch" aimed at curbing Kurdish influence across the border required significant defence spending, adding to the economic burden. These interventions also led to strained relations with key international actors, such as the United States and the European Union, further isolating Turkey economically and politically (Sommer, 2004).

##### 2. Kurdish Issue and Turkey's Economy

The instability in the southeast and Turkey's military engagements in the region have also had a broader impact on investor confidence. As security risks increased, domestic and foreign investors became wary of committing capital to Turkey. This was particularly evident in the tourism and real estate sectors, where uncertainty led to reduced investment flows, affecting overall economic growth. The Kurdish Issue, by perpetuating domestic instability and external conflicts, has undermined Turkey's image as a safe and stable investment destination. In addition, the Kurdish Issue has had social and economic consequences beyond the immediate conflict zones. The internal displacement of Kurdish populations has strained urban centres, particularly in western Turkey, by increasing unemployment, inflating housing prices, and intensifying social tensions. This internal migration has created further economic pressures, particularly in major cities like Istanbul and Ankara, exacerbating the economic downturn through heightened social unrest and increased demand for public services (Aydın-Düzgüt et al., 2015).

##### *Refugees Crisis*

##### 1. The influx of Refugees and Demographic Pressure

Turkey hosts the most significant number of refugees in the world, with over 3.6 million Syrian refugees registered as of 2023. This massive influx has pressured public services, infrastructure, and the labour market, particularly in border regions and urban areas. The sudden demographic shift increased the demand for housing, healthcare, education, and social services and

strained the government budget and local resources. The diversion of resources to meet these needs has, in turn, limited Turkey's ability to invest in other critical sectors of the economy (Esen, & Oğuş, 2017).

## 2. Labour Market Disruptions and Informal Employment

The refugee crisis has significantly changed Turkey's labour market. Many Syrian refugees, unable to secure formal employment due to legal and bureaucratic barriers, have entered the informal economy. This surge in informal labour has increased competition for jobs, especially in low-skilled sectors like agriculture, construction, and manufacturing, leading to wage suppression for Turkish citizens. Additionally, the informal employment of refugees has contributed to a loss in tax revenue, as many businesses exploit this workforce to avoid regulatory obligations (Del Carpio & Wagner, 2015).

## 3. Social and Economic Integration Challenges

Despite the Turkish government's efforts to integrate refugees through various programs, social and economic integration remains challenging for such a large population. Language barriers, limited access to formal employment opportunities, and inadequate educational and training programs have slowed the integration process. This has led to localized economic inequalities and increased social tensions, further destabilizing Turkey's economic environment.

## 4. Fiscal Strain and Rising Debt

The cost of accommodating millions of refugees has strained Turkey's budgetary resources. According to estimates, Turkey has spent billions of dollars on providing for the needs of refugees, including housing, healthcare, and education. Although international aid has helped offset some of these costs, it has been insufficient to cover the entire burden. As a result, Turkey's government has resorted to borrowing, contributing to rising public debt levels. This fiscal strain has weakened Turkey's economic stability and reduced its ability to respond to other financial challenges, such as inflation and currency depreciation (Arslanalp & Tsuda, 2014).

## 5. Regional Instability and Trade Disruptions

The refugee crisis is deeply intertwined with regional instability, particularly the ongoing conflict in Syria. Turkey's involvement in the Syrian civil war and its military operations along its southern border have not only contributed to security concerns but also disrupted trade routes. Before the Syrian war, Syria was an important trade partner and a key transit route for Turkish goods destined for the Middle East. The collapse of these trade routes has resulted in significant losses for Turkish exporters and has contributed to the decline in regional trade, exacerbating Turkey's economic challenges (Aydin, 2019).

## 6. Long-Term Economic Implications

In the long run, the refugee crisis presents risks and opportunities for Turkey's Economy. While the immediate impact has been largely negative, especially regarding fiscal pressure and labour market disruptions, there is potential for economic benefits if refugees can be successfully integrated into the formal economy. By providing refugees with access to education, training, and formal employment opportunities, Turkey could leverage their potential to contribute to economic growth (Turan & Demirci, 2020). However, realizing these benefits requires a coordinated and sustained effort from the Turkish government and the international community (Kuyumcu & Kösematoğlu, 2017).



