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**Taming Political Islamists by Islamic Capital:**  
**The Passions and the Interests in Turkish Islamic Society**

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**Taming Political Islamists by Islamic Capital:  
The Passions and the Interests in Turkish Islamic Society**

**by**

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**Dissertation**

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## **Dedication**

To my professors who supported me during this exciting journey; to my friends who encouraged me to remain free-spirited; and to my family who was always truly there for me.

**Taming Political Islamists by Islamic Capital:  
The Passions and the Interests in Turkish Islamic Society**

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This dissertation seeks to explain the moderation of the Turkish Islamic party since the end of 1990s. It is hypothesized that in a relatively open and pluralist political system, like Turkey, Islamic entrepreneurs may rely on the power of capital to motivate political Islamists to adopt more liberal and market-oriented programs favorable to business interests. Political Islamists enjoying financial support, in turn, may strengthen Islamic business interests in politics, and further moderate their radical and anti-system behavior. In Turkey, the Islamic financial and business groups have been more liberal and less repressed by the secularist state than their Islamist counterpart in politics. The Islamic capitalists also have been more independent of the state and less fearful of

extending political rights to the Islamist movements than their secularist, state-sponsored competitors. I argue that growing Islamic business interests in Turkey since the mid-1990s have had taming effects on the political Islamists. The Islamic capitalists have steadily grown in strength and influence in the globalization process. Their drive for markets, profits, political stability, and rule of law played a role in transforming the earlier, fundamentalist stance of the political Islamists into a more liberal posture at the end of 1990s.

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## Chapter 1. Introduction

### I. STATEMENT OF PUZZLES AND HYPOTHESIS

It has been claimed that political Islamism or so-called “Islamic fundamentalism” cannot be compatible with liberal democracy in a secular political order.<sup>1</sup> Recently in Turkey, however, the Islamist Justice and Development Party (JDP), a successor of the fundamentalist Welfare Party (WP), began to project a moderate posture in terms of its programs and electoral manifestos, showing a remarkable transition from the previous Islamic parties. The JDP, formed by a reformist wing under the leadership of former Istanbul mayor Recep Tayyip Erdogan in 2001, has rejected anti-West attitudes and emphasized privatization and marketization. Also, this moderate Islamic party has been characterized by its professionalized party elite and staff members, pragmatic policies, and relative inner party democracy. In this regard, the JDP transformed to become a moderate Muslim catch-all party. It clearly differentiated itself from a conservative traditionalist faction who extensively relied on populist rhetoric and mass organizations with an Islamic activist zeal under personalistic leadership. The JDP has claimed instead to represent a continuation of the center-right Motherland Party (MP) under Ozal during the 1980s. The JDP represented a

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<sup>1</sup> Islamists can be used generically to encompass groups seeking to upgrade the role of Islam in political and economic life. Islamic fundamentalists commonly refer to groups who contend the superiority of the Islamic law *sharia* and the necessity of establishing an Islamic state while radical Islamists refer to usually extremely anti-Western groups who seek to attain political power through the use of force (Moussalli 1995: 88, Warde 2000: 19).

renewal of the MP's conservative liberal legacy, which originated in the Democrat Party (DP), the first party to represent the traditional periphery of Turkey. The JDP responded to the impact of secularism and Westernization by pursuing a strategy of co-existence with the state and by seeking a reformist solution. It won a landslide victory in the 2002 general election and formed a single party government.

The new Turkish Islamic party, which apparently changed its stance of 'rejection' in the name of Islamic values toward 'synthesis' of Islam and liberalism (Henry and Springborg 2001, Huntington 1996), is quite different from its predecessors and from many other non-Turkish political Islamists. Most of other political Islamists view the globalization process as another imperialist plot to pollute their countries with more Western businesses and consumption patterns, and thus have been ready to join in populist protests against painful economic reforms imposed by the international financial institutions. In fact, such political Islamist movements have deepened a tension with their incumbent regimes. The Turkish evidence thus sheds an optimistic light on debates about the compatibility of Islam and liberal democracy. In this thesis, I seek to explain this moderation of the Turkish Islamic party since the end of 1990s.

In explaining why Turkish political Islamists changed their stance toward Islamic liberalism, most works have followed one of the two paths, focusing on either the internal effect of political institutionalization, or on the external impact of the EU. Many studies on political institutionalization have emphasized the role of constitutional pressures or electoral constraints (Cagaptay 2002, Carkoglu

2002, Diamond 1999, Heper 1997, Nasr 2005, Onis 2001, Ozbudun 2000, Ozel 2003). This explanation stresses the pressures imposed on the Islamic party, mainly from the military, to conform the rules of secular constitutional order arguing that this pressure transformed it from a fundamentalist posture to a stable, moderate, and liberal position. Or, once the party with a fundamentalist orientation was allowed to compete for power within the system, electoral constraints structured its behavior and gradually forced it to engage in normatively-shared institutional settings. Studies on external impact by contrast, have stressed the pressures from the EU on the secularist state to improve its democracy (Esposito 1999, Onis and Keyman 2003, Sayari 1996). The EU demanded less military intervention in politics, human rights protection, and resolution of the Kurdish problems as a requirement for the full membership of Turkey. The secularist military, facing international pressures, eschewed the use of coercive measures against the Islamic party. The political Islamists were able to forge a coalition with the liberal forces in the EU. They discarded their anti-West and fundamentalist position and finally embraced liberal democracy.

These explanations are convincing if and only if they provide a coherent answer concerning timing: why did the political Islamists start to abandon their anti-Western, anti-EU, and anti-marketization agenda and to accept liberal democracy as “the only game in town” at the end of 1990s? And why did their predecessors militantly use populist rhetoric based on Islamic values and remain anti-Western, anti-EU, and anti-marketization before the end of 1990s? As a matter of fact, the military started to use institutional repression in 1971 when the

military shut down the first Islamic party, the National Order Party (NOP), and continued in 1980, 1998, and 2001 when the military banned the successors of the NOP three more times. Meanwhile, the electoral constraints have been at work since 1973 when the National Salvation Party (NSP), a successor of the NOP, first participated in general election. The NSP joined a coalition government in 1974. Similarly, the pressures from the EU on the domestic issues have been critical since the mid-1980s, when Prime Minister Ozal eagerly prepared for the official application to the ECC.

In this regard, I find the previous explanations wanting. Inspired by the work of Albert O. Hirschman (1977), *The Passions and the Interests*, I argue that a full picture only emerges with the inclusion of the role of Islamic business *interests* to tame the religious and social *passions* of political Islamists. Since money-making may, according to Hirschman, restrain unruly passions, commerce may serve to improve political order by curbing passionate excesses of politicians.

I hypothesize that in a relatively open and pluralist political system, like Turkey, Islamic entrepreneurs may rely on the power of capital to motivate political Islamists to adopt more liberal and market-oriented programs favorable to business interests. Political Islamists enjoying financial support, in turn, may strengthen Islamic business interests in politics, and further moderate their radical and anti-system behavior. In Turkey, the Islamic financial and business groups have been more liberal and less repressed by the secularist state. They may have a moderating impact on the political Islamists who have been more radical and more severely repressed. While the Islamic capitalists who have steadily grown in

strength and influence since the mid-1990s do not necessarily share any commitment to political liberalism or democracy, they have been more independent of the state and less fearful of extending political rights to the Islamist movements than state-sponsored capitalists. The drive of the Islamic capitalists for markets, profits, political stability, and rule of law may contribute to moderating the political Islamists. My dissertation explores this possibility. It seeks to answer the question: Have growing Islamic business interests in Turkey since the mid-1990s had taming effects on the political Islamists? Did business interests play a role in transforming their earlier, fundamentalist stance into a more liberal posture at the end of 1990s?

## **II. OVERVIEW OF MAIN ARGUMENT**

“Commerce softens barbarian ways” wrote Montesquieu in his *De l’esprit des lois*. Taking a leaf from Montesquieu’s book, political scientists have explored the political implications of capitalism. Hirschman (1977), with regard to early economic liberalism, argues that economic interests are predictable and constant in their effect, whereas other passions are unpredictable and disruptive. Therefore, firmly entrenched economic interests could constitute a formidable barrier against the excessive and dangerous passions of politicians. In a similar vein, Moore (1966) focuses the role of the commercially-minded bourgeoisie in the making of the modern world that is, in transforming feudal society into the modern economy and democratic polity. For Moore, it is “no bourgeoisie, no democracy.”

Yet, following a Marxian tradition Rueschemeyer et al (1992) claim that capitalist development is related to democracy not because of bourgeoisie but because of working class. Capitalist development transforms class structure, enlarging the working and middle class and facilitating their political organization, thus making it more difficult for the elite to exclude them politically. In this account, the true source of persistent democratic drives is working class mobilization, which in combination with middle class support, can bring about a political constellation favorable to democracy. Contrary to Moore, for Rueschemeyer et al the bourgeoisie is not a consistent contributor to democracy given the anti-democratic, reactionary posture of capitalists in 19<sup>th</sup> century Europe and 20<sup>th</sup> century Latin America.

Bellin (2002) contends that neither bourgeoisie nor working class has contributed to democracy in late developing countries, where capitalist development was imposed from above abruptly and coercively. The process has been partial, discontinuous, and unstable without establishing independent, indigenous, and strong social classes. There exists nothing but the excessively developed state, a handful of its crony capitalists, and state-created labor unions. Clearly, the state-sponsored capitalist cronies in most developing countries do not possess class commitment to democracy. Organized labor linked to the state sector did not play its role as a pro-democracy social force. Those who were empowered by state-led industrialization became the allies of authoritarianism, enjoyed excessive privileges, and generated rent seeking and patronage (Haggard et al 1997). Accordingly, in order to replace arbitrary political passions with

rational economic interests (Hirschman 1977) and to remove social obstacles in the route of liberal democracy (Moore 1966, Rueschemeyer et al 1992), what is required is strong domestic social groups who are genuinely independent of the state patronage.

Henry (1996) particularly pays attention to Islamic bankers as an important component of an independent and indigenous bourgeoisie in the overall pursuit of political pluralism in the Middle East and North Africa. Islamic banking is a modern and transnational phenomenon that aims at making banking practices conform to Islamic norms by avoiding interest and unjustified increases in wealth. Islamic banking replaces interest with profit and loss sharing arrangements (PLS) whereby depositors, lenders, and investors receive a predetermined share of any income generated in the borrower's business transactions, or share in any losses. The PLS logic requires a clear standard of accountability and transparency in the market, a high degree of trust and credibility between business partners, and an economically liberalized climate to prosper. In this regard, the Islamic banking model shares common cause with economic liberals and is not in conflict with the Washington consensus. Islamic bankers control international and local finance capital. In their drive for profits, they can become a political weight within fundamentalist Islam movements and may become a catalyst for fostering liberal trends within these movements (Henry and Springborg 2001, Warde 2004).

Other sectors of Islamic business, like their counterparts in banking, might also play a crucial role in taming fundamentalist political Islam in the region. In

Turkey, traditional merchants committed to Islamic values were less favored by the state than their secularist competitors, the big capitalist cronies of the military-political elite who received governmental privileges. While Islamic business was politically subdued and over-regulated by the state, its Islamist counterpart in politics challenged the incumbent regime and asked for greater political participation (Henry and Springborg 2001: 212). In this context, Islamic business sought state disengagement from the economy, and thus supported market reform and privatization. Ideologically, both liberalism and economic Islam shared a common opposition to socialism and the state controlled economy (Warde 2000: 45). The Islamic firms in Turkey were generally clustered in the export-oriented sector due to the exclusion and neglect they were subject to during the era of state-sponsored import substitution industrialization. These Islamic firms have generally benefited from the globalization process while the state was losing control of local capital. In a similar way, globalization has increased the independent structural power of the Islamic banks, given their capacity to mediate the connection between global capital and the Turkish market. Upwardly mobile Muslim capital helped empower Islamic capitalists, and gave them a measure of independence. The emerging Islamic capitalists, then, may be strengthening the Islamist political forces committed to more liberal and moderate stance. This seems to work to stabilize relationships between the moderate faction of the Islamic movement on the one hand, and the incumbent regime on the other hand.

In the abundant journalistic literature on Islam, the stereotype is that the main if not the sole purpose of Islamic capitalism is to finance radical

fundamentalists. Islamic capitalists who are repressed and isolated by the state push political Islamists in a more radical, anti-system, and anti-Western direction. In doing so, they invoke religious sentiments through the political Islamist movements to carve a larger space for themselves vis-à-vis the bigger, secular capitalist cronies and the rigid bureaucracy. In this scenario, Islamic capitalists may provide the political Islamists economic muscle that increases Islamist appetites to expand into other spheres in a society. This is seen as a process that strengthens the fundamentalist political Islam

The analysis here suggests that Islamic capitalists, given the new riches from the globalization process, may have much more to lose through direct confrontation with the state than their Islamist counterpart in politics. Islamic parties often draw their constituencies from the bottom segment of the socio-economic spectrum (Onis 2001). Capitalists do not want to stoke the more militant attitudes of the political Islamists, which would not secure profitable environments to invest capital, and which might result in repression by the secular state of their economic activities. Therefore, Islamic bourgeoisie prefers to pursue a strategy of co-existence with the secular state and to find common grounds for cooperation with the incumbent regime and commercial institutions in order to promote their business interests.

Nonetheless, it is not easy to find those Islamic capitalists, economically empowered and independent, in the Middle East and North Africa where most incumbent regimes have not tended to allow any autonomous room for such societal actors. Turkey, unlike many other non-Turkish countries, constitutes a

unique case where the fundamentalist WP was allowed to occupy office, at least for a brief period, as a dominant partner in a coalition government. In Turkey, the Islamic world's foremost democracy, is posed between 'liberalized authoritarianism' and 'limited democracy.' The state has been often illiberal toward the political Islamists, despite some degree of pluralism. Yet Turkey has tended to be less closed financially and economically than politically (Henry and Springborg 2001).

Islamic banking was first introduced to Turkey in 1985 under the government of Prime Minister Ozal, who embarked a comprehensive market reform and financial liberalization policy. Turkish Islamic banks have gradually grown since the mid-1990s and were finally officially integrated into the banking system at the end of 1990s, mainly due to the banking reform implemented by the IMF and World Bank. In order to reduce the information and monitoring costs of implementing PLS logic, the Islamic banks might favor solid relations with the Islamic party politicians who can offer reliable information about prospective borrowers. Likewise, the Islamic banks also might want to open their local branches in areas where the support of the Islamic party is strong, in order to seek out the deposit bases that these constituencies represent, and to establish close personal relationships with the local party politicians.

Ozal's economic liberalization policy, which was based on conservative liberalism, also gave birth to a new business group: small but export-driven Islamic business. The new policy engineered a shift from import substitution and a first generation of big state-linked industrialists to the outward-orientation of a

new generation of practical Islamic capitalists (Henry and Springborg 2001: 211), although the impact of the shift decreased after Ozal's death in 1993. The newly encouraged Islamic entrepreneurs formed their own business representation, MUSIAD (Mustakil Sanayiciler ve Isadamlari Dernegi, the Association of the Independent Industrialists and Businessmen), in 1990, and have accumulated wealth by expanding the markets of their exporting companies at home and abroad. The Islamic businessmen have cooperated with the political Islamists for survival. Exclusion and repression by the secularist state helped forge a strong sense of solidarity in Islamic society. Through this process, it is reasonable to expect that they developed close relations with the local politicians of the Islamic party through the tightly woven networks of an Islamic community.

Through these possible connections, the emerging Turkish Islamic bourgeoisie, relying on the structural power of capital, might discipline the fundamentalist political Islam and strengthen more liberal and moderate political factions. Following this logic, this thesis explores the hypothesis that the recent transformation of the Turkish Islamic party from a fundamentalist stance to a moderate Muslim catch-all party reflects the growing political implication of the Islamic bourgeoisies. The Islamic capitalists may become "midwives of political change" (Henry 1996) by moderating the political Islamists, who may then ultimately play by democratic rules.

### **III. RESEARCH DESIGN**

The study conducts a time-series-cross-sectional (TSCS) statistical analysis of the association between capitalist development and democracy in general in a large-N analysis of 95 countries covering the time periods from 1980 to 2000. A TSCS analysis can be an extraordinarily robust research design, allowing the study of causal dynamics across multiple cases, where the potential cause may even appear at different times in different cases. The TSCS analysis attempts to show that; 1) democracy can be predicted, by looking at the levels of capitalist development and 2) the effect of capitalist development on democracy may be stronger in a more pluralist system. The second proposition is designed for showing the extent of state-primacy in the state-society relation, which determines the level of pluralism and conditions the effect of capitalist development. The data is obtained from the International Monetary Fund's International Financial Statistics Yearbook, the World Bank's World Development Indicators, and Freedom House's Freedom in the World Country Ratings.

For a careful evaluation of the hypothesis' nuanced depictions, the main empirical content of the study depends on in-depth case study of Turkey. Although a robustly significant statistical model might support the overall relations proposed, it does not distinguish the dynamics of the ongoing moderation process and new power configurations. The dynamic nature of the causal process can be sought by detailed process tracing and identifying causal mechanisms that can provide a solid ground for a causal inference.

In order to observe the recent fundamental transformation and moderation of the Islamic party, this study analyzes the organization, ideology and strategy, leadership, and constituency and supporters of the fundamentalist WP, and compares them with those of the reformist JDP. Then, it contrasts and compares the party anatomy of the WP with that of the JDP in terms of structural, motivational, attitude, positional, role playing, leadership, and finally constituency and supporters dimension (Duverger 1954, Sartori 1976). The data is based on interviews with the JDP politicians, held in February 2004 in Ankara and interviews with local scholars, bankers, and businessmen, held in the summer of 2002 and the winter of 2004 in Istanbul and Ankara. It is also obtained from several WP and JDP publications, local newspapers, and data published by the State Institute of Statistics of Turkey.

I investigate the growth and development of the Islamic banks and businesses. Regarding the Islamic banks, there are five banks; two are partly owned by Arab capital, the Al Baraka Turkish Finance House and Kuwait Turkish Finance House, while the other three are locally-financed, Anadolu Finance House, Asya Finance House, and Family Finance House. The last of these was originally a Saudi-Turkish joint venture Faisal Finance House, but sold to a domestic Islamic firm, Ulker Group in 2001. Another domestic-financed bank, Ihlas Finance House, went bankrupt in 2001. To observe these banks' growth, the study evaluates the main indicators of their balance sheets and profit-loss statements, their market share of total banking deposits, and the number of branches and employees. Also, it compares their performance with those of the

conventional banks in terms of capital structure, asset quality, profitability, income structure, and number of branches. The data is obtained from the Annual Reports of each Islamic bank, the Turkish Islamic Banking Association (Finansbir), the Central Bank of the Republic of Turkey, the Banks Association of Turkey, and the State Institute of Statistics of Turkey.

I analyze MUSIAD's strategy concerning the issues of religion, economy, and domestic politics, organizational capacity, branches, and membership. Then, I compare them with those of TUSIAD (Turk Sanayiciler ve Isadamlari Dernegi, the Association of the Turkish Industrialists and Businessmen), an association of the big secular conglomerates. Also, I investigate the market bases and assets of the leading MUSIAD member companies, such as Albayrak, Ittifak, Kar, Kombassan, Ulker, and Yimpas. The data is from interviews with Omer Bolat, the vice president of MUSIAD, and Ahmet Helvaci, the secretary general of MUSIAD, held in June, 2002 in Istanbul, MUSIAD membership data gained from the interviewees, several MUSIAD publications, local newspapers, and member companies' websites.

Second, in order to find connections between the Islamic banks and businesses on the one hand, and the moderate political Islamists on the other, this study employs a combination of correlation analysis of geographical association, and close tracking of personal ties. The geographical connections are observed between the geographical locations and numbers of the Islamic banks' local branches and of MUSIAD members on the one hand, and the election results of the moderate wing on the other. I use the Pearson product-moment correlation

analysis. Although the correlation analysis does not necessarily prove causation, it provides a clue for the plausible causal relationships. The substantial and dynamic nature of the causal process can be studied through detailed process tracing. The personal connections are investigated by looking at the profiles of the five Islamic banks' board of directors and managers, MUSIAD's executives and members, and the JDP's founding members and deputies. The data is from the member profiles of the five Islamic banks, MUSIAD, and the JDP, the Turkish Parliament, the State Institute of Statistics of Turkey, and several local newspapers.

#### **IV. FINDINGS AND IMPLICATIONS**

First, Turkish Islamic banks have been clearly growth-oriented in terms of their balance sheets, market shares, and numbers of branches and employees. They have shown solid performance compared to the conventional banks since the mid-1990s. In particular, the banks financed by local capital have expanded their market share, branches, and employees more than the Arab-Turkish joint ventures since the mid-1990s. Also, because the owners of the domestically financed banks were clustered in manufacturing sector, the *mudaraba* and *musharaka*, the long term lending, or the most profitable equity-like forms of financing, have increased modestly since the mid-1990s.

Concerning the geographical ties between the Islamic banks and the moderate political Islamists, the correlation analysis reveals that the local branches of the Islamic banks are highly positively and significantly associated with regions providing the support of the reformist JDP members rather than with

those providing the support of the traditional Islamists. As for personal ties, quite a few members of the reformist wing formerly worked as board directors or managers of the banks, and possessed ownership shares in them. Those close personal ties were transferred from the former MP members of Ozal times, who introduced and invigorated Islamic banking during the mid-1980s. They later joined the reformist Islamic party. The personal ties were strengthened by tarikats, or Islamic orders, such as Nakshibendi, Nurcu, and Fethullahci tarikat, whose members have been the managers and important share holders in the Islamic banks. As Gellner (1981) points out, there is a dichotomous tension between superstitious saints-worshipping tarikats and orthodox, scripturalist, and *shari'a*-oriented fundamentalist Islam. The tarikats tend to be informal, personal, flexible, and liberal, and thus have conflicts with Erbakan and his rigid and austere traditionalist faction, who have driven Islam toward confrontation with the state. Because of this, the tarikat members have preferred the moderate wing over the traditionalist faction.

Second, Turkish Islamic business mainly operate the export-oriented firms, which have expanded their markets into more diverse sectors at home and abroad and accumulated fortunes. Specifically, the firms attracted the conservative Turkish workers' money in Europe and established the joint ventures while the growth of the Islamic banks attracted Arab capital from the Gulf countries looking for the qualified Turkish collaborators for joint investments. In doing so, the Islamic capitalists with international capital became independent from the state. The association of Islamic businessmen, MUSIAD, has become

more business-oriented, market-driven, and liberal regarding the issues of religion, economy, and domestic politics since the mid-1990s. Also, the association has developed inner-collaboration and transparency based on strong cohesion among the members and densely embedded information networks. It has developed large and encompassing local branches, foreign offices, and a substantial membership base.