## RESEARCH METHOD

This study utilizes a qualitative research approach to explore the impact of post-2010 international and regional political developments on Turkey's economic downturn. The analysis is based on a review of secondary data sources, including government reports, publications of global financial institutions, academic papers, and expert commentaries. The period under consideration spans from 2010 to the 2024, capturing significant geopolitical shifts and economic trends in Turkey.

The study reviews the academic discourse and empirical studies that analyse the intersection of political dynamics and economic performance, mainly focusing on Turkey after 2010. It seeks to contextualize the relationship between regional and international political shifts and their economic ramifications, specifically emphasizing Turkey's economic downturn during the 2010s. Thematic analysis were chosen to capture the pattern of all collected dataset (Braun et al., 2019). Moreover, Kiger & Varpio (2020) stated that there are six steps that author can follow starting with (1) data familiarizing by finding the repeated statement from the secondary sources. Then (2), generating the initial codes manually by reading throughout all the sources, next (3) we look again all the code that identified before and start to search and organized the relevant themes that can cover the prominent issue of our research topic about Turkey's economy downturn. After that (4) reviewing again the themes selected and see how they were interrelated. Next, (5) we have to define and naming each theme and provide the narrative which coherence to each other. Lastly (6) writing up the final analysis and always try to find the continuation among the finding and interpretation which are meaningful.

## FINDINGS AND DISCUSSION

Based on the data, there are six themes to be discussed and explore further about the Turkey's economy downturn effect due to post-2010 international and regional political occurrence.

### Turkey-USA Relations

Turkey's relationship with the United States has significantly shaped its economic and political landscape. Since 2010, diplomatic and political tensions between the two countries have contributed to Turkey's financial challenges, particularly during periods of economic downturn. Diplomatic Strains and Economic Sanctions: One of the most critical turning points in Turkey-US relations occurred in the aftermath of the failed coup attempt in Turkey in 2016. The Turkish government blamed the US-based cleric Fethullah Gülen for orchestrating the coup, leading to a period of strained diplomatic relations. This tension escalated when the US imposed sanctions on Turkey in 2018, mainly in response to Turkey's detention of an American pastor, Andrew Brunson. The sanctions, which targeted Turkish officials and contributed to investor concerns, resulted in significant market volatility. The Turkish lira depreciated sharply, contributing to inflationary pressures and exacerbating the economic downturn.

Geopolitical Divergences: Turkey's regional geopolitical strategy, particularly its growing engagement with Russia, is another major factor in the deterioration of Turkey-U.S. relations. Turkey's purchase of the Russian S-400 missile defence system in 2019 drew sharp criticism from the US and NATO allies. The US responded by excluding Turkey from the F-35 fighter jet program and threatening additional sanctions under the Countering America's Adversaries Through Sanctions Act (CAATSA). These developments strained bilateral relations and contributed to market instability in Turkey as foreign investors became increasingly wary of Turkey's geopolitical risks.

Impact on Foreign Direct Investment and Trade: Turkey's economic downturn has been further aggravated by the decline in foreign direct investment (FDI), much of which had historically

come from the US and Western allies. The perception of increased political risk and uncertainties over Turkey's alignment with the West discouraged foreign investment. Moreover, trade relations between Turkey and the US have also faced challenges. Although the countries share a significant trade partnership, ongoing political disputes, and tariff threats—such as the US threat to impose tariffs on Turkish steel and aluminium—have created uncertainty in key export sectors, adding further strain to Turkey's balance of payments (Isiks et al., 2017).

**Shifts in Monetary Policy and Investor Confidence:** The diplomatic tension between Turkey and the US has influenced Turkey's monetary policy, particularly when the Turkish government has sought to maintain control over the central bank's decision-making process. Concerns over the independence of Turkey's Central Bank and unpredictable economic policies have led to heightened risk perceptions among international investors. The lira's sharp depreciation during these periods of heightened US-Turkey tensions reflected broader concerns about Turkey's economic management, compounding the challenges already faced by the country due to structural issues such as high inflation and external debt.

In conclusion, Turkey-US relations have been crucial in shaping Turkey's economic downturn in the post-2010 period. The combination of diplomatic strains, geopolitical divergences, and financial sanctions has contributed to significant market instability, discouraging investment, and exacerbating existing economic vulnerabilities. While Turkey's economic challenges are multifaceted, the deterioration of its relationship with the US has undoubtedly amplified the downturn, making the need to recalibrate its foreign and economic policies more pressing (Abuselidze & Mamaladze, 2019).