Regarding the ties between the Islamic business and the reformist political Islamists, regions with larger number of MUSIAD members is highly and positively related to regions with more support for the moderate wing than for the traditionalist faction. In addition, with regard to personal ties, it is observed that many of the JDP founding members and deputies are simultaneously MUSIAD members. These strong personal ties were consolidated by the Istanbul municipality experience under former mayor Erdogan, who dealt with contracts and bidding process with the Islamic firms during the mid-1990s. The joining of the former MP members, the pro-Islamic oriented politicians pursuing Ozal's conservative liberalism, and the tarikats' inclination toward the liberalists, also brought more business connections to and support for the reformist wing.

In conclusion, the proposition referring to "taming effects" of the growing Islamic capitalists on the political Islamists is supported by finding both the geographical and personal connections between the two. The geographical as well as personal ties found in this study constitute evidence of the political contribution of the Islamic capitalists to the ongoing moderation of the political Islamists. Indeed, the Islamic capitalists seemed to play the role of independent bourgeoisies

with accumulated structural power, *a la* Hirschman and Moore, to tame the unruly political Islamists. In this regard, my proposition provides a more complete and accurate explanation of the recent moderation of the Turkish Islamic party than approaches that focus on the political institutional effect, or the EU impact. The findings have policy implications for those interested in easing the tension and polarization between incumbent regimes and the Islamist oppositions in most other non-Turkish Muslim world.

## **V. ORGANIZATION OF THE THESIS**

Chapter 2 begins by presenting competing explanations of the recent moderation of fundamental Islamists in Turkey, including arguments focused on institutional pressures, electoral constraints, and external impact. Also, the chapter investigates theories with regard to the political implications of capitalist development in general and of Islamic capitalism in particular. It offers a brief account of the process of state building, society formation, and capitalist development in the Middle East and North Africa. Finally, this chapter applies the theory of the “capitalists’ role as the midwives of political change” to the Islamic society in Turkey. Turkey constitutes a unique case in the region, owing to its relatively pluralist political system.

Chapter 3 introduces a time-series cross-sectional regression analysis with an additive model regarding the association of the capitalist development and democracy. It continues to present another TSCS analysis with an interactive model by adding an interaction term of the level of pluralism. This allows us to

observe the conditional effect of pluralism on the association between the capitalist development and democracy.

Chapter 4 tracks the evolution of Islamic party from the period of authoritarianism (1923-1946), to the era of liberalized authoritarianism (1946-1983), and to the era of limited political democracy (1983-present). Then, the chapter contrasts and compares the fundamentalist WP and the reformist JDP.

Chapter 5 begins to show the evolution and development of Turkish Islamic banks. The first part of the chapter tracks geographical connections between the locations and numbers of branches of the Islamic banks, and the electoral performance of the moderate political Islamists in the regions. The second part of the chapter tracks personal ties between the Islamic banks and the moderate political Islamists.

Chapter 6 delves into the rise and growth of Turkish Islamic businesses, looking at mainly MUSIAD and its member companies. Also, the chapter examines the relations between the Islamic businesses and Islamic banks by analyzing the association between MUSIAD members and the five Islamic banks. Then, this chapter tracks geographical and personal connections between the local MUSIAD members and the moderate political Islamists.

Chapter 7 summarizes the evidence of the political contribution of Turkish Islamic capitalists to the ongoing moderation of the political Islamists. Then, it offers the implications of Islamic capitalism for liberal democracy.

## **Chapter 2. Theoretical Implications of Islamic Capitalism in Turkey**

Turkish Islamic parties have claimed to represent the periphery whose political recognition and economic interests were excluded by the westernized secularist Kemalist elite since 1970. Although the Islamic parties changed their names after the military banned them four times in 1971, 1980, 1998, and 2001, the parties continued to follow their origins as the only and explicitly self-declared Islamic-oriented party under the undisputable leadership of Erbakan. Despite the sense of unity which lasted for thirty years, thanks to the pressure of the secularist regime, the political Islamists recently faced inner rivalry and split into two different parties for the first time in 2001. Growing Islamic liberals from a young generation founded their own party, the Justice and Development Party (JDP) in 2001, while the old guns, led by a life-long leader Erbakan, founded a traditionalist party. The JDP transformed into a moderate catch-all party. It thus represents a quite remarkable transition from the previous Islamic parties which relied on fundamentalist and populist rhetoric, and which mobilized enthusiastically Islamic mission-motivated mass organizations. The reformist Islamic party has a relatively professionalized staff, espouses pragmatic policies, and practices inner party democracy. This Muslim catch-all party claims to represent a continuation of the center-right Motherland Party (MP) under Ozal, and a renewal of conservative liberalism.

Part I of chapter begins by stating competing explanations of the recent moderation of political Islamists in Turkey. It considers the arguments about the role of institutional pressures, electoral constraints, and external pressures. Part II considers the theoretical implications of capitalism in general and of Islamic capitalism in particular for democracy. In part III, these questions are investigated in the context of state building, society formation, and capitalist development in the Middle East and North Africa, where the process is characterized by a colonial legacy of overdeveloped states and underdeveloped bourgeoisies. Part IV concludes with the argument that Turkey constitutes a unique case in the region, owing to its relatively pluralist political system. This has enabled capitalists to serve as the “midwives of political change” in an Islamic society.

## **I. MODERATION OF POLITICAL ISLAMISTS: COMPETING EXPLANATIONS**

In explaining why the Turkish political Islamists began to project more moderate programs and electoral manifestos and to change their attitude toward Islamic liberalism, most political scientists stress the effects of political institutionalization (Cagaptay 2002, Carkoglu 2002, Diamond 1999, Heper 1997, Nasr 2005, Onis 2001, Ozbudun 2000, Ozel 2003). That is, the pressures imposed on the Islamic party to conform the rules of constitutional game have effectively transformed it from a fundamentalist stance in the direction of liberal position. Because institutions structure behaviors into stable, predictable, and recurrent patterns, individuals and groups, acting within well-established, less volatile, and more enduring, and normatively shared institutional settings, confine themselves

to legal and constitutional methods that eschew the use of threat of force (Diamond 1999, Diamond, Linz, and Lipset 1995, Linz and Stepan 1978). Although Turkish politics itself is not fully institutionalized showing signs of growing electoral volatility, party fragmentation, and the declining legitimacy of political parties (Carkoglu 2002, Ergunder 1995, Kalaycioglu 1994, Ozbudun 2000), the pressures and constraints from the secularist state, mainly the military, are said to have eventually forced the political Islamists to accept the democratic rules of the game. As the state's attempts at secularization were undertaken through coercive manners by a limited group of westernized elites, the military often intervened to strengthen the secular order and banned the Islamic parties. The secularist military's reactions toward the political Islamists have made sure that they would fight back hard to defend the stability of Turkish secularism. In fact, the military dissolved the Islamist Welfare Party (WP) coalition government in which the WP was a dominant partner in its coalition with the center-right TPP under the premiership of Erbakan in 1997. Shortly later, the military also shut down the WP which emerged as the largest party during the mid-1990s. Indeed, it was the third ban of the Islamic parties by the military, followed by the fourth ban in 2001.

Also, as another explanation of the institutionalization effect, many have argued that political parties with a fundamentalist orientation will naturally evolve into systemic parties once they are allowed to compete for power under electoral constraints. Competing with other Islamists and secularists for votes, fundamentalists should deal with the practicalities and realities of politics and

would be forced to rethink and transform their ideology. In short, the accommodation of political Islamists through free elections and multiparty politics gradually tames their demands, pushes their radical behaviors in a more moderate direction, and forces them to engage into the democratic system (Esposito 1999, Onis and Keyman 2003, Sayari 1996). Therefore, the inclusion of the Turkish political Islamists into the system and their experiences in coalition governments deprived them of their status as the main source of political oppositions and made them accountable to the electorate.

On the other hand, some works strongly stress external impact in explaining the Islamists' moderation, rather than the impact of domestic institutionalization. Given Turkey's hope of becoming a full EU member and of establishing a close relationship with the European countries, the secularist state should listen to the key concerns expressed by the European Commission which included the heavy influence of the Turkish military on civilian affairs and the recent closure of the Islamic party. As a matter of fact, both the United States and the European Union countries were strongly critical of the closure of the Islamic party in 2001, calling it a setback for Turkish democracy and Turkey's bid for EU membership. Hence, the Islamists needed to depend on the EU agenda and Copenhagen criteria which require the military get out of the politics, by making coalitions with the liberal forces abroad for survival. That is, the political Islamists who had habitually engaged in anti-Western rhetoric felt that connections with the EU would provide safer anchoring and a source of protection from the arbitrary secularist military. In doing so, the Islamists realized the value

of liberal democracy, moved in a more moderate and liberal direction, rethought their overall criticisms about the West and Westernization, and discarded their fundamentalist position.

As a matter of fact, the moderate political Islamists' enthusiastic support for the EU membership is quite in contrast with the recent hesitations of the secular Kemalists. One of the new characteristics of the Turkish military since the late 1990s was its willingness to employ anti-Western rhetoric, and to accuse the opponents of being the tools of Europe. The military has been strongly against the growing pressure from the EU on the protection of human rights, the need of civilian control in the politics, and the resolution of the Kurdish problems. Ironically enough, the westernized secularist elite started to accuse the EU of being imperialistic, intrusive, and supportive of internal enemies of the state; the Kurds and the Islamists (Yavuz 2002: 210). Although the most obvious way for incumbent elite to respond to challenge to its position is to repress its opponents, the elite may not be able to use coercion to defeat the oppositions for some reasons (Shefter 1994: 9-10). Even though the Turkish military elite had been able to command a repressive apparatus sufficient to crush the Islamist opponents, the military needed to consider international reactions which may preclude their pursuing the harsher course of action. Accordingly, the military might not use coercive pressures directed against the Islamic party anymore, and the political Islamists were much aware of it.

Yet these three competing explanations do not answer to timing question: why did the moderation of the political Islamists happen at the end of 1990s? As

for the institutional effect argument, the military banned the first Islamic party, the National Order Party (NOP) in 1971 and continued to use the coercive pressures when it shut down the successors of the NOP, the National Salvation Party (NSP, 1972-1980) in 1980, the Welfare Party (WP, 1983-1998) in 1998, and Virtue Party (VP, 1998-2001) in 2001. Also, concerning the effect of electoral constraints, Turkish politics has experienced a multi-party system since 1946 after a transition from the single-party authoritarianism of the Kemalist Republican People's Party (RPP). The political Islamists have participated in election since 1973 and joined coalition governments several times since 1974. With regard to the external influence argument, Turkey's effort to join the EU already began in 1959 when the Turkish government applied for partnership to the EEC. Also, the endeavor to improve domestic problems according to the EU's criteria has already started since the mid-1980s when Prime Minister Ozal was eagerly preparing for its official application to the EEC. Moreover, the external pressure generally gets filtered through domestic actors who possess their own complicated agendas not solely determined by EU pressure. In this regard, this study finds the previous explanations wanting.

## **II. THE THEORETICAL IMPLICATIONS OF ISLAMIC CAPITALISM**

Inspired by the work of Albert O. Hirschman (1977), *The Passions and the Interests*, this study argues that a full picture only emerges with the inclusion of the role of Islamic business *interests* to tame the *passions* of political Islamists in their relationships based on the affinities of Islam. Hirschman, with regard to

early capitalism or naive economic liberalism, argues that economic interests are constant in their effect, whereas other political passions are disruptive. Since the pursuit of economic interests is expected to check and curb the excessive, brutal, and dangerous passions of politicians, it would bring predictability, rationality, and effectiveness to social relations and thus improve social order. Namely, gentle commerce could constitute a barrier against the despotic, arbitrary governors and could tame the unruly, destructive governed.

Similarly, Moore (1966) highlights the role of bourgeoisie in the making of the modern world, which promotes the commercialization of countryside, subordinates the aristocracy, and assimilates the peasantry into the modern economy and democratic polity. The emergence of democratic institutions requires the development of an extensive and influential bourgeoisie – town dwellers possessing mobile wealth - not highly dependent upon a landed aristocracy or a governmental bureaucracy. Moore argues that social class as arising out of a historically specific set of economic relationship is the fundamental unit of analysis, and the strength of the bourgeois impulse is a key variable in determining which route a society takes. No bourgeoisie, no democracy. Likewise, Schmitter (1979, 1982) focusing on corporatism arguments, contends that delayed capitalist development, weak bourgeoisie, and incipient pluralism result in authoritarian corporatism or state-corporatism, abruptly and coercively imposed from above. In contrast, democratic corporatism or societal-corporatism gradually evolves from below in contexts of advanced capitalism, hegemonic bourgeoisie in class relations, and consolidated pluralism. In short,

democracy in corporatist societies can be achieved through advanced capitalist development, strong bourgeoisie, and a well developed pluralist tradition.

Particularly, Henry (1996) pays attention to Islamic bankers as a mobile, independent, thus critical bourgeoisie and to their political significance in the pursuit of economic development and democratization in the Middle East and North African countries. In general, the banking sector controls international and local finance capital through its ability to allocate credit independently of government to various industrial sectors. A strong and independent banking sector will lend its structural power to pro-reform coalitions and endanger any patrimonial regime by eroding the influence of patronage networks and patronage politics. In the region, the development of Islamic banking may reinforce political pluralism by generating more Islamic businesses committed to free markets and peaceful political coexistence, and by demanding more transparency and accountability, which are especially essential for Islamic banking operations. The Islamic banking model shares common cause with economic liberals and the Washington consensus. Furthermore, the recent process of globalization has increased the independent structural power of Islamic banks owing to their capacity to mediate with global capital and market. In doing so, Islamic bankers might also mobilize finance capital to take over or ravage the patronage networks of incumbent rulers (Henry and Springborg 2001: 28).

Islamic banking is a modern phenomenon. It is an international effort to make contemporary economic practices in Muslim countries conform to Islamic norms. The most fundamental characteristic in Islamic economics is the

prohibition of interest or an unjustified increase in wealth. To avoid interest, Islamic banking replaces interest with profit and loss sharing (PLS). Depositors, lenders, and investors receive not a fixed return but a predetermined share of any income generated in the borrower's business transactions. They also share in any losses, and the banks do not charge interest to the borrowers, in turn (Kuran 1995, Warde 2000). The PLS logic requires a high level of accountability and transparency in the market, and a high degree of trust and credibility between business partners. Islamic banking has been growing in the era of globalization, and its drive for markets and profits can foster liberal trends within Islamist movements (Henry and Springborg 2001).

Similarly, Islamic business like its Islamist counterpart in banking might also play a crucial role in moderating the fundamental political Islamists. Islamic business has been less favored and more regulated by the state than their secularist, state-sponsored competitors. The discrimination and regulation became severe as its Islamist counterpart in politics challenged the incumbent regime asking for greater political participation (Henry and Springborg 2001: 212). Thus, Islamic business sought to minimize the role of the state in the market. Islamic firms, clustered in an export-oriented sector due to the exclusion by the import substitution strategy of the state, have been benefiting from the globalization process while the state was losing control of the local capital. As a matter of fact, the newly empowered mobile Muslim business became more independent of the state.

However, Islamic capitalists have much more to lose through direct confrontation with the state than their Islamist counterpart in politics, an Islamic party with constituencies coming from the bottom segment of the socio-economic spectrum (Onis 2001). Islamic capitalists therefore tend to push political Islamists in a more liberal direction. They do not have hope of securing control of the state, and thus support limited state, rule of law, and liberal democracy. In this regard, Islamic bourgeoisies may strengthen more liberal and moderate Islamist political forces, more favorable to business interests, because those capitalists need a liberal, predictable, and market-oriented system for their further wealth. In other words, while Islamic capitalists do not necessarily share any commitment to democracy, their drive for markets may indirectly contribute to moderating the political Islamists (Henry 1996: 24-25).

Nonetheless, there are different views about the political implication of capitalists. Their main argument is that structural constraints posed by capital on despotic and predatory ruler are not consistent, but rather ambiguous. For example, Rueschemeyer et al (1992) following a Marxian tradition, claim that capitalism supports democracy, but in a somewhat different way. Capitalist development transforms the class structure, enlarging the working class and weakening the landed upper class, democracy's most consistent opponent. In other words, the true source of democratic drives is working class mobilization, which probably in combination with middle class support, can bring about a political constellation favorable to democracy. Differently from Moore, the bourgeoisies for Rueschemeyer et al are hostile to further democracy when their

interests seem threatened. Most bourgeoisies in 19<sup>th</sup> century Europe and 20<sup>th</sup> century Latin American were not supporters of democracy rather opponents, because they feared that extending suffrage to workers would represent a threat to their material interests. Namely, the supportive role of capitalists toward democracy is not always compelling given the anti-democratic, reactionary posture of capitalists in 19<sup>th</sup> century Europe and 20<sup>th</sup> century Latin America.

But, as democracy was established during the 20<sup>th</sup> century and these fears proved to be exaggerated, the bourgeoisie of advanced capitalist societies gradually came to accept and then support democratic institutions. As Schmitter (1979) states, democratic corporatism evolves owing to collaborative class relations led by the hegemony of bourgeoisie. In fact, slow, almost imperceptible decay of advanced pluralism and its subtle displacement by democratic corporatism have involved the need to strengthen and stabilize bourgeois-dominant regimes by co-opting and incorporating subordinate classes and groups more closely within the political process. Rather, the absence of hegemonic bourgeoisie leads authoritarian corporatism.

Furthermore, working class was not always contributed to democracy in most developing countries where capitalist development was imposed by the state, and thus the process was partial and skewed without independent and indigenous social classes. Instead, there exist the over-developed state, its crony capitalists, and state-created trade unions. Clearly, the state-sponsored capitalist cronies and working class in late developing countries do not possess class commitment to democracy (Bellin 2002). Rather, they became the allies of

authoritarianism, enjoyed excessive privileges, generated rent seeking, and undermine social reforms (Haggard et al 1997: 38, 58). The capitalist cronies particularly, have been fearful of demand from below and excessively dependent upon the state. Hence, the increase in the power of independent and hegemonic social class is crucial in order to check excessive political passions, to replace despotic rules with just and rational ones (Hirschman 1977), to obtain a share for the underlying population in the making the rules (Moore 1966), and to remove the obstacles to democratic institution in the route of democracy (Rueschemeyer et al 1992).

On the other hand, other political scientists have also explored the theoretical implication of capitalism, but in a quite different way. Modernization theorists propose that economic growth and prosperity is a requisite condition to democracy. This approach views economic development as linked to a syndrome of changes, such as urbanization, mass education, communication development, and bureaucratization (Inglehart 1997, Landes 1998, Lipset 1960, Rostow 1960). However, by the early 1970s it became obvious that growth, convergence, and democracy in most third world countries were not occurring at the expected rates. Most critiques of modernization theory rest on its short-term and ahistorical plans (Leys 1996).

Following the modernization theorists, there is an enormous body of literature to the effect that democracy is a product of economic development. However, this literature suffers from ambiguities of its own. While the belief is widespread that democracy requires as a prerequisite some level of economic

development, there is much less agreement which aspect of development matters and why. Some think that a certain level of development is required because affluence reduces the intensity of distributional conflicts; others because development generates the education or the communication networks required to support democratic institutions; still others because it swells the rank of the middle class, facilitates the formation of a competent bureaucracy, and so on (Przeworski and Limongi 1993). Furthermore, this literature misses the extent to which processes of development or democracy entail clashes of power among actors with competing interests. Political development should be seen a contested process. Democratization is an outcome of actions, not just a condition, and should be understood in terms of actors and strategies, rather than in terms of deterministic conditions.

Alongside these interpretations about the theoretical implications of capitalists in general is a counter-argument regarding the role of the Islamic capitalists in particular. Islamic financial and business groups, harshly repressed by the state compared to their secularist competitors, push political Islamists in a more radical direction. In doing so, they invoke religious sentiments through an Islamic party to carve a larger space for themselves vis -à-vis the bigger secular competitors and rigid bureaucracy. Also, Islamic capitalists collaborating with revitalized pro-Islamist movements may aim to shift the power balance and to gain effective control of the government for their private business interests (Carkoglu 2002). In other words, Islamic capitalists provide political Islamists economic muscle that increases Islamist appetites to expand into other spheres in

a society. In fact, in abundant journalistic literature on Islam, the same stereotypes are that the main if not the sole purpose of Islamic capitalism is to finance terrorism. Many writers have conflated and compressed a complex series of events to show that Islamic banking and business were instrumental in promoting fundamentalist political Islam (Warde 2000: 13, 222). For instance, according to the simple syllogism, while Iranian and Syrian government continue to back international terrorism, sub-state actors in other countries in the region increasingly finance militant Islamic groups from al-Qa'ida to Hamas through a network of Islamic charitable organizations, enterprises and companies, banking systems, and the personal wealth of individual militant Islamists (Levitt 2002: 1-2).<sup>2</sup>

However, while radical and militant Islamists might have been attracted to Islamic banks for religious reasons, there's nothing inherent in Islamic banking that facilitates the movement of illicit funds.<sup>3</sup> Virtually all Islamic financial institutions are in business to make money for their share holder and owners. While charity is a prominent requirement of Islamic faith, Islamic finance is not a charitable or politically motivated undertaking. Islamic banks operate in a highly competitive environment and cannot afford fully to adopt Islam's charitable doctrines. Profits are important and account holders must be satisfied. Islamic

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<sup>2</sup> Al Shamal Islamic Bank, Tadamon Islamic Bank and Faisal Islamic Bank, all in Sudan, and Al Baraka Group in Somalia were accused of their connection with bin Laden right after the events of September 11 although the directors of the banks denied any connections (*The Associated Press* October 1, 2001).

<sup>3</sup> Also, the irony is that such attacks from the fundamentalists, which include anti-tourist attacks in Egypt, the bombing of the World Trade Center in New York in 1993, the Khobar Attack on US Marine barracks in Saudi Arabia in 1996, and the bombings of the American embassies in Nairobi and Dar es-Salam in 1998, were aimed at the terrorists' former patrons (Warde 2000: 206-207).

banking is also part of an international system, which sets it apart from the other rejectionist facets of Islamic fundamentalism (Mullins 2000: 6). In fact, it is clear that Islamic financial and business groups have been constantly seeking to find common ground for cooperation with the existing governments and commercial institutions in order to secure their business interests.

Furthermore, Islamic bourgeoisie, newly enriched by the globalization process, may not want to increase radical and populist Islamic movements, which would not secure profitable environments to invest capital, and probably would result in severe interventions by the secular state in their economic activities. In fact, capital generally tends to be coward and does not like to enter in adversarial relationships with governments in order to secure their business interests. Therefore, Islamic business prefers to pursue a strategy of co-existence (Onis 2001: 285), and there is no compelling reason for the Islamic capitalists to provoke more militant attitudes of political Islamists, which is not obviously favor of their business interests.

In conclusion, the strong domestic social actors, genuinely independent of the state patronage and not fearful of extending political rights to the underlying population, are clearly conducive to democracy. The Islamic bourgeoisies capable of directing the accumulation of capital at home and abroad might be more independent of the state than the Middle Eastern and North African regimes' big capitalist cronies. Also, they may be less fearful of the self-righteous Islamist movements and their demand for greater participation than the state-sponsored capitalists, and state-sponsored labor organizations. Thus, the Islamic capitalists

representing broader interests of businessmen and relying on the structural power of capital might discipline the fundamental Islamists and strengthen Islamic liberals, who may ultimately play by democratic rules. Political Islam will have to be accommodated, and the Islamic capitalists can become “midwives of political change” (Henry 1996: 23-24, Henry and Springborg 2001: 19-21).

The problem, in the meantime, is that the incumbent regimes yet do not tend to allow room for those independent societal actors to pressure government. As a matter of fact, in most developing countries, the state is the only or main actor in configuring state-society relations. The primacy of the state in society has substituted for a hegemonic bourgeois class, and the social classes have been excessively dependent on the “overdeveloped” state (Alavi 1972). Therefore, despite the importance of independent societal actors in economic and political development, it is plausible to assume more prominent and primary role for states as an initial condition.

Turkey constitutes a unique case where the fundamentalist WP was actually allowed to occupy office, at least for a brief period, as a dominant partner in a coalition government, although the WP was outlawed by the secularist military in 1998. The Turkish state has been illiberal toward the political Islamists despite some degree of pluralism, but it has tended to be less harsh on the Islamic capitalists than on their Islamist counterparts in politics (Henry and Springborg 2001). In fact, in Turkey, owing to the reform package of the IMF and World Bank, the five Islamic banks recently were officially integrated into the conventional banking system instead of standing apart under a special legislation

as finance houses, as was the case previously. Also, the Islamic business, typically export-oriented firms employing flexible manufacturing practices, have benefited from market reform initiated by conservative liberal Ozal government, and accumulated wealth in the globalization process. In brief, the hypothesis of the present study is that the Islamic entrepreneurs could tame the unruly political passions of the Islamist politicians once they were allowed into the system, thanks to its relative pluralism. The historical context was critical. Twenty-first century Turkey offers a promising terrain for the Montesquieu and Hirschman theory of “gentle commerce.”

### **III. POLITICAL INSTITUTIONS REVISITED: STATE FORMATION AND CAPITALIST DEVELOPMENT IN THE MIDDLE EAST AND NORTH AFRICA**

The powerful state defines the critical context in which capitalism emerges in late developing countries. Regarding the primacy of the state<sup>4</sup>, there have been growing theoretical arguments and conceptual developments. The state both reacts to social forces and in turn shapes the direction of those forces. Although the state, because of its penchant for intervening in the economy, is viewed as the impediment to capitalist development, it remains the only available instrument for carrying out all the market and political reform prescriptions. This is what is known as the “orthodox paradox” (Snider 1996). Seemingly, the solution does not

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<sup>4</sup> The state is more inclusive, broader than governments in that the state includes institutionalized authority and patterns of domination including those resting on force and politically manipulated incentives in its coherent totality. It provides law and order, enforces contracts, protects property rights, defends private parties from external threats, and offers those inputs to private production that are not efficiently supplied by the market (Caporaso and Levine 1998, Hall 1997, Schmitter 1979).

involve removing the state from the development processes, but rather changing the way the state plays its role. In the Middle East and North Africa, while a more democratic order cannot be built through the current state power, it cannot be built without the state power. In other words, government remains crucial to the project of political and economic reform in the region (Auerbach 2001, Chaudhry 1994).

Efforts since the 1990s to promote theoretical integration among the state-centered approaches have produced the “new institutionalisms” (Hall 1997). These are rational choice institutionalism<sup>5</sup>, historical institutionalism<sup>6</sup>, and

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<sup>5</sup> Rational choice institutionalists insist that institutions, by providing actors with greater or less degree of certainty about the behavior of others, structure the individual choices of strategic actors so as to produce equilibrium outcomes. With regard to the origins and changes of institutions, they contend that the more an institution contributes to the resolution of collective action dilemmas and the enhancement of social stability, the more robust it will be. According to this *gains-from-exchange* hypothesis, development depends on the structure of the state within which either the ruler retains extraordinary discretionary power or the ruler’s power is restrained to prevent arbitrary seizure of assets. “The predatory theory of state” as a weak state specifies a set of property rights that maximize the revenue of rulers, regardless of its impact on the wealth of the society as a whole. On the other hand, “the contract theory of state” as a strong state emphasizes the role of the state as the wealth maximizer for society. In other words, states define and structure political games in which actors compete for their interests and influence over political outcomes, and those conflicts affect institutional changes after all (Bates 1997, Knight 1992, Levi 1997, North 1990).

<sup>6</sup> Historical institutionalists argue that the state has its own capacities that act upon and contribute to the making of the societal forces acting upon it. The state having a self-causality, energizes and gives creative directions toward society. As for the origins and changes, this approach focusing on macro-foundations, identifies the state with a historically specific structure which helps to inspire the very demands from society, that are pursued through politics. Thus, according to this historical-structural approach each state processes the influences in unique ways as it also contributes to what sort of influences it experiences (Evans et al 1985, Hall 1997, Schneider and Maxfield 1997). Historical institutionalist approach argues that divergent levels of development result from the different configurations of relationships between societal groups and the state. A capable state should possess “embedded autonomy” (Evans 1995) with which the state is not only insulated from particular private interest pressures but also embedded in social structure. When states are embedded in a concrete set of social ties that bind the state to society and provide institutionalized channels for continual negotiations, state-society relations can contribute to smooth process of policy change and finally development. The issue is not whether the state and societal actors have more or less close relations but how best to manage these relations (Amsden 1989, Evans 1997, Schmitter 1979). In other words, states vary in effectiveness based on their ties to society.

sociological institutionalism<sup>7</sup>, and they are interest-based, structure-oriented, and idea-oriented approaches, respectively (Lichbach and Zuckerman 1997). These approaches have evinced a common interest in the role of states in development and democracy. The historical institutionalist approach most explicitly focuses on the diversity of institutional arrangements rooted in their own historical landscapes in order to explain the primary role of state which constrains actors' perceptions and choices (Evans et al 1985, Hall 1997, Zysman 1983). The state in historical institutionalism can monitor and discipline powerful societal actors by giving incentives, rewarding good performance, or punishing noncompliance while also extracting cooperation and information from them. Different states rooted in historically distinct structures are classified differently and presumably produce different results in development. As a minimal condition for the rise of democracy, the state should possess at least quasi – political pluralism where societal actors can have a room to act. As a maximum condition, the state should possess “embedded autonomy” (Evans 1995) through which the state facilitates a mutual interaction between the state and society.

If the state possesses an open and pluralist political system, capitalists in the version of Hirschman and Moore may have a chance to support democracy in

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<sup>7</sup> Sociological or cultural institutionalism also has sought to elucidate the role of states in development, it tends to focus more on informal mechanisms. This approach argues that institutions are symbol systems that provide the frames of ‘meaning’ guiding human action. In explaining institutional changes, the approach insists that many of conventions associated with institutions cannot readily be the explicit objects of individual action or choice (Putnam 1993, Ross 1997). Thus, this approach goes a long way toward explaining the presence of many apparently inefficient institutions, by focusing the role of ideology in development (Lichbach and Zuckerman 1997). However, regarding its emphasis on informal institutions, it is always difficult and vague to disentangle cultural or ideological factors from other kinds of variables. Also, this approach neglects the power struggles and conflicting interests in the processes of institutional creation or reform which should be seen as objects of contestation.

late developing countries. However, most states in the Middle East and North Africa, generally characterized by strong coercive apparatus, lack of legitimacy, and inefficient administration, are hard but weak. Colonial legacy, lack of hegemonic class, and primacy of the state in the social formation have been crucial in shaping the exclusionary features of the regimes in the region (Anderson 1987, Ayubi 1995, Henry 1996, Owen 2004). Ayubi (1995) adds that the contemporary states in the region appear to correspond to the Gramscian category of 'corporative state,' where the state is everything, but the civil society is primordial and gelatinous in terms of its economic and political interests and functions.

The colonial era resulted in the incorporation of the Middle East and North African countries into the capitalist world system and in the consolidation of internally bureaucratic state and an externally territorial state. However, the colonial legacy contributed to the partial nature of state building and capitalist development in the post-colonial countries in the region. The most problematic legacy from the colonial era was the overdeveloped state and the underdeveloped class structure in the newly capitalist countries. The state apparatus in colonial period was not created by national bourgeoisie but by foreign colonial ones who over-inflated the size of the bureaucratic machine, especially its military and security sector to serve its own purpose and to confront any possible resistance. Thus, the rulers of the post-colonial states produced much the same type of effects via the creation of authoritarian system relying on the lopsided features without the hegemonic bourgeoisies (Anderson 1987, Ayubi 1995, Henry 1996, Owen

2004). Furthermore, under the forms of capitalism artificially established by the above,<sup>8</sup> the role of states has been even more exaggerated in order to promote delayed capitalist development in the name of the national interest. In such a format, social classes are excessively dependent on the state, and the absolute primacy of the state resulted in an embryonic class structure in the immediate post-independent countries. The state faced fewer powerful domestic competitors for resources or authority after independence than did its European counterparts at comparable stages of industrial development, and fewer social groups were genuinely independent of state patronage (Anderson 1987, Schmitter 1979).

As for the state classification, most states in the Middle East and North Africa can be classified as predatory states, which are weak states because of relatively low level of immersion in social structure. The states in the region are not embedded in the broad society due to the limited legitimacy and dependence upon external revenues without infrastructural power (Luciani 1994). Also, they are not fully immersed in the social structures because they have to resort to raw coercion in order to preserve their invested interests: they are not strong but fierce, coercive, or hard in terms of the nature of exercising power. Indeed, most

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<sup>8</sup> Owing to the non-hegemonic class and the primacy of the state, there was a technical arrangement or articulation by the state among the modes of production (in economic aspect), coercion (in political aspect), persuasion (in ideological aspect) and within each of the three modes. The capitalism encroached by the colonial powers in the region has been articulated in different forms with 1) pre-capitalist modes of production, such as pastoral-nomadism in some countries and semi-feudal or semi-commercial agriculture in others and 2) a state-capitalist mode of production regardless of their declared ideologies. Moreover, there are combining articulations between certain economic and technical elements of the capitalist mode of production and certain social and cultural elements of pre-capitalist modes of coercion and persuasion, such as political tribalism or patrimonialism in the Middle East and North Africa (Ayubi 1995).

of these weak states in the region similarly possess non-democratic regimes despite their different or even contradictory ideology bases.

Despite the common absolute nature of the state in engendering social transformation, there are variations across countries. For more specification of the common weakness, Ayubi (1995) differentiates the Arab states into two different types: conservative state-corporatism and populist state-corporatism. Saudi Arabia and other conservative, kinship-based monarchies in the oil exporting Gulf area are located in more organic, solidaristic, and communitarian strands as conservative state-corporatism. Egypt and other sometime radical and populist republics are in more organizational, interest-based, and mobilizational strands at the other end, as populist state-corporatism.

Henry and Springborg (2001), especially concerning the effects of structural reform in the globalization era, present four different types of states among the Middle East and North African countries: bunker, bully, monarchies, and conditional democracies. First, Algeria, Iraq, Libya, Syria, Sudan, and Yemen are bunker states with strong, fierce statist legacies, where lots of de jure reform, but not much happens. Second, Egypt and Tunisia are bully praetorian states with radical interventionist military officers, their crony capitalists, and the other rent seekers. Although these bully states are also exemplified as military dictatorship together with bunker states, they experienced a limited de jure reform achieved after a struggle, which introduced some competitions into a setting that had not been very competitive. Third, Morocco, Jordan, Kuwait, and Saudi Arabia are globalizing monarchies, where plenty of reform, but existing elite benefits from it.

Finally, Iran, Israel, Lebanon, and Turkey can be classified as conditional, fragmented democracies where lots of reform, and benefits are relatively distributed. Iran is by name and in fact an Islamic Republic and one in which citizens can change at least part of their government through free and fair elections, hence qualifying it as an Islamic democracy. Turkey and Israel are “ethno-religious” democracies, in which secular Turks and Jewish Israelis are privileged participants in their respective political systems, which deny equal rights to Kurds and Islamists (in Turkey) and to Arabs and, in much lesser measure, Sephardim (in Israel). In fact, Turkey and Israel have been exemplified as the only relatively pluralist states in the region (Owen 2004, Richards and Waterbury 1996).

As for this more specified distinctions in the Middle East and North African case, figure 2-1 shows a differentiated state typology given the criteria of embedded autonomy idea. Relatively pluralist states or conditional democracies are categorized as strong states with relatively high immersion and high insulation compared to other weak states in the region. Bunker states are the weakest due to their low level of immersion as well as insulation. Conservative monarchies are characterized by high immersion and relatively low insulation. Yet, the monarchies possess more autonomy from social forces than the bunker states, overrun by particular networks of infiltrated tribes and clans. Bully states are exemplified by relatively low immersion and high insulation. The bullies have a stronger state in the sense of greater autonomy of bureaucratic structures than the

bunkers. Also, the bullies are more embedded in society and more responsive to the broad society than the bunkers.

Figure 2-1. State Typology in the Middle East and North Africa by Embedded Autonomy

|                                    | Immersion in Social Structures                                  |  |
|------------------------------------|---|--|
|                                    | High  | Low  |
| Autonomy of Bureaucratic Structure | Conditional Democracies (Iran, Israel, Lebanon, Turkey)         | Bully States (Egypt, Tunisia)                |
| High                               |   |  |
| Low                                | Conservative Monarchies (Morocco, Jordan, Kuwait, Saudi Arabia) | Bunker States (Algeria, Libya, Syria, Yemen) |

Concerning the public finance resources and the relations with society, the bunker and bully states and monarchies show different features. The bunker and bully states usually attain the resources by way of nationalizing private enterprises. In particular, the bunkers tend to show an excessive taxation over some optimal level illustrating discretionary authority (Snider 1996). Yet, the bunkers are also captured by the groups who seek to preserve of the privileges and thus try to keep the status quo by striving to co-opt other social groups in the civil society mainly relying on force. On the other hand, monarchies owing to their abundant oil revenue, possess quite low tax extraction and establish the patron-client network. The great availability of financial resources in these rentier states

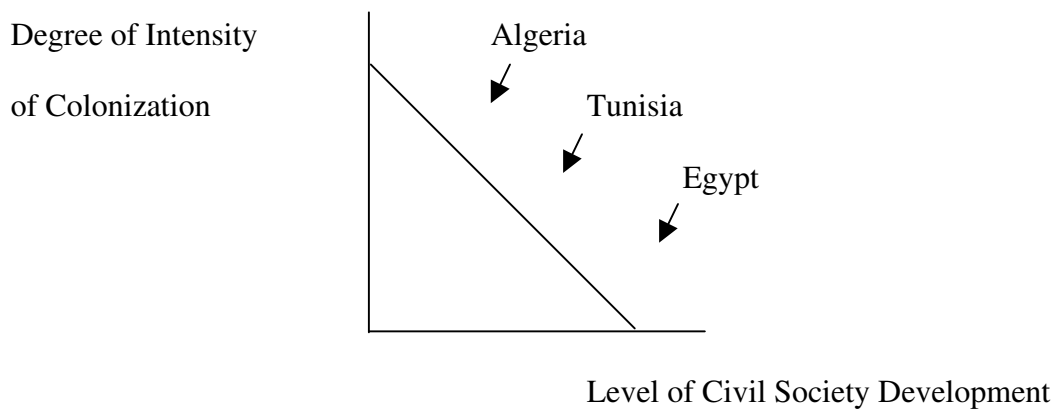
not only supports the coercive apparatus of the state but also can sustain massive social welfare programs and fuels powerful patrimonial networks based on family, tribe, and proximity to the ruling elite in the logic of “no taxation, no representation” (Brynen et al 1995, Luciani 1994).

Again, these weak states except for a handful of relatively pluralist states are undemocratic, fierce, and coercive. Although the late 1980s witnessed liberalization trends in the region facing the threats and opportunities of globalization, most of economic and political liberalization as regime projects, were certainly not intended to lead to a gradual loss of power, but rather to consolidate and reinvigorate the power and legitimacy of politically, economically and ideologically weakened regimes (Owen 2004: 196-197).

The liberalization of authoritarianism in the region is a matter of system maintenance (Brumberg 2003, Kramer 1994) and is limited, controlled, selective, and superficial (Al-Sayyid 1995, Brumberg and Diamond 2003, Perthes 1994, Quandt 2003). It is the type of formalistic liberalization to which regimes may resort for the sake of appearances. In fact, authoritarian rulers may tolerate or even promote political liberalization in belief that by opening up certain spaces for individual and group action, they can relieve various pressures and obtain needed information and support without altering the structure of authority, that is, without becoming accountable to the citizenry for their actions or subjecting their claim to rule to fair and competitive elections. These cases are “*liberalized authoritarianism*” (O’Donnell and Schmitter 1986). For instance, after President Mubarak began a structural adjustment program in 1991, Egypt has experienced a

substantial degree of “political deliberalization” (Kienle 1998).<sup>9</sup> Rather than destroying a liberal polity, the process of deliberalization has reversed the relative expansion of liberties in the 1980s, which many interpreted as a transition to democracy (Kienle 1998, Owen 2004).

Figure 2-2. Civil Society Development in Bunker and Bully States



Meanwhile, these undemocratic characteristics of the incumbent regimes have been reflected in their state-society relations. Some of the societal actors are too weak and feeble to challenge the power of the state while others are too radical. The civil society in the monarchies is weak and feeble because most of the associations are based on the clientage network, whose members traded their

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<sup>9</sup> Since the early 1990s, political deliberalization in Egypt defies the notion of a blocked transition to democracy. Though related to the conflict between the regime and armed Islamist groups, the erosion of political participation and liberties also reflects other factors, including attempts to contain opposition to economic liberalization under market reform program (Kienle 1998: 219).

loyalty for the patronage and protection as emphasized earlier.<sup>10</sup> Thus, they cannot play an intermediary role between the individuals and the state.

On the other hand, some of the societal actors in the bunkers and bullies are too radical for the state to tolerate. The state usually depends on force to maintain its control. Those societal actors are mainly the Islamist oppositions or Islamic fundamentalists, and the incumbent regimes show the lack of tolerance particularly toward these groups.<sup>11</sup> In fact, the Islamist oppositions have illustrated greater militancy and less coordination with other civil society groups, which resulted in greater repression by the state, rather than bargaining. The associations of radical Islamist movements tend to push up their own slogans regardless of the deleterious consequences for the civil society as a whole. In other words, they are collectively uncoordinated within the civil society and show the lack of centralized bargaining power in the national-level with the state.

Among the Islamist oppositions, those of Egypt for instance, display more developed organizational forms and less marginalized than others. This is largely due to the different intensity of the colonial situation, since more repressive and brutal colonial occupation has produced more overdeveloped police, military, and

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<sup>10</sup> Maybe, Moroccan civil society is less submissive than those of other monarchies.

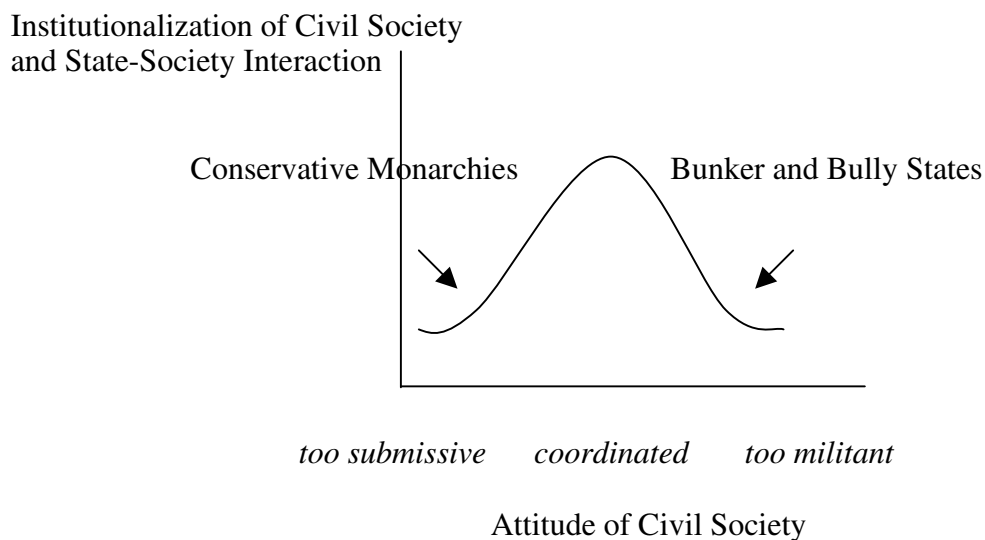
<sup>11</sup> Islam is clearly not a unified phenomenon and lends itself to variable interpretation. It has been used to support democracy and dictatorship, republicanism and monarchy in the region. In fact, it is a powerful symbol of legitimacy- legitimating and delegitimizing precisely because it is seen to be a universal good. Liberals played up Islam's accent on property rights and the glorification of commercial profit to advocate laissez-faire. Socialists emphasized the Koran's focus on justice and compassion towards the needy to justify state intervention as well as redistributive policies. Groups or individuals who operate outside the law, who espouse violence to achieve their aims, are properly called extremists, and extremists in the Middle East and North Africa, as elsewhere, can be secular or religious. The extremists' major question or hurdle is their willingness when in power to tolerate diversity (Brumberg and Diamond 2003: viii-xi, Esposito and Piscatori 1991: 434-439, Kuran 1989: 171-191, Norton 1995: 9, Wright 1996: 64).

security system of the state apparatus, and thus has more prevented civil society from extending their associations. For example, the French colonization in Algeria was much longer and more intense than in Tunisia as protectorate system. Contrary to Morocco and Tunisia, where the colonial authorities did not make radical changes in the socio-cultural or political structures, the situation was different in Algeria, declared a full and integral part of France which dismantled much of the original society. Neither French nor the authoritarian bunker state of Algeria permitted the public expression of civil concerns, and thus, the social classes could never be organized and much less invited to any bargaining table (Henry 1999). Therefore, as figure 2-2 indicates, the capacity of civil society to coordinate with internal associations and bargain with the state has been greater in Tunisia than Algeria. Meanwhile, as a “veiled” protectorate, Egypt was never as intensively colonized as either Tunisia or Algeria. It has displayed even greater capacity to spawn Islamist associations and parties (Henry 1996). Again, the primacy of the state has preempted the development of and compensated for the absence of strong societal groups. The power configuration of societal actors has been highly depending on the “overdeveloped” state: The more coercive the states, the more radical the societal groups.

In sum, as figure 2-3 illustrates a strong civil society should possess internal-coordination within it and finally, bargaining power with the state. Neither too submissive civil society in the conservative monarchies nor too radical one in the bunker and bully states can be considered as strong. Most of the active and significant societal groups in the region are the Islamist oppositions,

and they fall into the category of radical and militant societal organizations. Even the conservative monarchies, relying on the great availability of resources, support a fierce apparatus to repress the Islamist oppositions.