### **Turkey-the EU Relations**

The relationship between Turkey and the European Union (EU) has been a central aspect of Turkey's international political and economic trajectory for several decades. However, post-2010, significant changes in this relationship have substantially affected Turkey's financial stability and performance. While historically framed around Turkey's accession prospects, these relations have shifted focus due to both internal EU dynamics and Turkey's political developments. The evolving nature of this relationship has contributed to Turkey's broader economic challenges, particularly during the economic downturn that became more pronounced in the late 2010s.

**Accession Negotiations:** One of the most crucial factors affecting Turkey-EU relations has been the stalled EU accession process. After initial enthusiasm in the early 2000s, Turkey's EU accession talks have slowed dramatically, particularly post-2010. Several reasons explain this slowdown, including the EU's enlargement fatigue, growing concerns over Turkey's internal political developments, and disagreements on key issues like human rights and freedom of the press. From an economic perspective, losing momentum in accession talks directly affected investor confidence. International investors perceived the prospect of EU membership as a guarantee of stability, transparency, and adherence to EU-driven reforms. The stalling of these negotiations weakened the structural reforms necessary to integrate Turkey further into the global economy, discouraging long-term foreign investments and complicating access to EU markets. This lack of economic alignment with the EU contributed to the gradual decline in growth and an increase in Turkey's financial vulnerabilities (Ulchenko, 1998).

**Trade and Customs Union Challenges:** Turkey's trade relations with the EU are governed by a Customs Union agreement, which has been in effect since 1995. This agreement integrates the Turkish economy deeply with the EU's single market. While this agreement has been beneficial in boosting Turkish exports to the EU, post-2010 tensions between Ankara and Brussels made discussions on modernizing this agreement highly contentious.

A failure to modernize the Customs Union has placed Turkey at a disadvantage. While the EU has negotiated free trade agreements (FTAs) with third countries, Turkey does not automatically benefit from these agreements, forcing Turkey to negotiate bilateral agreements on less favourable terms. The absence of a more modernized trade arrangement has increased Turkey's dependency on EU exports while reducing its ability to diversify trade relationships. These structural issues and broader economic problems exacerbated Turkey's trade imbalances and affected its financial performance during the downturn.

**Political Strains and Economic Isolation:** The deepening political rift between Turkey and key EU member states, especially after the failed coup attempt in 2016, has had significant economic repercussions. EU criticism of Turkey's democratic backsliding, particularly regarding the erosion of the rule of law and the crackdown on civil liberties, has translated into a cooling of diplomatic and economic ties.

The EU remains Turkey's largest trading partner and its most significant foreign direct investment (FDI) source. However, as political relations have strained, both FDI inflows and European financial support have declined. For example, the European Investment Bank (EIB) dramatically scaled back its loans to Turkey due to political tensions. The resulting decrease in investment and financial aid contributed to Turkey's worsening balance of payments and currency volatility, compounding the broader economic downturn.

**Geopolitical Divergence and Economic Consequences:** In recent years, Turkey's foreign policy has diverged from the EU's, particularly in areas like Syria, the Eastern Mediterranean, and relations with Russia. This divergence has created further diplomatic friction and, at times, economic retaliation. For example, tensions in the Eastern Mediterranean, related to territorial disputes and energy exploration, have resulted in EU sanctions against Turkey. The possibility of more severe economic sanctions remains a risk for Turkey, which already faces the challenge of economic isolation in its neighbourhood (Toygür et al., 2022).

The geopolitical divergence has also led to a reorientation of Turkey's economic relations away from the EU, with an increased focus on Russia, China, and Middle Eastern countries. However, these new economic partnerships have not compensated for the financial benefits of close ties with the EU, particularly regarding investment, technology transfer, and market access. Turkey's attempts to pivot eastward economically have, instead, led to increased economic uncertainty, contributing to the broader downturn.

In Summary, post-2010 developments in Turkey-EU relations have been critical in exacerbating the economic downturn Turkey has experienced. The stalled accession process, the lack of modernization of the Customs Union, political tensions, and Turkey's geopolitical divergence from the EU have collectively undermined economic confidence and stability. While these issues are intertwined with broader global economic trends, the specific challenges in Turkey-EU relations have been a key factor in the worsening of Turkey's financial outlook in recent years. A reassessment and potential revitalization of these relations could be crucial in addressing some of Turkey's current economic challenges (Kirişçi & Ekim, 2016).