Figure 2-3. Civil Society in the Middle East and North Africa



Indeed, the polarization between the incumbent regimes and Islamist oppositions has been growing since the mid-1980s. In the majority of cases, the Islamist oppositions have occupied part of the political space as important counter-movements or sources of opposition to the existing authoritarian-secularist regimes. The sluggish performance of the state vis-à-vis the demands from the civil society has led many disenfranchised youngsters of the lower middle class to espouse Islamic militancy as a mode of protest (Ibrahim 1995: 51, Norton 1995: 18). In fact, the rise of political Islam highlights the limitations of

modern nation states to overcome problems of poverty and inequality which become increasingly acute due to the fiscal limits on the redistributive capacities in the globalization process. The political Islamist movements view adjustment reforms to be another imperialist plot, denounce the resulting consumerism as Western and decadent, and recruit among those marginal groups who have not benefited from the “open-door” policies (Barkey 1995: 6, Sivan 1997: 104).

In general, political movements in non-Western societies have responded to the Western impact in one or more of three ways: rejecting both modernization and Westernization; embracing both; embracing the first and rejecting the second. Interactions of civilizations almost inevitably come up with some variation of this response typology, too (Huntington 1996). In fact, Muslim responses to the challenge of colonialism took similar shapes (Esposito 1999), and those responses of anti-colonial struggle have affected the current Islamic civil society movements (Henry 1999), which mostly do not tend to embrace the Westernization. In short, the political Islamists in the region still use radical rhetoric militantly, with hostile attitudes toward the West, which perceive the relationship with the pro-Western incumbent regime as a zero-sum game. The tyrannical states are no more democratic than these radical groups. They respond with security crackdowns and tougher regimentation measures, and even push moderates into a more radical position (Moussalli 1995: 116-117).

#### **IV. CAPITALISM AND DEMOCRACY IN TURKISH ISLAMIC SOCIETY**

As argued so far, Iran, Israel, Lebanon, and Turkey are only states with a relatively pluralist political system or at least conditional democracy in the region, probably due to the low intensity or absence of the colonial experience. In fact, unlike many other Muslim countries, Turkey constitutes a distinct case where the fundamentalist party became a dominant partner in a coalition government in the mid-1990s. The electoral victory of the WP marked a remarkable transition for Turkey, from a limited representation of hegemonic interests only to a far more diverse representation of interests mainly from the disadvantaged groups in the society. In Turkey, the Islamic world's foremost democracy, the state has been often illiberal toward the political Islamists, but it has been less closed financially than politically (Henry and Springborg 2001). Hence, once it was allowed within the system, the emerging Turkish Islamist bourgeoisie could influence the fundamental Islamist opposition in ways that reflected business interests. The globalization dialectic in Turkey has thus proceeded much further than elsewhere in the region, as a consequence of the country's more open polity and developed economy (Henry and Springborg 2001: 211).

The Turkish state is posed between 'liberalized authoritarianism' and 'limited democracy'. Turkish democracy was interrupted three times by military intervention in 1960, 1971, and 1980. The country experienced three democratic breakdowns and three restorations of democracy. In 1946, Turkey experienced its first transition from the authoritarian single-party regime, characterized by bully state with absolute power due to its origins to the Ottoman state tradition during

the 1980s (Bugra 1994: 156, Ozbudun 2000: 244). Political liberalization involves the expansion of “public contestation” through the process of making effective certain rights that protect individuals and social groups from arbitrary or illegal acts committed by the state or third parties (Dahl 1971). However, one characteristic of this early stage is its precarious dependence upon authoritarian rulers, which retain discretionary power and remain arbitrary and capricious. Thus, an authoritarian regression is one of the major uncertainties of the transition (O’Donnell and Schmitter 1986).

In fact, the Turkish political liberalization as a “free gift” initiated and controlled from above was ended by military intervention in 1960 with a short lifespan (Sunar and Sayari 1986, Rustow 1970). The second attempt at political liberalization began with another institutionalization imposed from above, the 1961 liberal constitution. Yet, the Turkish transitions from authoritarianism again failed twice within two decades, once in 1971, when the military intervened indirectly, and a second time in 1980 when it took over power directly. In sum, three times since 1946, the military as self-appointed guardians of the secular Kemalist tradition (Henry and Springborg 2001, Owen 2004) has intervened to interrupt temporarily the liberalization process, and two nascent experiments of political liberalization followed transaction under the control of authoritarian rulers (Ozbudun 2000). Although there was no serious degree of authoritarian regressions in this stage, nor were progressions. By the same token, however it is an autonomous military that allowed the civilian Ozal to pursue a carefully staged process of reliberalization and democratization after 1983 (Waterbury 1994).

More than twenty years after the 1980 military intervention, significant civilianization seems to have taken hold. Under the liberal government of President Ozal (1983-91), constitutional amendments eradicated some legacies of military rule, including the bans on political activity by former politicians and on cooperation between political parties and interest groups of civil society. Ozal government introduced economic liberalization and privatization along with Islamic conservatism, and the activity of civil society was expanded. Also, the new policy invigorated outward-oriented Islamic business as well as Islamic financial groups although the Islamic capitalists faced severe investigations by the military in the late 1990s. Hence, while little has formally changed, the gradual civilization of the regime has been nevertheless well under way. The process of democratization entails an expansion of political participation in such a way as to provide citizens with real control over public institutions. Yet, once democratization has begun, its prudent advocates may fear the excessive expansion of such a process or wish to keep contentious issues off the agenda of collective deliberation. If this happens, they may well continue old, or even create new, restrictions on the freedoms of particular individuals or groups who are deemed insufficiently prepared or sufficiently dangerous to enjoy full citizenship status. These cases are “limited democracy”<sup>12</sup> (Dahl 1971, O’Donnell and Schmitter 1986).

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<sup>12</sup> Hollow, illiberal, poorly institutionalized democracy is the characteristic of many third-wave democracies. Political violence and disorder, human rights violations, overweening executives, legislative and judicial inefficacy, corruption, and military impunity and prerogatives diminish the quality of democracy in major third-wave electoral regimes such as Turkey (Diamond 1999: 49).

Since its restoration in 1983, Turkish democracy has illustrated these aspects of limited democracy, a mix of free and repressive realms. While there is scope for vigorous political contestation and open debate on many issues, there are two challenges to complete its transition toward political democracy: the severe restrictions on the Islamist and Kurdish political groups by the state on the basis of a non-recognition principle of religious and ethnic plurality. The military executed “the first post-modern coup” (Diamond 1999), as it quietly forced from power a coalition government led by the Welfare Party in 1997, followed by the closure of the WP in 1998. Also, the military undertook severe investigations against the Islamic firms and banks, justified as a fight against fundamentalism, for about five years since the late 1990s. Instead of seizing power through a coup, the military chose and condoned oblique assaults on troublesome oppositions. In addition, pro-Kurdish political parties were banned, and pro-Kurdish politicians were targeted for prosecution by the military, which used indiscriminate violence to suppress a ruthless Kurdish insurgency which arose in the context of historical constraints (recently relaxed) on the peaceful expression of Kurdish political and cultural identity.<sup>13</sup> Indeed, the military gradually reclaimed more operational autonomy and control over matters of internal security and anti-insurgency

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<sup>13</sup> Violent insurgents generated terror and brutal atrocities by the forces of both the insurgents and the state, displacing an estimated half million Kurds from their homes in southeastern Turkey and killing some 28,000 people in thirteen years of violent conflict. Under U.S. and especially European pressure, human rights abuses eased some what in 1995-97 with the passage of reform legislation, the release of some political prisoners, and a de-escalation of the civil war, but abuses remained very serious, subjecting to criminal prosecution, imprisonment, and banning a number of parties, politicians, publications, and journalists who criticized the state security apparatus or endorsed the demands of the Kurdish minority for political recognition. In addition, torture has remained a routine method of police investigation (Diamond 1999: 28-31).

(Diamond 1999: 49-50, 63). In this regard, Turkey has been unable to fully consolidate its democracy despite half a century of multiparty politics, although there is no sign of authoritarian regression.

Under this limited political democracy which especially denies equal rights to political Islamists by setting the severe restrictions on those groups, Turkish Islamic capitalists are less repressed by the state than their political counterparts. In fact, the Islamic bankers and businesses who demanded more transparent and liberal climates for their business interests, have been growing faster in the era of globalization than before. Also, the new moderate Islamic party apparently has changed its attitude from 'rejection' in the name of Islam toward 'synthesis' of Islam and liberalism. Namely, the current Turkish Islamist movement is deepening the dialectic through the process of synthesis. Looking at this recent transition from radical Islamism, this study, inspired by the works of Hirschman and Moore, argues that Islamic business *interests* might tame the *passions* of political Islamists.

## V. CONCLUSION

In Turkey, differentiated from most once-colonized countries which subsequently maintained undemocratic regimes under the patrimonial state, a multiparty system and relative autonomous business oligopolies existed before the rise of Islamic capitalists. By contrast, in other countries of the region, capital remained fragmented and political pluralism relatively underdeveloped (Henry 1996). Turkish Islamic capitalists had more of a chance to be allowed within the

system than their counterparts in non-Turkish Muslim countries. They became independent as the secularist elite gradually lost power through market reform and the globalization process. In doing so, the newly emerging Islamic business interests could rely on the structural power of capital to foster liberal and moderate factions within the political Islamists. The Islamic capitalists have known that it is impossible for them to secure control of the state. Thus, they rather support limited state, rule of law, and political toleration. In short, under the relatively open, pluralist political system of Turkey, the interests of Islamic capitalists seem to have had taming effects on the unruly passions of the political Islamists.

### **Chapter 3. Statistical Implications of Capitalism and Democracy: A Time-Series Cross-Sectional Analysis**

In quantitative analyses of the role of capitalist development in promoting democracy, much disagreement has existed over causal factors. Most economy-based works emphasized a wide array of socio-economic variables, such as mass education, communication development, economic affluence, bureaucratization, and small government expenditure as a requisite condition to democracy. By contrast, most political-centered works have not focused on the role of independent indigenous social actors in this process, and have relied instead on exogenous factors like world system position or oil exporting dependence. Both types of study take the nature of social actors as a constant, missing the extent to which processes of democratic development entail clashes of power among actors with competing interests. Democratization is an outcome of actions, not just of deterministic conditions, and should be understood in terms of actors and strategies.

This study statistically tests the relationship between capitalist development and democracy. I propose two hypotheses. First, unlike the prior studies, this study attempts to tackle the issue in question with a full range of explanatory factors. I argue that a full picture only emerges with the inclusion of private sector development as an indicator of independent and strong social actors vis-à-vis the state. I claim that socio-economic indicators as basic structural

variables play a role in explaining political development, but the addition of a variable measuring private sector development will add more to the story.

The second proposition is that level of institutional accountability possesses a conditional and indirect effect by interacting with the private sector development variable. That is, the effect of private sector development on democracy may vary, depending on the level of institutional accountability. The impact of private sector development on democracy can be stronger and more significant in a condition of more accountable institutions in an open and pluralist political system, than in situations of less accountable institutions.

Part I provides a brief account of models and variables. Part II introduces a time-series cross-sectional regression analysis with an additive regression model. It also examines an interactive regression model by introducing the interaction term of private sector development and institutional accountability variable.

## **I. CAPITALIST DEVELOPMENT, DEMOCRACY, AND THE STATE**

The conceptual model specification is that democracy is the function of capitalist development. With regard to the dependent variable, this study chooses a political regime variable for an indicator of democratic development. This democracy indicator is derived from the Freedom House Indicators, the most used regime type indicator (Barro 1994, 1999, Fish and Brooks 2004, Heo and Tan 2001, Sachs and Warner 1995a, 1995b). The indicator rates political rights and civil liberties on a seven-category scale respectively, 1 representing the least free and 7 the most free for a country. Since these two ratings are highly correlated

with each other (the correlation coefficient is 0.97), this study combines them into a single measure by adding and dividing by 2 to form the dependent variable, FREE. Also this study converts the values and rescale them in an opposite way by using “FREE variable = 8 – the actual Freedom House Indicators”. Thus, higher values indicate greater freedom or democracy.

Our independent variable is a private sector development variable (PSD). This variable is measured as domestic credit to private sector referring to financial resources provided to the private sector, such as through loans, purchases of nonequity securities, and trade credits and other accounts receivable. As for a measure of capitalist development, most economy-based studies have used GDP per capita (Barro 1994, 1999, Helliwell 1992, Heo and Tan 2001, Ross 2001), while many political-centered works have employed GNP per capita (Bollen and Jackman 1985, Gonick and Rosh 1988) or energy consumption per capita (Arat 1988, Brunk et al 1987, Burkhart and Lewis-Beck 1994). Although these indicators show levels of economic growth, they fail to reflect variations in the strength of social actors who may exercise the structural power of capital. I thus find previous studies wanting and intend to offer a more appropriate variable. Unlike prior studies, I provide an indicator to capture the power asymmetries produced by the capitalist development process. For a better proxy for capitalist development, I propose a private sector development variable. In fact, the expansion of private sector is a strong factor facilitating and deepening democracy by limiting arbitrary rulers.

Additional controlling variables are secondary school enrollment rate (SCH), gross domestic product per capita (GDP), government consumption (GCO), primary commodity exports in total exports (PCE), and total trade share in GDP (TRD). First, mass education is linked with economic development and is required to support democratic institutions. Second, big government with huge consumption on military and security damages democratic institutions. Third, based on the “resource curse” model, dependence on primary commodity exports, especially oil, hinders democracy. Finally, if countries open their economies and expand trade, there could be a period of wealth and a better chance of democracy.

Those controlling variables are highly propitious conditions for democracy. But, as I emphasized earlier, democratic development is an object of contestation. Economic and social development will help, but ultimately dynamic power configurations shaped by strong social actors at many levels will make the difference.

For a more specified model regarding a complicated relationship between capitalism and democracy, I also include an institutional accountability variable (CIM) as an endogenous conditional variable. Since the effect of capitalist development is initiated by the primacy of the state, the characteristics of institutions condition the impact of capitalism on democracy. The adequacy of institutions to protect property rights and to guarantee the rule of law can be approximated by the relative use of currency in comparison to a “contract-intensive money (CIM)” ratio, the ratio of money held in the official banking system divided by total money. The rationale for using CIM is that where

institutions are accountable enough to secure property rights and to protect the rule of law, the types of money that are held in banks and in other financial institutions and instruments are much more important (Snider 1996: 9). Banking sector is a vital link between the rulers and society, and can be a plausible proxy for institutional accountability. To incorporate this dependency, the preferred specification is an interaction of private sector development (PSD) with level of institutional accountability (CIM). This specification should increase the likelihood of uncovering the effects of private sector development on democracy.

## **II. A TIME-SERIES CROSS-SECTIONAL REGRESSION ANALYSIS**

### **i. An Analysis with an Additive Model**

Testing these propositions about how capitalist development can promote democracy, the sample employs ninety five countries<sup>14</sup>, covering the time periods 1980-2000. The data is obtained from the International Monetary Fund's International Financial Statistics Yearbook, the World Bank's World Development Indicators, and Freedom House's Freedom in the World Country Ratings. This study is designed for a time-series cross-sectional (TSCS)

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<sup>14</sup> Algeria, Argentina, Australia, Austria, Bahrain, Bangladesh, Belgium, Belize, Benin, Bolivia, Brazil, Burkina Faso, Burundi, Cameroon, Canada, Central Africa, Chile, China, Colombia, Republic of Congo, Costa Rica, Cote d'Ivoire, Cyprus, Denmark, Dominica, Ecuador, Egypt, El Salvador, Ethiopia, Fiji, Finland, France, Gabon, Gambia, Germany, Ghana, Greece, Grenada, Guatemala, Honduras, Hungary, Iceland, India, Indonesia, Iran, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Kenya, Korea, Kuwait, Lesotho, Libya, Malaysia, Mali, Malta, Mauritania, Mauritius, Mexico, Morocco, Nepal, Netherlands, New Zealand, Nicaragua, Norway, Pakistan, Panama, Paraguay, Peru, Philippines, Portugal, Qatar, Saudi Arabia, Senegal, South Africa, Spain, Sri Lanka, Suriname, Sweden, Switzerland, Syria, Thailand, Trinidad and Tobago, Tunisia, Turkey, United Arab Emirates, United Kingdom, United States, Uruguay, Venezuela, Zambia, and Zimbabwe.

regression analysis. Pooling data gathered across both units and time points can be an extraordinarily robust research design, allowing the study of causal dynamics across multiple cases, where the potential cause may even appear at different times in different cases. Many of the possible threats to valid inference are specific to either cross-sectional or time-serial design, and many of them can be jointly controlled by incorporating both space and time into the analysis (Stimson 1985: 916).

In general, a regression equation for TSCS data can be written as,

$$Y_{it} = B_0 + B_1X_{it,1} + B_2X_{it,2} + \dots + B_KX_{it,K} + U_{it} \quad (1)$$

where  $i = 1, 2, \dots, N$  is the number of units or panels, and  $t = 1, 2, \dots, T$  is the number of time periods. The sample data are represented by observations on  $N$  cross-sectional units over  $T$  periods of time. TSCS data are characterized by having repeated observations on fixed units, such as nations. The number of units analyzed would typically range from about 10 to 100, with each unit observed over a relatively long time period, often 20 to 50. Due to both the temporal and spatial properties, models for TSCS data often allow for temporally and spatially correlated errors, as well as for heteroscedasticity. A commonly used technique to deal with these problems, particularly in the field of comparative political economy, is the generalized least squares approach of Parks or a feasible generalized least squares (FGLS) method.

According to Beck and Katz (1995), however, this method produces standard errors that lead to extreme overconfidence, often underestimating variability by 50% or more. They contend that the use of ordinary least squares

(OLS) is optimal for TSCS model if the errors are assumed to be generated in an uncomplicated manner. In particular, for OLS to be optimal, it is necessary to assume that all the error processes have the same variance (homoscedasticity), and that all of the error processes are independent each other (no serial correlation and no spatial correlation). Under these assumptions, TSCS models should be estimated by OLS, and OLS standard errors are correct. Thus, they propose to retain OLS parameter estimates but replace the OLS standard errors with panel-corrected standard errors. The combination of OLS with Panel Corrected Standard Errors (PCSE) allows for accurate estimation of variability in the presence of panel error structures without inducing the severe problems caused by the FGLS method. Especially, they argue that unless there are substantially more time points than there are cross-sectional units, the downward bias in standard errors makes the FGLS technique unusable (Beck and Katz 1995: 636-645).

Regarding the smaller number of time points ( $T = 21$ ) compared to the cross-sectional units ( $N = 95$ ) in the data of this study, I use the OLS with PCSE method, following Beck and Katz (1995). Also, the temporally or serially correlated errors are corrected by using first-order autoregressive scheme method (AR (1)), assuming that maximum lag is 1. To avoid specification error in developing a model of democracy, I include mostly used controlling variables in the past empirical studies: secondary school enrollment rate (SCH) as human capital, gross domestic product per capita (GDP) as economic prosperity, government consumption (GCO) as government size, primary commodity exports in total exports, where primary resource exports include agricultural raw

materials, food, fuel, ores and metals (PCE) as primary commodity dependence, and total trade share (exports + imports) in GDP (TRD) as economic openness (Barro 1991, 1994, 1999, Knack and Keefer 1995, Levine and Renelt 1992, Przeworski and Limongi 1993, Ross 2001, Sachs and Warner 1995a, 1995b, Snider 1996). The dependent variable is political regime (FREE) as an indicator of democratic development.

$$Y_{it} = B_0 + B_1SCH_{it,1} + B_2GDP_{it,2} + B_3GCO_{it,3} + B_4PCE_{it,4} + B_5TRD_{it,5} + U_{it} \quad (2)$$

In an additive multiple regression equation (2), my starting point is to show a relationship between capitalist development and regime variable, holding the controlling variables constant in table 3-1. For a more accurate indicator of capitalist development, I choose a private sector development variable (PSD) which refers domestic credit to private sector. Concerning the conditional effects, I include an institutional accountability variable as a possible additional determinant. I add a dummy variable, OECD countries and non-OECD countries.

The results of the differential impacts of independent variables on democratic development are shown in table 3-1. Only economic affluence is significantly associated with democracy while most of the controlling variables do not play a robust role as the determinants of democracy in regression 3-1-1. Human capital (SCH), economic affluence (GDP), and economic openness (TRD) have positive effects on democracy. Government consumption (GCO) and primary commodity exporting dependence (PCE), on the other hand, have dampening effects on democracy. After adding the private sector development

and institutional accountability variable into the equation in regression 3-1-2, the association between the five controlling variables and democracy become a bit more significant. The inclusion of the new variables increased the explanatory power of the model expanding the proportion of variance explained from 40% to 43%. As for the private sector development variable (PSD), a higher ratio of private sector development is positively associated with democratic development. Although PSD variable itself does not possess a large magnitude of the estimated effects ( $p=0.105$  in regression 3-1-2), it is statistically more significant than human capital ( $p=0.142$  in regression 3-1-2), government consumption ( $p=0.529$  in regression 3-1-2), and economic openness ( $p=0.648$  in regression 3-1-2) variables. With regard to the level of institutional accountability variable (CIM), the result not surprisingly demonstrates that this variable is positively and significantly associated with democratic development.

In sum, these results imply that the private sector development variable represents an additional variable for the model. Once PSD variable has been added, I have a more fully specified model to explain the dependent variable. Thus, I maintain that while some of the previous socio-economic indicators, especially the economic affluence variable continue to play a role, the addition of the private sector development variable as the more accurate indicator of capitalist development adds more to the story.

Table 3-1. A TSCS Regression Analysis with an Additive Model

|                                       | <b>(3-1-1)</b>      | <b>(3-1-2)</b>      |
|---------------------------------------|---------------------|---------------------|
| Constant                              | 1.7844<br>(1.0399)  | 1.4114<br>(.8184)   |
| Secondary School Enrollment Rate      | .1064<br>(.0743)    | .1015<br>(.0691)    |
| Gross Domestic Product Per Capita     | .2891<br>(.1237)*   | .2314<br>(.0985)*   |
| Government Consumption                | -.0075<br>(.0126)   | -.0087<br>(.0139)   |
| Primary Commodity Exports             | -.0044<br>(.0027)   | -.0044<br>(.0026)   |
| Economic Openness - Total Trade/ GDP  | .0016<br>(.0023)    | .0010<br>(.0024)    |
| Private Sector Development            |                     | .1162<br>(.0717)    |
| Level of Institutional accountability |                     | .0157<br>(.0057)**  |
| OECD Countries                        | 1.8415<br>(.2566)** | 1.9658<br>(.2462)** |
| N                                     | 1638                | 1526                |
| R <sup>2</sup>                        | .4038               | .4357               |

Dependent Variable: Democratic Development

- 1) standard errors are indicated in parentheses.
- 2) \* denotes statistically significant at  $p < .05$ .
- 3) \*\* denotes statistically significant at  $p < .01$ .
- 4) number of gaps in sample is 1.

## ii. An Analysis with an Interactive Model

Given the regression outcomes in table 3-1, the private sector development variable itself does not show a significantly robust effect. However, this variable might show a stronger effect when it interacts with the level of institutional

accountability variable. Given the primacy of the state which conditions the society formation and predetermines the quality of formal institutions in late developing countries, this study also proposes that when the levels of institutional accountability is relatively high or exceeds a certain point, the effect of private sector development on democracy can be more crucial. That is, once allowed, the independent, indigenious, and strong social actors can be a more pivotal factor to facilitate and consolidate democratic development.

$$Y_{it} = B_0 + B_1SCH_{it,1} + B_2GDP_{it,2} + B_3GCO_{it,3} + B_4PCE_{it,4} + B_5TRD_{it,5} + B_6PSD_{it,6} + B_7CIM_{it,7} + U_{it} \quad (3)$$

In an attempt to examine a new proposition, I begin with the additive multiple regression equation (3) I analyzed before. This formulation assumes that the effect of an independent variable on a dependent variable is always the same, regardless of the level of other variables. Namely, as for two variables, the private sector development (PSD) and level of institutional accountability (CIM), the effects of PSD and CIM on democratic development are seen as constant across all values of PSD, CIM, and any other variables.

Yet, given the various features of institutional accountability level, it is reasonable to expect that countries with different levels of institutional accountability respond to a given change in PSD value in a different way. That is, the effect of an independent variable on a dependent variable may vary, depending on the level of some other variables. The common prescription for admitting such a possibility is to include an interaction or multiplicative term - a term that is the product of the two independent variables thought to interact in

their effects on the dependent variable. Needless to say, omitting a significant interaction term incorrectly will lead a specification bias (Friedrich 1982: 832, Gujarati 1995: 516-517, Kmenta 1997: 507-509). Therefore, the effects of PSD and CIM on democratic development may not be simply additive as in the equation (3) in the above, but interactive, as in the following model:

$$Y_{it} = B_0 + B_1SCH_{it,1} + B_2GDP_{it,2} + B_3GCO_{it,3} + B_4PCE_{it,4} + B_5TRD_{it,5} + B_6PSD_{it,6} + B_7CIM_{it,7} + B_8PSD * CIM_{it,8} + U_{it} \quad (4)$$

By introducing the interaction term of PSD and CIM, the simplest formulation of an interactive model is obtained. Given the empirical results in regression 3-2-2 of table 3-2, the interactive effect of both the private sector development and institutional accountability level on democratic development is relatively strong and more significant than the effect of each PSD and CIM. The  $R^2$  in the interactive model 3-2-2 is higher (.5220) than the  $R^2$  in the additive model in regression 3-2-1 (.4357). Thus, the interactive model explains more of the variation than does the additive model.

Table 3-2. A TSCS Regression Analysis with an Interactive Model

|  | <b>(3-2-1)</b>      | <b>(3-2-2)</b>      |
|--|---------------------|---------------------|
| Constant   | 1.4114<br>(.8184)   | 4.0416<br>(.8171)** |
| Secondary School Enrollment Rate                                   | .1015<br>(.0691)    | .0951<br>(.0697)    |
| Gross Domestic Product Per Capita                                  | .2314<br>(.0985)*   | .1148<br>(.0899)    |
| Government Consumption   | -.0087<br>(.0139)   | -.0023<br>(.0127)   |
| Primary Commodity Exports  | -.0044<br>(.0026)   | -.0018<br>(.0023)   |
| Economic Openness - Total Trade/ GDP                               | .0010<br>(.0024)    | .0017<br>(.0019)    |
| Private Sector Development   | .1162<br>(.0717)    | .9380<br>(.0922)**  |
| Level of Institutional accountability                              | .0157<br>(.0057)**  | .0157<br>(.0052)**  |
| Level of Institutional accountability * Private Sector Development |                     | .0053<br>(.0002)**  |
| OECD Countries   | 1.9658<br>(.2462)** | 1.0250<br>(.2072)** |
| N  | 1526                | 1519                |
| R <sup>2</sup>   | .4357               | .5220               |

Dependent Variable: Democratic Development

- 1) standard errors are indicated in parentheses.
- 2) \* denotes statistically significant at  $p < .05$ .
- 3) \*\* denotes statistically significant at  $p < .01$ .
- 4) number of gaps in sample is 1.

As for the coefficients of PSD and CIM, whereas the coefficients in the additive model describe the effects of each PSD and CIM on democracy as constant regardless of the level of the other, the coefficients in the interactive model describe the effects of each independent variable on democracy as varying,

according to the level of the other independent variable. The key to understanding coefficients in an interactive model lies in seeing that the inclusion of an interactive term converts a general statement of relationship into a conditional statement of relationship (Friedrich 1985: 804-806). In other words,  $B_6$  and  $B_7$  in the additive model estimate the general trends of change in  $Y$  with changes in PSD and CIM across all levels of CIM and PSD. On the other hand,  $B_6$  and  $B_7$  in the interactive model estimate the particular trends of change in  $Y$ . Thus, the changes of  $B_6$  and  $B_7$  in the interactive model occur because these coefficients describe the relationships between variables in different terms than do the coefficients in the additive model –as conditional relationships rather than general one. According to the coefficient of the interaction term PSD\*CIM, for every one unit increase in CIM, the slope of democratic development on PSD increases by .0053, and for every one unit increase in PSD, the slope of democratic development on CIM increases by .0053. In sum, the coefficients in the interactive model simply describe the relationships in a set of data in a different, more detailed way than the coefficients in the additive model.

Also, adding an interactive term changes the  $t$  test from a test of the statistical significance of the general effect of one variable on another into a test of the statistical significance of the conditional effect of one variable on another at a particular value of a third variable (Friedrich 1982: 818, Jaccard and Turrisi 2003: 14-15). In this regard, the  $t$  value for the conditional effect of PSD on democratic development can be calculated as a function of CIM, when PSD\*CIM is added to the equation, as

$$t = \frac{B_6 + B_8 \text{ CIM}}{\sqrt{\text{var}(B_6) + \text{CIM}^2 \text{var}(B_8) + 2 \text{ CIM cov}(B_6, B_8)}}$$

With this expression, it is possible to determine at what particular levels of CIM, PSD has a statistically significant impact on democratic development. Given the coefficients in regression 3-2-2 and the variance-covariance matrix of coefficients among the variables, the *t* test formula for the conditional effect of PSD on democratic development as follows,

$$t = \frac{.938025 + .005322 (\text{CIM})}{\sqrt{.008519 + (\text{CIM})^2 6.9\text{e-}08 + 2 (\text{CIM})(-.000018)}}$$

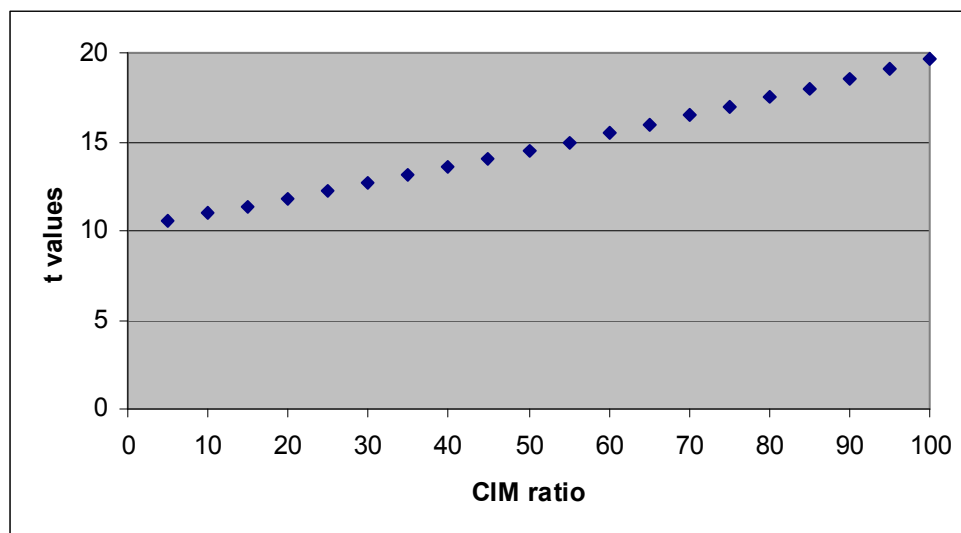
Regarding the range of CIM variable, I obtain roughly 20 different *t* values for the conditional effect of PSD on democratic development at different levels of CIM.<sup>15</sup> As figure 3-1 shows, the conditional effect of PSD on democratic development is bigger when the level of institutional accountability is higher. The greater institutional accountability, the greater effect of private sector

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<sup>15</sup> The 20 different *t* values are as follows. 10.56 for the CIM ratio between 0 and 5, 10.97 for the ratio between 5 and 10, 11.39 for the ratio between 10 and 15, 11.81 for the ratio between 15 and 20, 12.24 for the ratio between 20 and 25, 12.68 for the ratio between 25 and 30, 13.12 for the ratio between 30 and 35, 13.58 for the ratio between 35 and 40, 14.04 for the ratio between 40 and 45, 14.51 for the ratio between 45 and 50, 14.99 for the ratio between 50 and 55, 15.47 for the ratio between 55 and 60, 15.97 for the ratio between 60 and 65, 16.47 for the ratio between 65 and 70, 16.98 for the ratio between 70 and 75, 17.50 for the ratio between 75 and 80, 18.02 for the ratio between 80 and 85, 18.56 for the ratio between 85 and 90, 19.09 for the ratio between 90 and 95, and 19.64 for the ratio between 95 and 100, respectively.

development on democratic development. The success of the  $t$  value for an interaction term should exceed the critical value of 1.96 indicating that there is a statistically significant amount of change in the relationship between each independent variable and the dependent variable. All of the  $t$  values regarding CIM variable exceed the statistically significant point. The proposition holds true that PSD has higher and more significant impacts on democratic development when countries possess higher levels of institutional accountability.

Figure 3-1. Conditional Effect of Capitalist Development on Democracy at Level of Institutional accountability



### III. CONCLUSION

In this chapter, I examine the statistical implications of capitalist development in promoting democracy, by using a time-series cross-sectional

regression analysis. First, private sector development is a robust determinant of democratic development compared to most of the existing controlling variables. Once PSD variable, a private sector development indicator, was added, I have a more fully specified model to explain democratic development. Second, the effect of PSD variable on democracy is stronger and more significant for countries with higher level of institutional accountability. Under the condition of highly accountable institutions or highly developed formal financial institutions, the impact of PSD value on democracy can be stronger. By treating the relationships between independent variables (private sector development and level of institutional accountability) and dependent variable (democratic development) as conditional, and by using an interactive regression analysis, I obtain more detailed and statistically significant results in explaining democratic development. In short, with more accountable formal financial institutions in an open and pluralist political system, the independent and strong social actors can play a more pivotal role in democratic development.

## **Chapter 4. The Moderation of the Turkish Islamic party in the Late 1990s**

This chapter traces the development and evolution of Turkish Islamic parties in the radically secularist system initiated under Kemalist authoritarianism in the early 1920s. The state's attempts at secularization were undertaken through coercive manners by a limited group of westernized elites, while transitions to democracy were accompanied by the rise of oppositional movements from the Islamic periphery. However, this tension-driven cycle was always completed when the military intervened to restore the secular order and dissolve the Islamic parties representing the periphery. These oppositional parties were not fully integrated culturally and economically into the system. In fact, the Islamic parties have been outlawed four times since 1971. The Virtue Party (VP, 1998-2001) succeeded the Welfare Party (WP, 1983-1998), the National Salvation Party (NSP, 1972-1980), and the National Order Party (NOP, 1970-1971). Yet, after the VP, which witnessed growing Islamic liberalism from a young generation and faced the subsequent rift between the moderates and old guns, the Turkish Islamic party split in two for the first time in its thirty-year-old history. Following the VP's closure by the constitutional court for its political use of Islam, the Justice and Development Party (JDP) was formed by the liberal and reformist wing and developed into a moderate, catch-all party. Meanwhile, the Felicity Party (FP) was established by the conservative and traditionalist leadership demonstrating noticeable continuity with its antecedent parties. The JDP gained a landslide

victory in the 2002 national election and formed a single party government whereas the FP failed to enter parliament, receiving only 2.5% of the votes.

This chapter starts with tracking the evolution of Islamic parties with different names but the same roots in the only and explicitly self-declared Islamic-oriented party following the period of authoritarianism (1923-1946), liberalized authoritarianism (1946-1983), and limited political democracy (1983-present). Part II of the chapter focuses on the rise of the WP and investigates its organization, ideology and strategy, leadership, and constituency and supporters (Duverger 1954, Kirchheimer 1966, Mair 1990, Sartori 1976). Part III tracks the growing liberal tide within the political Islamists. Part IV delves into the anatomy of the JDP. Part V contrasts and compares the WP and the JDP according to seven different dimensions of party anatomy: 1) structural, 2) motivational, 3) attitude, 4) positional, 5) role playing, 6) leadership, and 7) constituency and supporters (Duverger 1954, Sartori 1976).

## **I. ISLAMIC PARTY IN TURKISH PARTY POLITICS**

The dissolution of the Ottoman Empire was one of the most complex cases in the transition from eighteenth-century Islamic imperial societies to modern nation states. The Islamic traditions of the Empire were totally rejected since the foundation of Turkish Republic in 1923 whereas the Ottoman tradition of centralized state and strong military leadership were transmitted to the new republic (Lapidus 1988: 592, Sunar and Sarayi 1986: 166, 171). The control over Islam by the Kemalist military and bureaucrats have been an undisputable

ideology as the state chose to repress rather than penetrate society in order to implement secularization and to seek legitimatization (Barkey 2000: 93). Hence, the traditional periphery, politically and economically marginalized, retained rigid Islamic traditions. In this context, an Islamic-oriented party, being the only self-declared Islamic party, has claimed to represent the interest of traditional periphery. The state, notably the military banned it four times, in the context of three distinct phases of modern Turkish politics: authoritarianism (1923-1946), liberalized authoritarianism (1946-1983), and limited political democracy (1983-present) as figure 4-1 shows.

#### **i. Authoritarianism (1923-1946)**

The period from 1923 to 1946 was the era of Kemalist authoritarianism. It was characterized by dictatorship and radical religious reform. Since Mustafa Kemal and nationalists founded the modern state in 1923, the religious institutions from the Ottoman Empire were seen as symbols of old regime and as competing against the structural changes the Kemalists eagerly sought (Toprak 1981: 35). Thus, the Republican People's Party (RPP) government led by the Kemalist elite launched a sweeping program of secularization and was effective in gaining control over the religious establishment through radical institutional changes.<sup>16</sup> The RPP government implemented a series of laws to outlaw and to prevent an

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<sup>16</sup> Mustafa Kemal abolished the Islamic caliphate, the Seyh-ul-Islam as the highest in the religious hierarchy of the Ottoman Empire, the Islamic courts, and the medreses as the Islamic educational institutions for higher learning in 1924. Also, his secularization program outlawed the Islamic sects and brotherhoods, secularized schools in 1925, and adopted the Swiss civil code in 1926. The measures in 1928 included the deletion of constitutional provision on Islam as state religion, the ban of fez and headscarf in public area, and replacement of the Arabic scrip with Latin one.

organized political movement based on Islam, such as the formation of religious parties and the use of religion for political purposes or personal gain. During this period, a number of individuals received court sentences, and two political parties, the Progressive Republican Party and the Free Republican Party, were banned for alleged violations of the laws. A more credible reason for the suspension of their activities was their challenge to the RPP rule (Sakallioglu 1996a: 236). Prohibiting Islam from any political role, the state controlled all the organizations and personnel of Islam through the Directorate of Religious Affairs, administratively tied to the office of prime minister. Yet, the RPP government made little effort to impose new ways on the daily lives of the masses whose Islamic loyalties had never been seriously disturbed, and for whom religion had such a primordial social function (Salt 1995: 15).<sup>17</sup> For the masses of the periphery, secularization, used as a synonym for Westernization and modernization by the state, did not have a transformative effect on traditions. In fact, these were not reinterpreted and eventually became frozen and rigidified (Gole 2002: 3). In the earlier period, Islam had established bridges between the state and society because it functioned as a common language shared by the upper and lower classes (Geyikdagi 1984: 66). In this regard, the RPP's policies were never a complete success because the government lacked the legitimacy conferred

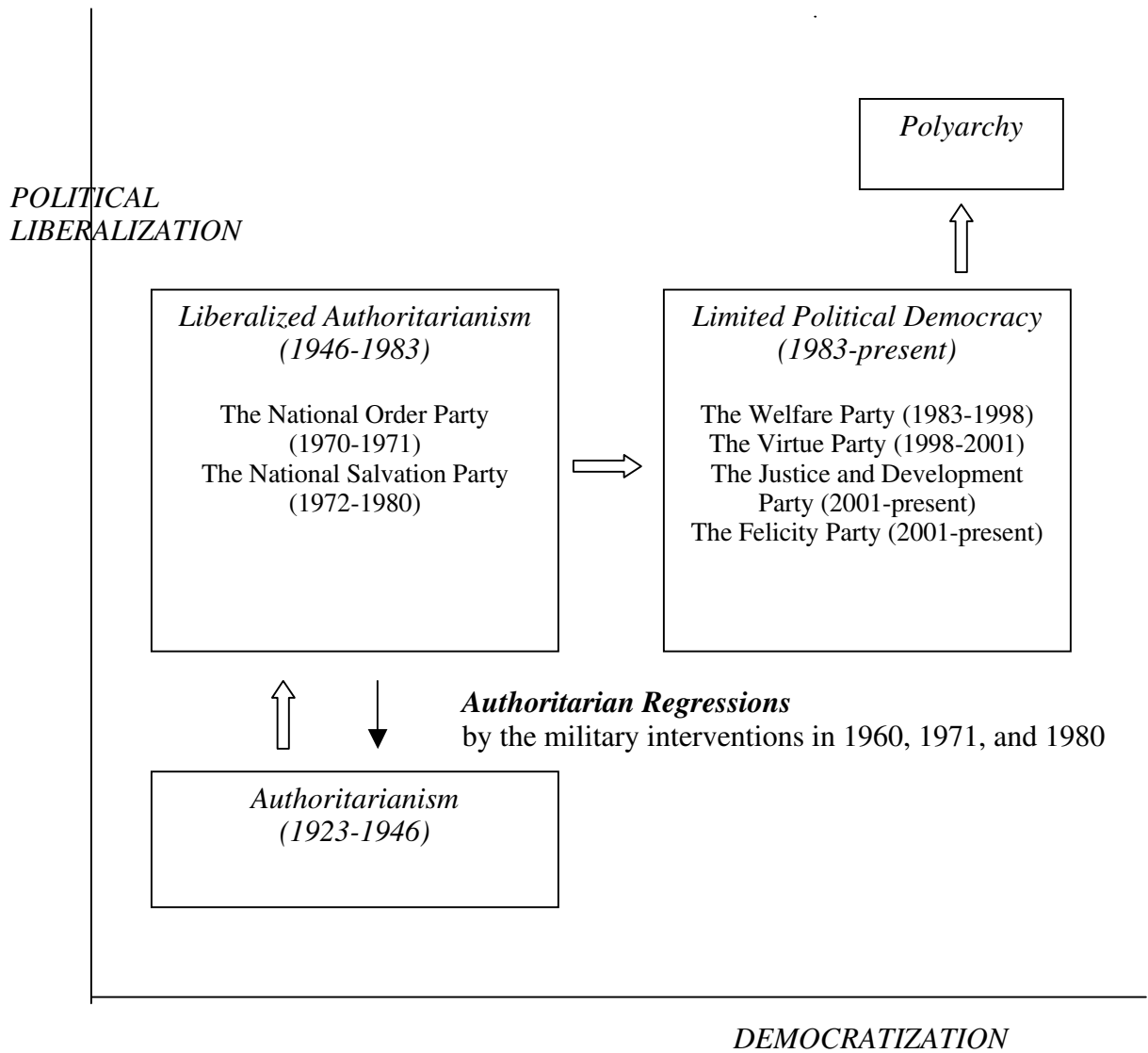
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<sup>17</sup> When the republic was founded in 1923, the army put the will of the military before the popular will even telling the people how to behave, how to dress, how to think, and what to eat. However, the agenda determined by the 'army modernism' did not include such items as how to stop being peasants, how to expand the meager social provisions. Those who were promoting the official ideology, official culture and official history sided with the state, and the nation wailed about its fate (Karabelias 1999: 150-151).

by the overall consent of the public, who perceived the modernizing elite as an authoritarian and destabilizing factor (Toprak 1981: 38).

Consequently, it generated a sharp division between the “center” as the strong state apparatus ran by a limited group of westernized urban elite, and “periphery” as a heterogeneous and traditional group mainly of peasantry and artisans, which was disconnected from and selectively penetrated by the center. Since then, the center-periphery cleavage has been a main theme to understand and characterize Turkish politics (Henry and Springborg 2001: 209, Heper 1991: 2-3, Kalaycioglu 1994: 403-406, Mardin 1973: 169-170, Ozbudun 2000: 81, Toprak 1995: 94). That is, the rejection and articulation of Islam by the state could not promote the creation of a society composed of nationalist and anti-traditional individuals. Instead, it developed uneasy relations between the secularist center and Islamic periphery. The Islamist groups which were crushed by the secularist state lost their public status and economic power. They stayed underground under the state-dominant single party authoritarianism. The RPP government was eventually faced with opponents and dissents from the periphery who were mobilized in reaction to the secularization project of the state and by its apparent failure to fill the vacuum in the absence of Islam. As a result, the authoritarian regime allowed a multi-party system in 1946. In fact, the Turkish mode of modernization is a good illustration of the embedded tension between secularism and democracy (Gole 1997).

Figure 4-1. Islamic Parties' Transition in Turkish Politics



## **ii. Liberalized Authoritarianism (1946-1983)**

From 1946 to 1983 was the era of liberalized authoritarianism experiencing a transition from the single-party authoritarianism of the RPP to a multi-party system. However, this political liberalization later has been interrupted three times in 1960, 1971, and 1980 by the military which still retained discretionary power as the self-appointed guardian of Kemalism. Turkish politics during this period can be recounted in terms of regime transitions, crises, breakdowns, and restorations in the context of rapid social differentiation and increasing ideological diffusion.

The first transition from the RPP regime which lasted more than twenty years, started with the victory of the opposition Democrat Party (DP) in the first free election of May 1950. The election exposed the conflict between the centralized secularist and authoritarian regime, and the provincial demand for a liberal government tolerant of peripheral values and Islam. The DP successfully mobilized a new coalition of small businessmen, factory managers, landowners and their peasant dependents, prosperous peasants, and a new generation of intellectuals who wanted political recognition in opposition to the entrenched military and bureaucratic elite (Lapidus 1988: 610-611). Once it came to power, the DP government proposed a new economic orientation and religious policy (Ozbudun 2000: 32). The government promised to curtail state intervention in the economy, transfer enterprises to private control, and increase marketing opportunities for the periphery. Also, it relaxed restrictions on the practice of Islam, removing the ban on Arabic call to prayer, fostering mosque building, and

reintroducing religious secondary education. Accordingly, the DP government stimulated the growth of a higher Islamic profile in public life and allied it with masses who sought to reassert the role of Islamic traditions and opposed the autocratic imposition of secularizing reforms.