### **Turkey-Russia Relations**

In the post-2010 period, Turkey's relationship with Russia has significantly shaped its economic trajectory. The bilateral relations between the two countries have fluctuated between cooperation and confrontation, influencing key sectors of the Turkish economy such as energy, tourism, and trade.

**Energy Dependency:** Turkey has long depended on Russian energy, particularly natural gas, which makes up a significant portion of its energy imports. The construction of major projects like the TurkStream pipeline in 2020 further deepened this energy relationship. While these projects

promised to enhance Turkey's role as a regional energy hub, they also increased its vulnerability to geopolitical tensions with Russia. Price fluctuations in global energy markets, alongside occasional disputes over pricing and supply disruptions, have exacerbated Turkey's economic struggles, contributing to rising inflation and balance of payments challenges (Alpaslan et al., 2015).

**Tourism and Trade Relations:** Russia is one of Turkey's most significant sources of tourists. In 2015, after Turkey downed a Russian fighter jet near the Syrian border, Russia imposed sanctions on Turkey, including bans on certain Turkish imports and a freeze on charter flights. These developments immediately impacted Turkey's tourism industry, particularly in regions like Antalya, where Russian tourists make up a large percentage of visitors. While relations normalized in subsequent years, the uncertainty stemming from diplomatic tensions continues to create volatility in tourism revenues, which are crucial for Turkey's foreign exchange reserves.

Trade between the two countries has also experienced fluctuations, with the imposition of sanctions and restrictions during periods of political strain. Although Russia remains one of Turkey's largest trading partners, any disruption in this trade flow has significant repercussions for Turkey's broader economic stability, as its trade balance is already under pressure due to a current account deficit (Özdemir, 2023).

**Geopolitical Tensions and Economic Sanctions:** Turkey's involvement in conflicts in Syria and, more recently, Libya has occasionally put it at odds with Russian strategic interests. These geopolitical confrontations have sometimes led to economic consequences, including sanctions and disruptions in trade and investment flows. For instance, Turkey's military support for factions opposing Russia-backed forces in these conflicts created periodic strains in bilateral relations, impacting economic agreements (Köstem, 2018).

Moreover, Turkey's purchase of the Russian S-400 missile defence system in 2019 triggered sanctions under the US Countering America's Adversaries Through Sanctions Act (CAATSA), further exacerbating Turkey's economic troubles. Though these sanctions, aimed at military procurement, affected investor confidence in the Turkish economy and contributed to a decline in foreign direct investment and a depreciation of the Turkish lira.

In conclusion, Turkey's complex relationship with Russia, marked by economic cooperation and geopolitical tension, has been a critical factor in its economic downturn since 2010. Energy dependency, disruptions in tourism and trade, and the broader effects of geopolitical manoeuvring have all contributed to Turkey's financial instability. While efforts to stabilize relations have sometimes mitigated these impacts, the underlying vulnerabilities in Turkey's economic structure and geopolitical positioning have made it susceptible to further shocks in its dealings with Russia (Özel & Uçar, 2019).

### **International and Regional Factors**

In the post-2010 period, Turkey's economic performance has been deeply influenced by regional political developments. Situated in a geopolitically complex region, Turkey's Economy has been shaped not only by domestic policies but also by the intricate dynamics of its neighbours and broader regional conflicts. Three key factors have driven Turkey's economic downturn: instability in neighbouring countries, shifting alliances in the Middle East, and Turkey's military engagements. The Arab Uprising had far-reaching consequences for Turkey's Economy, contributing to the broader economic downturn after 2010. The disruption of trade, increased security expenditures, energy market instability, and geopolitical realignments all played a role in exacerbating Turkey's economic vulnerabilities. While domestic factors also contributed to Turkey's financial challenges, the impact of the Arab Uprising was a critical external force that compounded these difficulties, shaping Turkey's economic trajectory in the following years (Akyüz, 2017).

Next, the Syrian Civil War has been critical in deepening Turkey's economic downturn, adding to its challenges in an unstable global and regional environment. The refugee crisis, disrupted trade, increased security expenditures, and regional political instability have compounded Turkey's broader economic issues, including inflation, unemployment, and currency devaluation. As the conflict continues, its long-term financial implications for Turkey remain significant, necessitating strategic policy responses to mitigate the enduring consequences of regional instability (Pamuk, 2019b).

Meanwhile, the rise of ISIS exacerbated Turkey's economic downturn by disrupting trade, undermining the tourism sector, increasing military spending, and straining public services through the refugee crisis. Combined with other regional and international developments, these factors played a crucial role in deepening Turkey's economic difficulties in the post-2010 period.

Next, the Kurdish Issue, with its combination of political, social, and economic dimensions, has played a significant role in Turkey's post-2010 economic challenges (Akalin, 2018). The revival of the conflict, costly military campaigns, strained international relations, and decreased investor confidence have all contributed to the broader economic downturn, underscoring how deeply intertwined the Kurdish Issue is with Turkey's financial fortunes (Rodrik, 2018).

In addition, the refugee crisis has significantly impacted Turkey's economic downturn by placing immense pressure on its fiscal resources, labour market, and social infrastructure. While Turkey has shown resilience in managing the crisis, the long-term economic implications will depend on successfully integrating refugees and resolving regional conflicts that continue to undermine the country's economic stability.

### **Regional Tensions and Energy Crisis**

Post-2010, Turkey's Economy has been increasingly shaped by the complex geopolitical dynamics of its surrounding region. Regional tensions, particularly in the Middle East and global energy crises, have significantly affected the country's economic downturn.

**Regional Tensions:** Turkey's geographical location, bordering conflict-prone regions such as Syria, Iraq, and Iran, has subjected its economy to the ripple effects of instability. The civil war in Syria, which began in 2011, not only triggered a humanitarian crisis but also placed an immense strain on Turkey's resources. Hosting millions of Syrian refugees required significant public expenditure, with funds being diverted from development projects towards refugee assistance and security measures. Additionally, the conflict disrupted trade routes and destabilized key export markets in the Middle East and North Africa (MENA) region, which are vital for Turkey's Economy.

Moreover, Turkey's involvement in military operations in Syria and its strained relations with the United States and the European Union further isolated the country diplomatically. Sanctions, particularly from the US due to disagreements over defence strategies and Turkey's acquisition of Russian S-400 missile systems, contributed to the depreciation of the Turkish lira and worsened investor confidence. These political developments heightened economic vulnerabilities, leading to higher inflation, and reduced foreign direct investment (FDI) (Cagatay & Sezer, 2017).

**Energy Crisis:** The global energy crisis, driven by supply chain disruptions, price volatility, and geopolitical competition, has also significantly impacted Turkey's economic trajectory. Turkey is highly dependent on imported energy, with over 70% of its energy needs being supplied by imports, mainly from Russia, Iran, and Iraq. This dependency leaves the country vulnerable to global oil and gas price fluctuations. The surge in global energy prices, especially during tension in the Middle East and post-2022 sanctions on Russia following the Ukraine war, has further strained Turkey's fiscal balance. Higher energy costs have led to a worsening trade deficit, as the country has had to spend a more significant portion of its foreign reserves on energy imports, leading to a depletion of reserves and an increase in debt. The depreciation of the Turkish lira has exacerbated

this Issue, making energy imports even more costly and adding to the inflationary pressures domestically (Bozkurt, 2021).

In addition, Turkey's efforts to reduce its reliance on Russian gas by exploring alternative energy sources, including renewables and new partnerships in the Eastern Mediterranean, have been met with political challenges. Tensions with neighbouring Greece and Cyprus over maritime boundaries and rights to gas exploration in the Eastern Mediterranean have further complicated the country's energy strategy. These unresolved disputes have delayed exploration projects and deterred potential international partnerships, limiting Turkey's ability to diversify its energy mix (Gürsel, & Öztürk, 2017).

In conclusion, the economic downturn in Turkey post-2010 cannot be fully understood without considering the profound impact of regional tensions and the energy crisis. The geopolitical instability surrounding Turkey, combined with the country's dependence on external energy sources, has created significant macroeconomic challenges. As regional conflicts continue and energy prices remain volatile, Turkey's Economy struggles to stabilize and regain investor confidence. Addressing these issues will require a balanced approach to foreign policy, energy diversification, and strategic economic reforms (Esen, 2016).

### **Erosion of Institutional Autonomy and Economic Mismanagement**

Following the 2010s, Turkey witnessed a significant shift in its economic trajectory, moving from robust growth to a prolonged economic downturn (Ozturk, 2022). While external international and regional political factors played a considerable role, domestic issues such as the erosion of institutional autonomy and financial mismanagement were equally critical in exacerbating Turkey's economic challenges (Bacik, 2021).