Yet, the first regime transition is a good example of *reforma* rather than *ruptura* in which the transition process was led and controlled by the power holders of the previous authoritarian regime (Sunar and Sarayi 1986:172-173). Simply put, it was won too easily without a struggle and regarded as a “free gift” from the hands of a dictator (Rustow 1970). Under the DP rule, relations between the government and the RPP opposition quickly deteriorated as the DP government resorted to undemocratic measures without collaboration with the RPP. The ten-year DP rule came to an end with the military intervention of May 1960, and the coalition among the secularist elite and the military was thus once more reinforced. The ruling military council, the National Unity Committee prepared a new constitution in collaboration with the opposition parties and supervised the election of October 1961. But, Turkey’s second try at democracy was again interrupted in March 1971 by a coup, which forced the government of the Justice Party (JP) heir to the DP to resign and replaced it with a so-called “above party” or technocratic government (Ozbudun 2000: 29-33). The 1971 intervention was undertaken as confrontations among the parties and political organizations deepened, but the interim period ended with the election of 1973. The post-1973 period was marked by intense political polarization and violence perpetrated by the confrontation of leftists and rightists.

The first self-declared Islamic party, the National Order Party (NOP) was established in 1970 by Necmettin Erbakan who promoted a revived Muslim consciousness and Islamic values. However, the NOP was outlawed by the constitutional court under the military regime in 1971 for its overt use of Muslim sentiment in politics, which was against the secular framework of the republic. One year later, Erbakan founded the National Salvation Party (NSP) as the successor of the NOP calling for moral restoration and material progress. The NSP claimed to represent the interests of the emerging bourgeoisie in the periphery who continued to adhere to more traditional religious values and a parochial way of life. Although the JP was assumed as the successor of the DP, a party for the periphery, it was gradually filled with the 'capitalist-secularist' faction led by Suleyman Demirel becoming closely associated with big business interests since the late 1960s (Salt 1995: 15, Sunar and Toprak 1983: 440).<sup>18</sup> In doing so, the JP conceived the place of Islam in politics remarkably similar to that of the Kemalists and alienated some segments of its constituency due to Demirel's refusal to embrace conservative liberalism (Sakallioglu 1996a: 239-240). In the 1973 election, the NSP first took participated and won 11.8% of the total votes with 48 seats becoming the third party after the RPP and the JP, and later joining the coalition government with the RPP in 1974. In the 1977 election, the NSP again became the third party gaining 8.6% votes with 24 seats and joined the First Nationalist Front coalition government with the JP, the RPP, and the extreme nationalist Nationalist Work Party (NWP) in 1975 and in 1977.

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<sup>18</sup> Erbakan was the member of the JP, but left the party to establish the NOP.

In the late 1970s, a period of severe ideological confrontation and political polarization, the NSP stood as one of the rightist parties receiving most support from central and eastern Anatolia. In these regions, clashes between the leftists and rightists developed into an inter-community conflict between the leftist Alevis who were the largest religious minority, and the majority Sunni groups.<sup>19</sup> During that time, the cleavage of secularism versus traditional Islamic values became a surrogate for left-right distinction. In fact, the political rightists emerged as a reaction to the state's secularization and its extensive involvement in the economic sphere as the continuation of the center-periphery conflict. The leftists which gathered around the RPP on the other hand, did not emerge as a class movement endorsed by masses but as a movement launched by a small number of the secularist elite still supporting the state-centered policies and national-populist propagandas (Kalaycioglu 1994: 420-421, Toprak 1981: 122-123). Hence, despite the RPP's shift to the left of center, the party lacked historical basis, doctrine, or theoretical foundation as a leftist but borrowed heavily from the terminology and tactics, such as demonstrations or marches (Karpat 1981: 41)<sup>20</sup>. In this sense, the

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<sup>19</sup> Alevis tend to be the staunch supporters of the secularization in which they see a guarantee of government impartiality between themselves and the Sunni majority. In fact, certain central Anatolian strongholds of the secularist RPP in the 1960s and 1970s included Alevis possessing the unconventional religious beliefs and affinity with the leftist ideas. Not surprisingly, Alevis are one of the groups that the Islamic party failed to incorporate into its overarching Muslim identity. Although the party's rhetoric has noted that Alevis are indeed an Islamic group, Alevis have remained absent at any level of the party's organization, and the Islamic party is the most distant party from the Alevi constituencies.

<sup>20</sup> Especially, for the leftists, ideologies were chosen and promoted without much regard for the country's readiness to accept them and without consideration for the political, social, and cultural institutions, values, and aspirations developed in the republic or inherited from the Ottoman past (Karpat 1981: 41).

polarization during the late 1970s still reflected the old cleavage between the centralist bureaucratic elite and the periphery forces, but in a bit different way.

Meanwhile, as the secularist state witnessed the rising popularity of Islam under the multi-party system, it started to accommodate Islamic politics into the system by training secular imams and other civil servant religious cadres to urge political support for the state. The state tried to take advantage of Islam's popularity while continuing the rigid segregation between Islam and the public realm under its own boundary and standards (Sakallioglu 1996a: 231, Toprak 1981: 91). In fact, the Kemalist elite still saw the augmentation of the political power of peripheral groups in the multi-party politics as a threat to the national unity and integrity. Thus, the military interventions of 1960, 1971, and 1980 can be perceived as the state's reaction against the 'unhealthy' autonomy and differentiation of economic, political and cultural groups (Gole 1997: 66-68, Karabelias 1999: 141). Finally, the third military intervention of September 1980 was brought up during the polarizations and confrontations and started a new period of military rule in the name of restoring political order, by banning all the existing political parties, organizations, and their leaders including the NSP and Erbakan. But, the rule of National Security Council (NSC) came to an end with the election of November 1983 in which the new Motherland Party (MP) without a strong connection with the military came to power.<sup>21</sup>

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<sup>21</sup> However, the leader of the military regime had already been elected as president of the republic for a seven-year period, and other NSC members enjoyed the privileges and immunities that came with their membership in the newly created Presidential Council.

### **iii. Limited Political Democracy (1983-present)**

The period since 1983 as the third and current phase of the modern Turkish politics, is the era of limited political democracy finishing the switches between transitions, breakdowns, and restorations occurred through the irregular power seizures by the military. Yet, the year of 1997 again witnessed the rising political influence of the military when it forced from power a coalition government led by the Islamist Welfare Party (WP), which was named as “the first post-modern coup” (Diamond 1999: 29). Thus, although there is no sign of authoritarian regression, but equally little hope that the current limited political democracy will soon become a stable and consolidated polyarchy.<sup>22</sup> In fact, there are two challenges to complete transition toward polyarchy in Turkey: the severe restrictions on the Islamists and Kurdish political groups especially by the politically assertive military on the basis of a non-recognition principle of religious and ethnic plurality defining both as its enemies (Henry and Springborg 2001: 199-200).

The post-1983 politics was distinguished from earlier periods in terms of changes in the state’s policy toward Islam and in the party system. First, the state changed its policy over Islam quite radically in style and substance, which was began by the military government from 1980 to 1983. The leaders of military coup ironically depended on Islamic institutions fusing Islamic ideas with

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<sup>22</sup> Ozbudun (2000) contends that the type of democracy that best seems to fit the Turkish case is Guillermo O’Donnell’s notion of a “delegative democracy” which is not a consolidated democracy, but it may be enduring (151). Meanwhile, Diamond (1999) maintains that the current Turkey is a paradigmatic case of hollow, illiberal, poorly institutionalized democracy avoiding breakdown while experiencing sharp declines in freedom (29, 49). Others describe Turkey as a military, imperfect, minimalist, or at best electoral democracy (Candar 1999: 1).

nationalist goals and declaring the “Turkish-Islam synthesis” policy. It was intended to neutralize the ideological polarization, to minimize the leftists, and to appease the dissents against the military. For instance, the state encouraged the Directorate of Religious Affairs to breach its political isolation and took the notion of umma, an Islamic community as the model of social organization for Turkey (Sakallioglu 1996a: 247-248). Also, the 1982 constitution drawn by the military made religious instruction in primary and in secondary schools mandatory, and the religious imam hatip schools increased from around 100 in the late 1970s to more than 350 in the early 1980s (Weiker 1981: 109). The state further tried to create a more homogenous and less political Islamic community and later to undermine the Kurdish separatism (Yavuz 1997: 67). In fact, Turkey during the 1980s experienced a noticeable explosion in religious practice.

In this context, the MP which became the largest party in the 1983 election where only a handful of parties were approved by the military, intensified Muslim conservatism combining with economic liberalism. These policies promoting free market and Islam attempted to minimize the top down estatism and secularization. This new model of the MP government led by Turgut Ozal strengthened religious constituencies as political counterbalance to the secularist leftists who opposed the privatization and structural adjustment. Islamic banking was first introduced, and the businesses which were excluded from the center but desired to assert their provincial identity and traditional values expanded. Also, tarikats as informal and underground religious sects were considerably grown in their numbers and

activities. Ozal, a one-time candidate for the NSP in the 1970s<sup>23</sup> and the first president who publicly attended Friday prayers in the mosque (Toprak 1995: 95), indeed successfully renewed the conservative liberalism of the DP during the 1950s. This period of Ozal was described as what had been confined to the underground was finally coming out through the first crack it had found (Cakir 2000: 62). Nevertheless, the MP started to lose their traditional support from the small merchants and lower middle class after Ozal died in 1993, and more secular-oriented Mesut Yilmaz took the leadership (Caha 2003: 2, Henry 1996: 94, White 2002: 154-155). Such a change of the MP resembled that of the JP and its successor Truth Path Party (TPP) where more secular-inclined Suleyman Demirel, closely associated with big business, had replaced earlier leaders more tolerant of Islam in the late 1960s.

Meanwhile, the Islamic party continued its ideological formula and leadership, and reentered the party politics in 1983 under the name of the Welfare Party (WP). The WP claimed to represent the periphery which was excluded by main stream parties. The WP showed a remarkable electoral success in the 1994 local and 1995 national elections, and finally came to power with the premiership of Erbakan in 1996. However, the WP was outlawed by the constitutional court in 1998, and furthermore its successor the Virtue Party (VP) was also banned by the court in 2001 because the state saw their activities as a threat to the secular foundation of the republic. As a matter of fact, the secularist state under the heavy

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<sup>23</sup> Turgut Ozal briefly was a member of the NSP in the 1970s and was an unsuccessful candidate on its parliamentary list. Meanwhile, his younger brother Korkut Ozal was the NSP deputy for Erzurum in 1973 and became minister of food and agriculture in the coalition government with the RPP in 1974.

control of the military subordinated the religion to the state (Yavuz 1997: 65). After all, the reformist Justice and Development Party (JDP) and the traditionalist Felicity Party (FP) were formed respectively after the closure of the VP, which was the first split in the history of Islamic party since 1970. The JDP formed a single majority government after the landslide victory in the 2002 national election while the FP remained as a marginal party which failed to enter parliament.

Second, another characteristic in the post-1983 politics is the change of the party system. The center-periphery cleavage became less intense because the center had lost its coherence, homogeneity, and autonomy (Kalaycioglu 1994: 421-422). The RPP was divided into two different center-left parties, the Democratic Left Party (DLP) and the Social Democratic Populist Party (SDPP), later renamed the RPP<sup>24</sup>. The periphery on the other hand, expanded and diffused through the process of market economy's emergence and relative autonomization of cultural identities. The TPP heir to the JP accelerated its capitalist-secularist synthesis after Tansu Ciller took its leadership in 1993 sometimes even through an alignment with the military (Sakallioglu 1996b: 156). In a similar vein, the MP under the leadership of Yilmaz considerably shifted its orientation from Ozal's conservative liberalism. The MP deputies with a predominantly Islamist orientation, such as Korkut Ozal, Abdulkadir Aksu, Cemil Cicek, and Ali Coskun demonstrated their dissents toward Yilmaz during the mid-1990s. After all,

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<sup>24</sup> Since the military regime banned all the existing parties from the politics after the 1980 coup, the RPP appeared under different names until 1993. It was the Populist Party (PP) in the 1983 election, the Social Democratic Populist Party (SDPP) in the 1987 and 1991 general elections, and again the RPP since the 1995 election.

Korkut Ozal left the party and joined the new Democrat Party (DP) becoming the leader in 1997, while Aksu, Cicek, and Coskun later joined the WP and the VP.<sup>25</sup> Yilmaz rather encouraged the Islamist deputies to desert the MP in order to solidify his new orientation toward liberal secularism. Ciller and Yilmaz tried to preserve status quo without upsetting the military and became deeply involved in political corruption resulting in dramatic erosion of the center-right and popular anger toward them although Ciller was more notoriously associated with heavy patronage and clientelism. In fact, most parties clustering along the position of center have been similar to one another in their ideological orientations, which deepened electoral volatility and thus the fragmentation of the party system. Indeed, there is no considerable difference in programs, policies and practices among the DLP, the RPP, the TPP, and the MP.

Moreover, the military government from 1980 to 1983 imposed a new electoral rule on a party system which had already been punctuated by discontinuities due to the multiple military interventions. The government set a clause of exclusion establishing a 10% threshold for admission to representation in parliament. The military originally intended to build a stable two party system, but the new design failed to reshape the party system. Instead, the 10% threshold exacerbated the fragmentation on both the right and left of center along the political spectrum. The result was intensified proliferation of parties in the 1990s. In fact, third wave party systems are especially subject to elite reshaping from above because they are more likely to have experienced democratic breakdowns

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<sup>25</sup> Ozal and Coskun are known as the members of the Nakshibendi, whereas Aksu and Cicek as those of the Nurcu (*Turkish Daily News* July 10, 1996).

and transitions, and such moments are particularly given to reshaping party systems from above (Mainwaring 1999: 55-58). Indeed, the post-1983 Turkish party system is characterized as increasingly volatile and fragmented (Carkoglu 2002, Ergunder 1995, Kalaycioglu 1994) and “de-institutionalized” (Ozbudun 2000), which rendered subsequent coalition formations unstable and inefficient.

To sum up, unlike the period of Kemalist authoritarianism when the Islamic periphery was excluded from the politics, in the 1970s the Islamist NSP (1972-1980) as a continuation of the NOP (1970-1971) joined coalition governments. With an accelerated pace after 1983, the WP (1983-1998) emerged as the most successful party in the national and local elections during the mid-1990s. The WP was succeeded by the VP (1998-2001), which later divided into the JDP (2001-present) and the FP (2001-present).

## **II. THE RISE OF ISLAMIC PARTY IN TURKEY: THE TRADITIONALIST WELFARE PARTY**

The Welfare Party (WP) as the continuation of the NSP was formed in 1983 under the leadership of Ahmet Tekdal which was handed out to Erbakan in 1987 when the political ban on him was released. In the 1987 election, the WP received 7.2% failing to pass the 10% threshold as table 4-1 shows. For the 1991 election, the WP set up a pre-election alliance with two right wing parties the Reformist Democrat Party (RDP) and the Nationalist Work Party (NWP) and entered parliament receiving 16.9 % with 62 seats. The substantial rise of the WP began in the 1994 and 1995 elections leading its transformation from a fringe party to a national standing party with an impressive electoral performance. In the

1994 local elections, the WP won 28 out of 76 municipalities, which included Istanbul and Ankara, two main cities of Turkey.<sup>26</sup> In the 1995 national election, the WP received 21.4% with 158 seats becoming the largest party in parliament. Finally, the WP came to power as a senior partner in its coalition with the center-right TPP under the premiership of Erbakan in July 1996.<sup>27</sup> The WP-TPP government remained in office for less than one year, however. In February 28 1997, the government was warned by the military-dominated National Security Council (NSC). At the same time, the NSC implemented harsh investigations towards other Islamist organizations. “The February 28 Process,” which demonstrated the limited tolerance of the military toward civilian leadership, finally ended up with the resignation of Erbakan in June 1997. Subsequently, the constitutional court decided to shut down the WP in January 1998 on the grounds that it used religion for political purposes, promoted civil unrest, and sought to establish an Islamic state. Also, the court barred five leading members and deputies, including Erbakan and Erdogan, for their public statements that connected religion to a political agenda.

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<sup>26</sup> The WP won municipal control in six major cities, such as Istanbul, Ankara, Konya, Kayseri, Erzurum and Diyarbakir and in approximately 400 towns and districts which cover almost all of the predominantly Kurdish populated regions. In the 1989 local elections, the WP won 9.8 % with 2,170,365 votes and gained 20 municipalities.

<sup>27</sup> With no single party enjoying parliamentary majority in the 1995 election, two months following the election observed prolonged negotiations between the five parties represented in new parliament, such as the WP, MP, TPP, DLP, and RPP. In the end, the two secularist center-right parties agreed to form a minority government based on the principle of rotating premiership and with a tacit support of the DLP. However, this shaky coalition government was dissolved only after three months amidst internal squabbling between Tansu Ciller and Mesut Yilmaz while serious charges of corruption were brought against Ciller by the WP. The fall of short lived government offered the WP a new opportunity to come to power when Ciller who had been a strong critic of the Islamists, changed her stand and agreed to form a coalition with Erbakan (Sayari 1996: 2).

Table 4-1. Total Vote Distributions of the National Salvation Party and the Welfare Party

|                        | The National Salvation Party | The Welfare Party |
|------------------------|------------------------------|-------------------|
| 1973 national election | 11.8 % (48 seats)            |                   |
| 1977 national election | 8.6 % (24 seats)             |                   |
| 1983 national election |                              |                   |
| 1984 local elections   |                              | 4.4%              |
| 1987 national election |                              | 7.2% (0 seat)     |
| 1989 local elections   |                              | 9.8%              |
| 1991 national election |                              | 16.9% (62 seats)  |
| 1994 local elections   |                              | 19%               |
| 1995 national election |                              | 21.4% (158 seats) |

1) In the 1983 election, the WP was not allowed along with other ten parties while only three parties, the Motherland Party, the Populist Party, and the Nationalist Democrat Party were permitted to participate by the military government.

2) In the 1991 election, 19 out of 62 seats belonged to the alliances, the Reformist Democrat Party and the Nationalist Work Party.

Source: Turkiye Cumhuriyet Basbakanlik Devlet Istatistik Enstitusu, Milletvekili Genel Secimi Sonuclari (Il ve Ilce Sonuclar ve Ozet Tablolar), various issues.

In order to delve into the WP which displayed a considerable rise during the mid-1990s, the party anatomy should be explored along four levels: 1) organization, 2) ideology and strategy, 3) leadership, and 4) constituency and supporters. The first level deals with loyalty, discipline, and membership for party members including elected representatives. The second level concerns the competitive dimensions on which parties place their appeals and the capacity of

parties to solve problems of political governance. The third level is about particular leaders which help to ensure the maintenance of voter royalty and the control over internal organization. Finally, the forth level is about appealing voters and building durable linkages to electoral constituencies, which requires the full scope of basic techniques in the first three levels. Besides, the relevant data should be analyzed on three dimensions: what the parties say, what the parties do, and what the effective outcome of their policies is. The distinction between the first and second dimension suggests a corresponding distinction in political language (Duverger 1954, Kitschelt 1999, Kirchheimer 1966, Mainwaring 1999, Mair 1990, Pizzorno 1981, Sartori 1976). Meanwhile, time period for the anatomy of the WP mainly focuses on the mid-1990s.

#### **i. The WP's Organization**

The WP was assumed to be the only Turkish party that comes close to the model of a mass party, in terms of party organization, and the party owes its electoral success to the mass organizations. The WP stood out as a party with iron loyalty and discipline, internal cohesion, and active grassroots movement when compared to the widespread lack of organizational strengths in most of other Turkish parties. With regard to its structure, the WP boasted its tightly organized subunits or cells with their own network of loyalty. In detail, the administration of the WP was designed to reach into the most basic local level of every neighborhood, even the apartment complex. In the regional hierarchy, every neighborhood had an official assigned, who in turn supervised three other officials

with the responsibilities of looking after the party's interests in avenues, streets, or apartment complexes. The neighborhood official reported to an inspector, who in turn reported to a district chairman. Finally, the district chairman reported to a provincial party council, made-up of 50 regular members and 50 reserves. This set up was replicated at the national level. For ballot boxes, the neighborhood officials appointed committees of at least three people for every ballot box in their area. The committee members were responsible for collecting information about all the voters registered to that ballot box, and they were to do whatever they could to ensure that potential WP voters went to the ballot box (Kamrava 1998: 298-299, White 2002: 239-240). Often, the members were matched to voters in each district by age, gender, and place of birth with guidance from local deputies who pay individual attention to the needs of constituency. Also, several conferences and panels regularly trained the local party members and officials. Hence, the local branches became strengthened with a certain degree of autonomy, and in turn the relative autonomy of its district organization could utilize local resources, devise its own strategies, and adopt the local language to win elections (Yavuz 1997: 78).

Among the closely connected organizations, the women's groups<sup>28</sup> and youth organizations were the most energetic and outstanding. Erdogan after elected as Istanbul mayor, thanked especially the devoted women's groups who showed determined performance during the election campaigns. However,

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<sup>28</sup> Whereas in the past women were virtually rendered invisible in the Islamic movement, after 1980 they were pushed to the front line. Religious communities formed autonomous women's groups and launched publications designed by and for women. The Women's Commissions of the WP were very active and creative, especially during election periods (Cakir 2000: 63).

females were absent from the party's higher ranks despite their energetic participation and contribution, and the party scarcely nominated female candidates for the elections (Sayari 1996: 5, White 2002: 240-245). As for the youth organizations, the WP made a concerted effort at recruiting students both at the high school and university levels.<sup>29</sup> The members were the youngsters attending religious imam hatip high schools and the children of conservative families receiving their education in big urban centers. They followed the strict rules of traditional Islamic communities in part because they could continue their education with the financial support provided by the religious orders (Cakir 2000: 62-63).