One of the key factors in this economic decline was the weakening of Turkey's institutional framework. Independent institutions, such as the Central Bank, have historically played a pivotal role in maintaining financial stability by implementing sound monetary policies (Öniş & Kutlay, 2020). However, post-2010, there was increasing political interference in the operations of these institutions, undermining their autonomy (Esen & Gumuscu, 2016). For instance, the Central Bank's ability to set interest rates was often overshadowed by political pressure, particularly from the executive branch, which advocated for lower interest rates to stimulate short-term growth. This intervention disrupted the credibility of Turkey's monetary policy and led to a loss of investor confidence, contributing to capital flight, currency depreciation, and inflationary pressures (Barkey, 2019).

In addition to erasing institutional independence, economic mismanagement further deepened the downturn. Though initially contributing to growth, government-led initiatives focusing on rapid infrastructural development and urbanization eventually led to unsustainable debt levels (Rodrik, 2021). The reliance on foreign borrowing to finance these projects increased the country's vulnerability to external shocks, particularly when the Turkish lira depreciated sharply against major currencies. High inflation, coupled with a currency crisis in 2018, exposed the fragility of the Turkish economy. The combination of debt-fuelled growth strategies and inadequate fiscal discipline significantly strained the economy, reducing competitiveness, declining real wages, and rising unemployment (Esen & Gumuscu, 2021).

Moreover, the lack of coherent and consistent economic policies deterred domestic and foreign investment. Frequent changes in financial leadership and a lack of transparency in decision-making created an environment of uncertainty. Local and international investors grew wary of policy shifts and inconsistent regulatory frameworks, further reducing the inflow of capital needed to stabilize and revive the economy (Gurcan, 2019).

Ultimately, the erosion of institutional autonomy and economic mismanagement were deeply intertwined with Turkey's broader political dynamics. As political priorities began to override economic prudence, the economy became increasingly vulnerable to internal missteps and external shocks. In conjunction with international and regional political developments, these domestic factors played a significant role in driving Turkey into an economic downturn post-2010 (Duman, 2018).

## CONCLUSION

The decline of Turkey's Economy since 2010 can be attributed to a combination of international and regional political developments, which have compounded domestic economic vulnerabilities. Geopolitical tensions, such as the Syrian civil war, the influx of refugees, and deteriorating relations with traditional Western allies, have strained Turkey's fiscal capacity and investor confidence. At the same time, Turkey's pivot towards regional powers and its involvement in conflicts within the Middle East have created new trade and foreign policy uncertainties, further exacerbating economic instability.

Externally, shifts in global economic conditions, such as the US Federal Reserve's tightening monetary policy and declining foreign direct investment, have contributed to financial imbalances in Turkey. Regionally, Turkey's increasing isolation in key political alliances, combined with sanctions and the destabilizing effects of military interventions, has negatively impacted its economy. Additionally, strained relations with the European Union, particularly after the failed 2016 coup attempt and the subsequent democratic backsliding, have harmed trade and investment flows, reducing Turkey's access to crucial European markets.

Internally, while Turkey experienced rapid growth in the early 2000s due to market reforms and favourable global conditions, political shifts towards authoritarianism and increasing centralization of power after 2010 undermined investor confidence and economic stability. The erosion of independent institutions, particularly the central bank, alongside inflationary pressures, and rising debt levels, has weakened the structural resilience of the Turkish economy.

In conclusion, while international and regional political developments have played a pivotal role in Turkey's Economy's decline post-2010, the economic consequences are also deeply rooted in internal governance challenges. For sustainable recovery, Turkey must adopt a balanced foreign policy, re-establish economic transparency, and strengthen institutional governance to regain domestic and international trust.

## LIMITATION & FURTHER RESEARCH

Combining qualitative and quantitative research methods will be applied in this study, which will better provide a comprehensive understanding of the political-economic dynamics. There are two important reasons why the impact of developments before 2010 on Downturn of Turkish economy were not addressed in this study. First, it requires a very comprehensive examination, and it is not possible to address such a comprehensive study in such a limited article. Second, it has been concluded that the economic problems Turkey is currently experiencing are the result of wrong decisions taken after 2010 regarding economic, political, regional and international relations.

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