Another organizational strength lies in the highly motivated and single-minded commitment to the National Outlook program of the party members, which is all about social justice based on Islamic values. The National Outlook movement designed and developed by Erbakan since the NSP had two different levels; non-politically oriented and election-driven. As a nonpolitical movement to attempt its institutional security, the WP offered welfare services to the poor with support mainly from vakif religious foundations. The organizations staffed with dedicated cadres with a missionary zeal, offered shelters, provided medicine, and distributed food during Ramadan and fuel in winter to the needy. Also, the enthusiastic activists helped children with their homework, assisted in finding jobs, established marriage vakif for the young, forged domestic and international

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<sup>29</sup> The party embarked on a massive recruiting campaign in the country's campuses although the constitution did not allow the students to become members of political parties (Kamrava 1998: 293).

business links, and even organized wedding ceremonies (Ayata 1996: 52, Cakir 1994: 71-78). During the election period, the tightly organized cell units in each neighborhood did not rely on the media for disseminating the views of National Outlook, but more on face to face contacts with the voters through door to door campaigns building interpersonal trust.<sup>30</sup> These election campaigns were also accompanied with providing the rural-born urban poor with basic staple goods, food, and municipal services. In doing so, the WP not only offered services to the needy people, but also shaped Muslim political ideal and social justice. The party was able to weave political loyalties into the web of cultural patterns of mutual obligation and assistance among members of the same community (White 2002: 198-199). After all, the strength in organizational structure and in discipline could maximize its electoral potential and finally made it the strongest party organization in Turkey. As a matter of fact, the WP was the only party that took grassroots organization seriously, put forward ideas, talked often and openly about justice (Ozel 2003: 86), and was similar in organization to the model of a mass party.

## **ii. The WP's Ideology and Strategy**

The WP's ideology, continuing that of the NSP<sup>31</sup>, was based on the "National Outlook" which asserted the restoration of Islamic presence and

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<sup>30</sup> For the 1994 local elections, the TPP organized twelve coffee house meetings in the Maltepe neighborhood of Istanbul, while the WP held forty three coffee house meetings and one or two meetings on almost every night in coffeehouse or in private houses (Yavuz 1997: 78).

<sup>31</sup> The NSP's programs exclusively focus on religion, Muslim consciousness, moral values, belief, idea, spiritualism, secularism (Landau 1976) while the WP's tend to deal with more concrete and current issues.

subsequent economic welfare for “Greater New Turkey”. The specific programs about religion, economy, domestic politics, and foreign policy are following. First, regarding religion, the WP outlined specific recommendations with special reference to Islamic principles and practices, such as the prohibition of drinking, gambling, and prostitution. Also, national identity was defined primarily by Islamic values and by the glorious Islamic past of the Turks. Although the WP did not officially and aggressively reject the current secular system, it implicitly favored the replacement of the secular constitutional system with an Islamic state based on Islamic law (Akgun 2002: 6-8, Cakir 1994: 116-119).<sup>32</sup> Ultimately aiming the system change through Islamic revivalism, the WP yet, did not rely on violence but follow an electoral framework by seeking alliances from other segments of society.

Second, the WP’s economic program was represented as the “Just Order,” a highly populist platform based on Islamic social justice. The Just Order proposed income redistribution, social protection, and welfare policies targeting a direct appeal toward an economically marginalized group. It promised to provide electricity to remote villages and to construct low income housing, paved roads, schools, and hospitals. In doing so, the program called for a strong and active state to implement welfare policies, to monitor a moral community, and to foster economy. Although the party claimed the Just Order as a true private enterprise regime, its populist policies required the active role of the state. Also, the Just

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<sup>32</sup> At the ‘save Jerusalem’ rally of September 6 1980 organized by the NSP, the demonstrators marched in the long robes and fez caps associated with the long-defunct Ottoman Empire, carrying Islamic green flags and shouting slogans demanding the restoration of an Islamic state (Ahmad 1988: 750).

Order criticized greedy, exploitative capitalism as well as state-controlled communism labeling both as imperialist. Instead, it suggested a *shari'a*-based structure as an alternative and called for removal of interest charges from all financial transactions to fix inflation and unemployment problems. In a similar way, the Just Order severely criticized the IMF as an imperialist and Zionist organization, which deteriorated Turkish economy as a slave system, and asserted not to participate in the EEC, the Christian-dominated organization (Cakir 1994: 131-149, Kamrava 1998: 288-290, Sayari 1996: 6-7). In fact, the Just Order did not advocate privatization and not illustrate commitment to undertake stabilization and financial reform. Rather, in its first party congress on June 30 1985, the party chair Tekdal sharply criticized Ozal's economic liberalization and stressed social justice for the working class (Yavuz 1997: 71).

Third, concerning domestic politics, the WP mainly emphasized freedom to practice religion and suggested to build a system of multiple legal orders like that of the Ottoman Empire where individuals live by any legal order which corresponds to their beliefs. Also this community-based legal orders allowed various religion and belief communities to coexist with their own autonomy. This proposal derived from an Islamist argument that Islam community takes priority over the state. In addition to the culturally or religiously marginalized groups, the WP concerned ethnically excluded groups, the Kurds who also relatively sympathized with the WP. The WP promoting more inclusive national identity, argued to embrace the Kurds within a community under Islam and Muslim brotherhood (Cakir 1994: 155-160).

Fourth, the foreign policy program of the WP was characterized as anti-Western, anti-Zionism, and anti-EEC. The WP, like its predecessor the NSP highly criticized American foreign policy, depicting Washington as the tool of Zionist forces. Also, the party criticized Turkey's NATO membership which served to facilitate the creation of "Greater Israel." The WP accused other parties for serving the interests of the Europeans and the United States, which made Turkey as their colonies. Similarly, the WP also opposed the Arab-Israeli peace process and voiced its support for the Islamic fundamentalist Hamas. In fact, Erbakan highly criticized the Western indifference toward Muslims in Bosnia, Chechnya, and Jerusalem, and called for their liberation. In doing so, the WP suggested to build close relations with the Muslim world and to form the Muslim Economy Community as a common market and the United Muslim Nations as a military alliance, under the strong leadership of Turkey (Cakir 1994: 161-164, Narli 1991: 5-6, Sayari 1996: 7).

Meanwhile, as for the party strategy, the WP could win the electoral support due to its ability to distinguish itself from the rest of other parties within the system which were assumed to preserve status-quo. The WP counted on assertive populist manifestos and criticized corruptions of all other parties. Also, the party calling for social justice and redistribution most seriously than any other parties, provided an alternative to the existing political and economic regime. In doing so, Erbakan succeeded in separating himself from the rest and in presenting the image of an outsider despite his long history of involvement in the politics. Also, his past credentials under the pressure of the military seemed to help rather

than hurt his popularity (Ayata 1996: 54-55, Kamrava 1998: 298). Accordingly, the WP could attract the electorates who possessed detachment and cynicism toward the other parties, especially the constituencies disappointed at the center-left. In addition, the fragmentation of the center-right and center-left parties and their inability to fix social problems created a vacuum that the WP moved to fill with the Just Order and National Outlook program.

However, the WP lacked the capacity to solve and deal with problems when it came to power. Once in power, Erdogan immediately backpedaled to more fundamentalist position. The first Islamist-led government shifted most of the policy orientations which have lasted since 1923, too fast and too rapidly. Erdogan once became prime minister started with the visit to Gadhafi, signed a gas deal with Iran despite the warning from the United States and the military, and continued to visit a number of other Muslim countries. Other examples are overtly Islam-inspired attempts to change working hours according to the time to break fast during the Ramadan, to permit wearing the Muslim headscarf in public offices, to ban alcohol sales, to paint curbsides with Islamic green color, to build a mosque right at the Taksim Square, the very center of Istanbul, and to change Ankara's official symbol from a pre-Islamic Hittite design to a mosque-dominated skyline (Cakir 2000: 65). As a result, the party faced heavy concerns from the society, severe critics from other parties, and finally warnings from the military.

### iii. The WP's Leadership

The WP's leadership has been solely dominated by a life long leader and spiritual father, Erbakan,<sup>33</sup> in a charismatic but significantly personalistic way for thirty years. As a matter of fact, the excessive power enjoyed by a party leader is not a unique phenomenon for the WP but a general syndrome for all the major Turkish parties. This constitutes one of main democratic deficits in Turkey (Gulap 1999: 58, Ozbudun 2000: 139-140). In the case of the WP, the repression by and struggle with the secularist regime for thirty years has increasingly strengthened the charismatic leadership of Erbakan. He was frequently cheered as "mujahid Erbakan", Erbakan the warrior, who waged a holy war against the infidels (Dagi 2002: 28). In party meetings, his followers often chanted "here the army, here the commander" (Akgun 2002: 6). The WP deputy mayor of Beyoglu in Istanbul said in a 1994 interview with an Italian magazine that discipline meant absolute obedience to Erakan. Similarly, most party members referred to him as either 'hoca', a respectable term reserved for wise man or 'mujahid' (Kamrava 1998: 298). In fact, a tightly woven community composed of religiously marginalized masses might consider obedience to their leader as a political virtue, which is

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<sup>33</sup> Erbakan was born in Sinop, a town on the Black Sea, 1926. He was the son of one of the last Islamic judges of the Ottoman Empire. Erbakan received degrees in mechanical engineering from the Istanbul Technical University, where he later taught, and the Rhenish-Westphalian Technical University of Aachen in Germany. Erbakan became the president of the Chambers of Commerce and Industry to represent small and medium scale investors in 1969. He as the ex-member of the JP one time, was elected as an independent deputy in 1969 and formed the NOP in January 1970. The NOP subsequently was banned when the military took over after the 1971 coup. Later he founded the NSP, but it too was banned by the military coup in 1980. The military kept Erbakan out of politics from 1980 to 1987. His third party was the WP which won the largest votes in the 1995 election and became a senior partner in a coalition government. The first Islamist-led government with Erbakan's premiership yet was stepped down by the military in 1997, and he was politically banned until 2003. In May, 2003, he became a chairman of the FP, the traditionalist successor of the VP, which was also the successor of the WP.

sometimes expressed with a reference to the Islamic concept of *biat* (Cakir and Calmuk 2001: 183-185, Dagi 2002: 27). For those masses of the Islamic periphery, Erbakan was a creator of the Just Order and National Outlook program, the only alternative to the current system.

Backed by tremendous support, Erbakan controlled the WP in an authoritarian and autocratic way. His unquestionable authority was maintained and institutionalized in party structure. The WP itself was a strongly hierarchical organization subordinated to iron discipline. The party lacked internal debates over key policy issues. Decisions were instead made from top down with little input from the rank and file membership. Similarly, the locus of power within the party, such as parliamentary candidate selection, lay in the monolithic decision making of the central committee whose members were hand-picked for their loyalty by the leader (Akgun 2002: 6, Gulap 1999: 53-54, Ozbudun 2000: 88-89). In doing so, the party congress invariably endorsed the leadership by acclamation and never challenged Erbakan's leadership. It is possible to argue that Erbakan's charisma is sustained by the lack of internal democracy, rather than by legitimate support.

#### **iv. The WP's Constituency and Supporters**

The WP's main constituency was loyal supporters for the Just Order and National Outlook program since the days of the NSP. They were geographically from the central and south eastern Anatolia, which was economically underdeveloped and traditionally conservative. The south eastern area is the

Kurdish populated area. The key supporters also became more visible in the shanty area of Istanbul and Ankara into which migrants from the countryside rapidly flowed since the mid-1980s.<sup>34</sup> Namely, the NSP supporters who moved from the rural areas to the big cities' shanty towns became faced with rampant lack of housing, jobs, and other social services and needed a community of solidarity and identity, which were then provided by the WP. In fact, the urbanization was accelerated by the military operation in the Kurdish populated area and by the export-oriented economic policy. The WP supporters were generally small businessmen, artisans, craftsmen, small merchants, and peasants. In short, the loyal supporters of the WP tended to have humble educational backgrounds, were involved in farming or small business, and lived in rural areas or recently migrated to a city thus becoming unskilled workers. Usually, they identified themselves as Muslim,<sup>35</sup> Sunni, or Kurd and took a defiant stance against Europe believing that Islamic rules are superior to Western system (Akgun 2002: 18-19, Dagi 2002: 14).

Yet, as the WP expanded its constituency in the mid-1990s, soft liners were added. These soft liners would normally vote for other parties, but they were dissatisfied with their traditional party alliance due to its poor performance. On the other hand, some of the loyal supporters, specifically the small businessmen,

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<sup>34</sup> Istanbul since the early 1990s has been a more eastern looking city than it was in the 1960s. Also, the squatter-suburbs built by ex-peasants looking for a better life covered more than one sixth of Ankara's municipal area. In Izmir, Bursa, and most of Turkey's other big cities, the population growth and the expansion of the squatters have been ever faster in the early 1990s (*The Economist* December 14, 1991).

<sup>35</sup> While the WP was defined as the representatives of the Islamic circles, most of the Islamic sects or religious orders were not consistent supporters for the Islamic party but rather for the leading center-right parties. In fact, the Nakshibendi and Nurcu groups mainly supported the DP, JP, TTP, and the MP (Cakir 1994: 63-66).

began accumulating their own wealth and moved upward in terms of socio-economic strata as globalization expanded the growth of free trade. These conservative entrepreneurs from inner Anatolian towns were based on small and medium scale enterprises. These firms, which were highly export-oriented with flexible manufacturing practices, became the winners of globalization. In this regard, the overall WP constituency since the mid-1990s was a highly complex cross-class coalition. The WP incorporated both the winners and losers of globalization, although in numerical terms, the latter constituted the principal and most loyal base (Onis 2001: 284-286). In fact, the WP's economic program had a direct appeal to the latter, competing with social democratic parties.<sup>36</sup> This broad coalition of hard liners, soft liners, and both the winners and losers of globalization was not only diverse, but also had conflicting interests. In order to maintain this complex coalition, the WP could not keep a coherent program but depended on the contradictory combination of populist policies. Indeed, the only thing these diverse groups had in common was their dissatisfaction with the existing regime.

### **III. THE GROWING LIBERAL TIDE WITHIN THE POLITICAL ISLAMISTS: THE SPLIT OF THE TURKISH ISLAMIC PARTY**

The group of reformists as advocates of change is a young generation who convinced their political abilities through the success of local governments especially that of the Istanbul municipality in the mid-1990s. Most came from

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<sup>36</sup> In the 1994 local elections, the WP won 28 municipalities, 23 of whom were newly elected. Among those new 23 municipalities, 11 were previously governed by the social democrats since last elections.

middle-class backgrounds as government employees, teachers, and university lecturers (Kamrava 1998: 296). Also, the reformist wing covers new comers who joined the WP and the VP during the mid-1990s. They were mostly from the MP from which they left when Ozal died and the party orientation was changed.

Following the WP's closure, the Virtue Party (VP) was formed in 1998 with most of the WP deputies elected in 1995. Despite the undisputable leadership of Erbakan under which a sense of unity has lasted for thirty years from the pressure of the secularist regime, the VP witnessed a new split over its leadership between the conservative wing and liberal faction since its formation. The traditionalists loyal to the charismatic leadership of Erbakan for the first time faced a significant challenge from a younger group questioning the thirty-year-old National Outlook program. The group of traditionalists is the upper rank composed of the core members who established and maintained the party with Erbakan since the 1970s under the aggressive secularist policies of the state. The founding big brothers served as the prime executive members, and these prominent figures often appeared inaccessible and legendary to the rank and file. They are mostly successful engineers and academicians enjoying considerable social stature and prestige in their local communities (Kamrava 1998: 296). These elderly were grouped around the party leader Recai Kutan nominated by Erbakan who was on political ban, but actually ran the party behind Kutan.

The liberal Islamists gathered around Abdullah Gul who headed reformists in bid for leadership of the party with a strong support from Recep Tayyip Erdogan on his political ban. After appointing his comrade of thirty years Kutan,

Erbakan further influenced his control over selecting the top positions among people known for their close ties to him. The traditionalists also had their wives, sons, or relatives appointed to the central decision making and executive board, such as Ali Guneri and his son Riza Guneri, Mustafa Kamalak and his wife Zubeyde Kamalak, and Mehment Zeki Celik and his wife Gulten Celik (*Turkish Daily News* May 31, 1998). The liberals in turn, called for reforms in the party organizations and platforms.

Amidst the ongoing tension, the VP prepared for the 1999 election. Regardless of faction, all the party members tried to show the differences from the banned WP, otherwise it would be banned again. The VP attempted to display a more moderate image than its predecessor and was careful not to use the concepts that were associated with the WP. In doing so, the party did not call for an Islamic state and rather proposed extension of human rights and closer relations with the EU. The pro-EU stand was largely related to the EU countries' critical reaction against the WP's banning by the military. In fact, the VP deputies took special care to contact Western diplomats and journalists in an attempt to form an international coalition against the institutional and judicial pressures exerted on them (Dagi 2002: 23). It is also interesting to note that the VP allowed female candidates to compete for parliamentary seats during the 1999 election. The party recruited educated upper middle class modern women, such as Nazli Ilicak and Oya Akgonenc, who holds a doctoral degree. Along with Ilicak and Akgonenc, the VP also appointed Gulden Celik as the third female member of the central decision making board. Only Celik wore a headscarf (Dagi 2002: 26, Narli 1999:

6-7). Yet, women from lower class who actually carried the Islamic party to the power through their devoted participation in the mass organization, were not still invited to be represented at the higher ranks.

In the 1999 national election, the VP won 15.4% with 111 seats becoming the third largest party. Most of all, the VP lost the Welfare supporters from the poor as the party abandoned its militant anti-Western attitude and could not afford the populist mass organizations. Also, many people were not comfortable along its tension with the military. Instead, they selected the far nationalist Nationalist Action Party (NAP) which nonetheless has a powerful religious component. Meanwhile, the compared results between the national and local elections of 1999 showed a noticeable dichotomy as the VP performed significantly better in the local elections receiving 24.9%. This result conforms that the Islamists have been quite efficient and relatively free from charges of clientelism and corruption in the main municipalities under their control (Onis 2001: 287-289, Yavuz 2002: 216).

Over the poor performance of the national election, the VP engaged in an accelerated debate about the leadership and direction of the party. The rifts between the conservative traditionalists and liberal reformists were so obvious over the new agenda scaling down Islamic values and shifting toward more moderate stance. For the traditionalists, those new platforms were not more than cosmetic change to protect the party from any further pressure of the military. They still stressed concepts, such as national unity, powerful state, and religious society while their rhetoric kept dealing with the state's secularization (Yavuz 1997: 76). As for the liberal reformist faction, the old guns criticized them as

trouble makers, separatists, or traitors while describing themselves as the representative of calm and common sense. Not surprisingly, Erbakan was furious about the liberalists calling them obstacles to success of the party and calling for their elimination. Also, he claimed that they were supported by media that wanted to see the VP divided. Oguzhan Asilturk<sup>37</sup> close to Erbakan, also accused the liberalists of plotting to split the party by inserting functionalism. The party publication *Milli Gazete* described the liberal faction as the inner-party opposition for blowing up its own house. Besides, Bahri Zengin<sup>38</sup> blamed Erdogan for hiding his beliefs as he felt the need to get along with the establishment by calling him as a revisionist (Dagi 2002: 27-28, *Turkish Daily News* July 4, 2001).

On the other hand, the reformists quickly adopted a critical tone toward the Just Order and National Outlook program, thereby directly challenging Erbakan. Erdogan started to say that the Just Order, a program based upon short-sighted populist propaganda, was over, and that Erbakan was not his spiritual teacher any more (*Radikal* July 8, 1999). The overall pacification of the party by the February 28 process enabled Erdogan to put up an opposition against Erbakan. Such criticism was well received by the local party members and grassroots (Dagi 2002: 29). In an interview held when he was the mayor of Istanbul from the WP,

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<sup>37</sup> Asilturk was born in Malatya in 1935 and graduated from Istanbul Technical University's Faculty of Civil Engineering where he was Erbakan's student. He was the chair of the NOP's Ankara branch. Asilturk was the NSP's vice president and then its secretary general. He was deputy for Ankara in 1973 and became minister of interior as the youngest minister in the coalition cabinet with the RPP. During the period, Asilturk required all restaurants that wanted to serve alcohol to obtain a new special permit. Later he became secretary general of the WP. He was Malatya deputy of the VP together with Kutan and chose to join the FP in 2001.

<sup>38</sup> Zengin was Born in Kilis in 1942 and graduated from Istanbul Technical University where he met Erbakan. He was vice president of the WP, Istanbul deputy of the VP, and later chose to join the FP in 2001.

Erdogan asserted the need to diversify the power base on the grounds that a homogeneous constituency would limit the party and cut down the effectiveness of its universal message (Sakallioglu 1996a: 242). The younger generation seemed to abandon the rejection of the Kemalist state and secularization, which seemed to be unrealistic to alter.

In this regard, the party congress in May 2000 marked a turning point for the VP. For the first time in the history of the Turkish Islamic party, whose traditional political virtue was obedience to the leader, an open contestation for leadership took place between two rival factions. The contest was close despite Erbakan's direct and open lobbying against Gul. Gul received almost half of delegates' support. Although the traditionalists emerged as the winner (Kutan won 633 votes), Gul lost the election by a small margin (he received 521 votes). Indeed, the election confirmed that the cleavage in generation and ideology was quite huge. Although the VP started its transformation toward more democratic way in the inner party politics, it reflected at the same time growing disharmony within the party.

In the end, the party was charged with being a reincarnation of the WP as a threat to the secular foundation and was banned by the constitutional court in June 2001. Even Prime Minister Bulent Ecevit from the Democratic Left Party said that the VP was different from the WP and regretted the closure of the VP (*Turkish Daily News* July 2, 2001).

#### **IV. THE MODERATION OF THE TURKISH ISLAMIC PARTY: THE FORMATION OF THE REFORMIST JUSTICE AND DEVELOPMENT PARTY**

The new Islamic party, the Justice and Development Party (JDP) has a very different profile compared to the WP in term of the four compositions: 1) organization, 2) ideology and strategy, 3) leadership, and 4) constituency and supporters. Following the VP's closure, the JDP was formed under the leadership of liberal and moderate wing<sup>39</sup>, while the Felicity Party (FP) was established by the conservative faction of the old guns with Erbakan's open support. The reformist JDP rejects anti-Western attitudes and emphasizes privatization, marketization, and individual rights showing a more moderate posture. The JDP won a landslide victory in the 2002 national election receiving 34.2% of the total votes with 363 out of 550 seats and formed a single party majority government. Yet, the traditionalist FP as another Erbakan's party won 2.5% failing to reach the 10% threshold and got thrown from parliament. Nearly 500 deputies from the three coalition parties in government since April 1999, failed to be reelected. The RPP was the only other party to gain representation in parliament with 178 seats.

##### **i. The JDP's Organization**

Instead of highly populist mass organizations, the JDP has other mechanisms to create a disciplined party, inner contestations. Different from the

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<sup>39</sup> Among the founding members of the JDP, there are many new names, mostly young, college-educated professionals. According to Erdogan, only three among the seventy three founding members were formerly involved in politics. Besides, there are thirteen female members, and six of them wear the Muslim headscarf. Among the deputy members, there were members elected from the TPP and the MP, such as H. Celik, E. Yalcinbayir and M. Aksener (AK Partisi 2002a, 2002d).

WP which assumed the inner party opposition as split, the JDP declared to hold inner competitions for regular terms. Beginning with the election for the party leader, the JDP held competitions for the assistants of party leader, the executive board, the central decision making board in August 2001. Also, the party held nationwide primaries to determine its deputy candidates in August 2002, in which all the members were eligible to participate. Even though the executive board after all determined the final list for the election of November 2002, it was based on the results of primaries made by all the party members' votes (*Turkish Daily News* August 18, 2001, *Turkiye* August 26, 2002). Through the processes of contestation, candidates and grassroots members usually agree to support the party platform, work more in a disciplined way.

Also, the JDP organization is characterized as its professionalized members with realistic views mainly from the Istanbul municipality under the mayor Erdogan, which was proved to be efficient and relatively free of corruption.<sup>40</sup> Fifteen new deputies elected in the 2002 election are the ex-staffs of the Istanbul municipality whom Erdogan worked with for four years. Two of them were appointed as ministers while other nine deputies were also appointed as top bureaucrats in the new JDP government. The administration of the Istanbul municipality adopted modern management practices establishing municipal hot lines and providing the email addresses while installed water lines and sanitation, and improved transit system. Also, it ran the people's council as a new

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<sup>40</sup> The Istanbul municipality under Erdogan's management decreased the number of personnel trying to increase the level and quality of the services while the central government during the same period led by Erbakan kept hiring more personnel (Akdogan 2003).

mechanism through which the municipal representatives met with people once a week. Thus, the reformists' experience at the local government level forced them to focus and narrow on social problems such as immigration, rapid and unplanned urbanization, unemployment, and the alienation and identity crisis experienced by the young generation of the newly urbanized (Akinçi 1999: 91-94). While the traditionalist WP addressed these problems at macro levels as a problem of social justice, the reformist JDP approached as daily problems at individual levels in a more detailed way without attacking the secular institutions. As the party was filled with the experienced professionals, it has reduced the reliance on volunteer and grassroots activists in determining the nature of campaigns.<sup>41</sup>

## **ii. The JDP's Ideology and Strategy**

First, the programs of the JDP have no explicit reference to Islam, but emphasize fundamental rights, individual freedoms, and democratization using broader terms and implicitly implying the freedom for religious practices (AK Partisi 2002b, 2002c). In fact, the party did not criticize the state's secularization policies in its major campaign speeches. In doing so, the JDP defined the Muslim headscarf issue as a matter of human rights violation and suppression of personal liberties rather than as a matter of religion.<sup>42</sup> Also, the party added that because

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<sup>41</sup> During the summer of 2002, in the headquarter of the JDP, Balgat, Ankara, a female staff in a sharp western suit with long curly hair hosted visitors bringing them into a special guest room and providing the party pamphlets also written in English. Interestingly, all of female staffs in the FP's headquarter just a few blocks away from that of the JDP, wore the Muslim headscarf and did not seem to have a lot to do or work in busy, which is quite contrast with the dynamic atmosphere of the JDP.

<sup>42</sup> Gul often phrased American religious freedoms saying that Turkey wanted the same freedoms for both believers and non-believers. Also, Erdogan sent his two daughters to study at Indiana

issues regarding Islam are so sensitive, they should not be on public debates in a confrontational manner but be resolved by a broader social consensus (Dagi 2002: 35). In this sense, the new Islamic party apparently changed its attitude from rejection toward synthesis of Islam and liberalism, pursuing a strategy of co-existence and rejecting a confrontation with the state (Onis 2001: 283-284). The JDP, as Islamic liberals or “strategic modernists,” are quite distinct from the WP and its traditionalist successor, the FP, although both the traditionalists and the reformists claim non-violent methods and seek to reach their objectives through an electoral game. In fact, the party claims its identity as Muslim democrats (Ozel 2003: 80).

Second, the JDP economic program puts emphasis on limited role of the state, active role of market forces especially, tradesmen, artisans, and small and medium scale enterprises, market competition, and privatization.<sup>43</sup> Also, the program presents that it is crucial for Turkey to integrate into the global market in order to attract foreign direct investment and to reap the benefits of the new world order. For this purpose, Erdogan asserted the full membership of EU as the top priority, pledging reforms according to the EU’s membership criteria, such as the Maastricht criteria for the economy and the Copenhagen criteria for human rights. He also vowed commitment to the strict IMF-backed reform package to overcome the economic crisis that hit Turkey since 2001 (AK Partisi: 2002c, *Yeni Safak*

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University in part to avoid Turkey’s prohibition against wearing the Muslim headscarf in universities. In a similar vein, the JDP supporters said that they wanted a country which respects faith and personal freedom to dress, like the United States (Sontag 2003).

<sup>43</sup> In an interview with Dr. Murat Mercan, the secretary general of the JDP held on February 16, 2004 at the JDP headquarter, Balgat, Ankara, he said, “We know the importance of private sectors, and we try so hard to provide favorable investment atmosphere. For this, one must make friends with businessmen. We are true believers of business world and entrepreneurship.”

June 6, 2002). Yet, he added that this commitment was not unquestioned or unconditional, but rather a commitment to promote the structural adjustment to join the global market (Onis and Keyman 2003: 99-100). As the JDP clearly indicates the distance of the state from the market, the party also defines the state's role. For the sustainable economic recovery, it requires a transparent and accountable government without cronyism and corruption, which hobbled the Turkish banking and financial system for decades (AK Partisi 2002b).

Third, regarding domestic politics the JDP focuses democratization with heavy emphasis on human rights and individual freedoms for a pluralist and multicultural society. In doing so, the JDP supported the EU-oriented legislation, such as limiting the use of death penalty and allowing the teaching and broadcasting in native languages other than Turkish, which is Kurdish. In fact, the JDP was the only party which eagerly supported those two issues. In addition to the support on minority rights, free speech, and civil liberties, the JDP also puts emphasis on decentralization and delegation of authority to local governments. After all, a limited but caring state that respects the expanding role of private sector and civil organizations is promised. Erdogan often said that the party wanted to implement a Western model including Anglo-Saxon one (AK Partisi 2002c, Akdogan 2003).

Fourth, the JDP's foreign policy highlights cooperative relations with the United States and EU without explicit reference to the Muslim countries. Erdogan emphasized a strong Turkey-United States alliance, promising its cooperation to fight against international terrorism and its support for the global responsibility of

the United States after the September 11th attack in 2001 (AK Partisi 2004).<sup>44</sup> Similarly, Gul, mentioning that the American press has been more critical of the Turkish military influence on the closure of the VP than Europeans, offered all out support for the United States in the fight against terrorism. Gul also mentioned the JDP favored normal relations with Israel (AK Partisi 2002c, *Turkish Daily News* October 16, 2001).

Meanwhile, concerning the JDP's strategy, the party did not rely on such populist appeals with a confrontational manner, but claimed in a subdued tone to want to work both to overcome economic crisis and to further democratization. Despite the prevailing and apparent fury of the voters toward the established parties involved in the Susurluk corruption, the coup, the quake, and the economic downturn (Ozel 2003: 91), the JDP did not take advantage of it through religious demands or populist measures. Instead, it advanced its policies and programs in more liberal and moderate direction. The style of the JDP is similar to Western religious parties, such as the Christian Democrats of Europe which ground their policies in the dominant faith of their constituency but do not lay religion over politics (Onis 2001: 294-295). Also, the pragmatic, service-oriented, professional, and non-confrontational image that Erdogan and his colleagues earned from the experience of Istanbul municipality certainly attracted the voters (Dagi 2002: 37). The JDP tried to convince that the party sees politics as instrumental for solving the daily problems of people not as means to build an ideologically oriented Islamic community. And this strategy by the JDP worked in the 2002 election as

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<sup>44</sup> Erdogan is known for pro-American compared to Erbakan's pro-Germany stance (Cakir and Calmuk 2001: 167-169).

the central issues of the election were society-centered, such as economic development and democracy differently from the previous elections whose issues were the state-centered, such as national security, integration, and political stability dominated by the central bureaucracy and military (Onis and Keyman 2003: 96-97, 102).<sup>45</sup> Once the JDP came to power, it seemed to work quite well within the rule of game without unpredictable attempts and push for change over the orientation of republic system. In fact, according to many observers, the JDP government in its first year of office has fared much better than anyone would have expected when it took office. Moreover, occasional polls show that its support has even gone up (Turan 2003: 4).

### **iii. The JDP's Leadership**

The JDP leadership is composed by the chair Recep Tayyip Erdogan<sup>46</sup> and by the vice chair Abdullah Gul<sup>47</sup> and works as a collective system. Erdogan has

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<sup>45</sup> Yet, a major problem that a mild Islamic party might face in an open electoral context is that it becomes increasingly indistinguishable from other conservative parties on the political spectrum, which are also likely to embrace Islamic or traditional values. Arguably, competition with essentially similar parties may limit the electoral appeal of the moderate Islamic party (Onis and Keyman 2003: 103-104).

<sup>46</sup> Erdogan was born to a working class family in Rize, 1954. He moved with his family to Istanbul in 1967, where he attended an Islamic high school and later graduated from Marmara University with a degree in management. While at university, he met Necmettin Erbakan and entered Islamist movement, leading the NSP's youth group. Erdogan was elected as mayor of Istanbul in 1994, and was credited by the public for improving services and being away from corruption. In April 1998, the State Security Court in Diyarbakir sentenced Erdogan to ten months of imprisonment for quoting a poem by the nationalist writer Ziya Gokalp in a speech he made in Siirt in December 1997. The court convicted him for inciting religious hatred and calling for armed rebellion, and he served four months. After that, he was constitutionally barred from standing in elections or holding political office according to the article 312 of the Turkish Penal Code, which also banned him from forming a new party as a founding member. Owing to the conditional amnesty law, Erdogan could found the JDP in August 2001. But Erdogan could not earn the parliamentary seat he needed in order to become a prime minister although he was the most popular politician in Turkey at around the 2002 election. Yet the parliament led by the JDP

been one of the most popular politicians owing to his political success as a charismatic mayor of Istanbul with the reputation of being clean contrast to most mainstream politicians. In fact, Erdogan was the crucial source to ensure voter royalty toward the JDP. Gul is known for his moderate image to foster the mutual relations of Western discourse and Islamic traditions, and he successfully filled the vacuum and absence of Erdogan caused by his political ban in a complementary way. This coalitional leadership seems quite effective in accelerating the inner-party interactions and dynamics compared to all the pacified other parties. The JDP boasts a much wider streak of inner competitions and active internal debates in defining issues and resolving internal conflicts (Onis and Keyman 2003: 103). In doing so, the party consequently became faster and smarter at the art of responding to changing public attitudes and political circumstances (Ozel 2003: 91-92). In fact, the JDP has its party leaders, central decision making board, and executive board elected by the party members. Most of all, it has nationwide primary elections to influence over the parliamentary

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changed the law without a clash with the only opposition RPP, and he became a prime minister of Turkey in March 2003, five days after winning a by-election in Siirt. The leader of the JDP finally took over the prime minister position after Abdullah Gul resigned to make a room for Erdogan.

<sup>47</sup> Gul was born in Kayseri, 1950. He received his BA and Ph D degrees in economics from Istanbul University. During his graduate studies, he attended programs in Exter and London. He taught economics at Sakarya University from 1980 to 1983. He worked as a specialist at the Islamic Development Bank from 1983 to 1991. He was invited by Erbakan to join the WP and became a WP deputy in 1991. He was appointed as the deputy chairman of the WP in charge of foreign affairs in 1993. He was reelected as a WP deputy in 1995 becoming the member of the foreign affairs commission in parliament. From 1996 to 1997, he served as the minister of state and government spokesman in the WP-TPP coalition government. He was elected as a VP deputy in 1999 for the third term. From 1992 to 2001, he served as the member of parliamentary assembly of the Council Europe. In August 2001, he became the founding member of the JDP and was elected as a JDP deputy for his fourth time in 2002. He headed the government following the JDP's victory of the 2002 election until Erdogan took over the premiership by winning a by-election in Siirt in March 2003.

candidate selection in which all the party members are eligible to participate although the final decisions are made by the committee. Accordingly, the leadership cadres and politicians are subject to reviews by the party members at least de jure. Erdogan made it straight that the JDP should not be dominated by one leader saying that the new party would not obey or worship leaders unquestioned. Gul also contended that the JDP would be led by a team criticizing the WP where the decisions were taken by the dictatorial leader without discussions (Dagi 2002: 40, White 2002: 145-147).

#### **iv. The JDP's Constituency and Supporters**

Through the 2002 election, the JDP attracted voters who had not previously supported the Islamic party. That is, due to the weakened Islamic appeals in the JDP's electoral platforms and manifestos, the traditional and loyal voters for the Just Order and National Outlook program did not eagerly support the JDP. Instead, a variety of constituency at large supported the JDP. According to the election result, the JDP received almost equal numbers of votes from men and women and was highly favored by 18-to-25-year-old, many of them were first-time voters. The JDP also drew on support equally strongly from big cities, medium-sized towns, and rural areas while pulling from the less-educated. Most JDP voters favored the EU accession even if they doubted that the EU was sincere about the process. Fully half of the JDP voters wished to end relations with the IMF, whose loan conditionality was known austere and unpopular (Onis and Keyman 2003: 99-100, Ozel 2003: 83).

Although the JDP lost the parts of the loyal Islamic party supporters who mainly constitute the losers of globalization, the mild and liberal attitudes of the JDP's stance were quite successful in securing its access to a variety of constituencies. Above all, the Islamic bourgeoisies who favor the free market economy and support globalization still remain as the key electoral base for the JDP. This new business elite originating from a provincial background was grown fast owing to the liberal and export-oriented economic policy by Ozal. The new middle classes began to come into their own prosperity in the 1990s and fueled support for the liberal Islamists. Although they received benefits from globalization, the Islamic bourgeoisies who hardly received protection from the state quite differently from the big business, are still excluded from real economic power and from political sphere.

#### **V. COMPARISON BETWEEN THE WELFARE PARTY AND THE JUSTICE AND DEVELOPMENT PARTY: MASS PARTY VERSUS CATCH-ALL PARTY?**

So far, the party anatomy of the WP and JDP was scrutinized along the four levels: 1) organization, 2) ideology and strategy, 3) leadership, and 4) constituency and supporters. In a more differentiated way, Sartori (1976: 71-115) dissects the first two levels into five dimensions: the organization level is distinguished into structural and motivational while the level of ideology and strategy into attitude, positional, and role playing. Thus, this study now compares between the WP and JDP according to seven different levels: 1) structural, 2) motivational, 3) attitude, 4) positional, 5) role playing, 6) leadership, and finally 7) constituency and supporters as table 4-2 illustrates.

### **i. Structural Dimension**

As for structural dimension, it does make a wealth of difference whether or to what degree, a party is made up of subunits that operate their own network of loyalties, hold their congresses, seek money for themselves, have their press and their press spokesmen, and all in all relate to the party as quasi-sovereign groups (Duverger 1954: 41-45, Kitschelt 1999: 394, Sartori 1976: 76). The WP with highly loyal and disciplined mass organizations is more cohesive than the JDP. The WP based on its thirty-year-old National Outlook program and its own press Milli Gazete, boasted the intensity of party membership and enthusiastic grassroots activists. Also, as this type of mass membership requires the subscriptions paid by its members, the WP's local branches became popularly financed and subsequently autonomous.

On the other hand, the JDP does not have visibly active mass organizations to mobilize voters although the party does not contain a serious cleavage between the party elite and the local organizations either. Instead, the JDP cultivated sizable, experienced, and professionalized staffs. In the meantime, the ruling JDP was troubled with the weak binding effect of the party over its congressional members when a parliamentary approval was required to pass a proposal to permit the deployment of the United States troops in March 2003. The JDP government failed to pass the proposal with apparent oppositions from its own members as the vote result was 264 versus 251 with 19 abstentions although 267 votes were required for the approval. It subsequently generated doubts on the

capacity of the JDP leadership to control over its autonomous deputy members. Also, the party leadership did not punish nor impose sanctions against the undisciplined politicians who violated the commitments. The autonomy enjoyed by the individual deputy members can be interpreted as the relatively weak party discipline contrast to that of mass party and as the by-products of the newly established internal democracy, at the same time. Thus as table 4-2 shows, the WP was an organized party while the JDP can be categorized as half and half.

## **ii. Motivational Dimension**

Motivational dimension distinguishes factions of interest and those of principle. Unscrupulous power and/ or spoils groups point to what is generally understood by 'faction.' The opinion and/ or ideological groups are instead disinterested, and their major interest resides in promoting ideas and ideals leading to a corresponding policy. Also, fractions of principle can best be detected by their lack of a clientele base, by the fact that their self-maintaining and recruiting force derives, more than from any other single factor, from their intellectual appeal or belief proselytism (Kitschelt 1999: 6, Sartori 1976: 77, Shefter 1994: 3).

The WP as the thirty-year-old political vehicle for the demands of the Islamic periphery, was highly motivated by the National Outlook program and ideologically cohesive. Yet, the WP's mass organizations which were programmatic, idea-promoted, and sometimes single-minded, were also engaged in machine politics based on the exchange of patronage and individual favors for

political support accords with the private regarding. The WP had the largest number of party members during the mid-1990s mainly due to its highly populist recruit methods targeting the receptive urban poor. In doing so, the WP seemed to involve the deployment of direct clientelist exchanges in which the party bought votes and provided material advantages for its supporters. On the contrary, the JDP seems engaged in neither significant patronage nor in single-minded principle. The JDP declared to abandon the Just Order and the National Outlook program. Also, instead of clientelism, the party tries to implement a representative process and an electoral system for recruiting members and for resolving inner conflicts. Hence, the WP was both an idea-promotional and spoils-power group whereas the JDP's motivation is neither spoiled nor idea-promotional.

Table 4-2. Breakdowns of Party Anatomy in the Welfare Party and the Justice and Development Party

|                             |  | The Welfare Party | The Justice and Development Party |
|-----------------------------|--|-------------------|-----------------------------------|
| Structure                   | Organized<br>Organizationless<br>Half and Half                       | +                 | +                                 |
| Motivation                  | Spoils-power group<br>Idea-promotional group<br>Both (+) Neither (-) | +                 | -                                 |
| Attitude                    | Ideological<br>Pragmatic<br>Both (+) Neither (-)                     | +                 | +                                 |
| Positioning                 | Leftist<br>Centrist<br>Rightist<br>Vague                             | +                 | +                                 |
| Role                        | Policy<br>Support<br>Veto<br>Fluid or Other (-)                      | +                 | +                                 |
| Leadership                  | Personalist<br>Coalitional<br>Half and Half                          | +                 | +                                 |
| Constituency and Supporters | Specific<br>Pervasive<br>Half and Half                               | +                 | +                                 |

1) Unless otherwise indicated, use plus signs.

2) If unknown or unascertainable, use question marks.

### **iii. Attitude Dimension**

The continuum of attitude dimension goes from the extreme of ideological fanaticism and future-oriented principledness to the opposite extreme of sheer practicalism (Sartori 1976: 78). As table 4-3 shows, there are quite differences in the party platforms and ideological agendas of the WP and the JDP. For the WP, Islam provided the overall theoretical and philosophical underpinnings of the programs. But, Islam at the same time should be delineated with the deliberate incorporation of secularism, otherwise the party violates the constitution of the militantly secularist system which requires an absolute separation of politics from religion. Therefore, Islam of the WP inherently held a form of comforting source not so much of a guide for political power (Kamrava 1998: 291).

However, it is quite apparent that the JDP attempts not to exclude any segments of the society except for the core base of the traditional WP, given the absence of the old party's Islamic mission in the programs. The party tries to convince society that it was changed from an Islam-based party with limited constituency to a center-right party concerning about the problems of society at large (Onis and Keyman 2003: 100-101). In doing so, the programs of the JDP focus on less controversial issues that do not stir up broad resistances from the society and the secularist elite, but rather embrace a wider political ground. In sum, the WP had a mixed attitude of both ideological and pragmatic whereas the JDP's attitude is solely pragmatic.

Table 4-3. Comparison of the Welfare Party and the Justice and Development Party's Platforms

|                   | The Welfare Party   | The Justice and Development Party  |
|-------------------|---|--|
| Religion          | Very strong and explicit reference to Islam.  | No explicit reference to Islam or Islamic values. Religious practice as individual freedom.  |
| Economy           | Strong role for the state. <i>Shari'a</i> -based economic structure and strong anti-IMF. No special reference to privatization and economic liberalization. | Efficient and transparent government. Emphasis on market forces, privatization, and globalization. Support to EU membership and IMF program. |
| Domestic Politics | Emphasis on freedom to practice religion and religious community. Minor reference to local governments.   | Emphasis on fundamental freedoms, civil liberties, minority rights, decentralization, and local governments.                                 |
| Foreign Policy    | Strong anti-Western, anti-Israel. Emphasis on close relations with the Muslim world. Strong nationalism referring the Islamic past.                         | Support EU and US cooperation. No explicit reference to Muslim countries. Nationalism less pronounced.                                       |

#### iv. Positioning Dimension

Positioning dimension divides into four different positions: left, center, right, and vague (Sartori 1976: 81). The WP's programs illustrated ideological conflicts between the rightist platforms and the populism. For instance, the promotion of small business interests and extensive social welfare policies requiring the heavy weight of the state cannot be compatible. In fact, the bulk of the economic premises in the Just Order were very vague, often conflicting each

other, and impractical (Kamrava 1998: 288). In order to attract broader support, the WP added contradictory programs, which results in ambivalence and lack of coherence.

On the other hand, the JDP relaxed the Islamic demands and replaced them with loose but encompassing programs in favor of free market, privatization, and globalization. Also, the JDP discarded the semi-statist position of the WP and emphasized not only efficient and accountable government but also reducing its role in the economic sphere. Overall, the JDP pursues free market in a democratic Muslim society. In fact, the JDP is rather an effective federation of center right forces including an Islamist minority (Onis and Keyman 2003: 99). To sum up, the WP was a populist party with a vague position, whereas the JDP is a centrist party.

#### **v. Role Playing Dimension**

Role playing dimension distinguishes three different types of parties. Support groups are fractions of the bandwagon type, eager to join the winner and satisfied by side payments, while veto groups are fractions whose major purpose and strategy is to oppose and obstruct. Policy groups are fractions seeking to govern and impose policy (Sartori 1976: 80). The WP kept anti-Western, anti-Zionism, and anti-EEC stances with a strongly negative attitude toward the NATO, but ignored any references to human rights and democratization. Yet, the JDP placed its appeals eagerly on democratization, the EU entry, the need to foster closer relations with the West. Most importantly, the frequent reference to

the EU norms was a quite successful strategy. As a matter of fact, the whole society demanded for the full EU membership, the primary requisite for both economic and political progress for Turkey. So, the WP was a veto group while the JDP is a policy group.

#### **vi. Leadership Dimension**

Leadership dimension distinguishes a personalistic or personalist composition as one undisputed boss, and what might be called the confederative or coalitional composition. The latter is the alliance-type group that contains no single general but many colonels and majors (Mainwaring 1999: 10, 251, Sartori 1976: 80). The WP was a typical example of one undisputable boss as the party never had a leadership contestation for its thirty years' history. Rather, obedience to the life long chief of the Islamist movement was regarded as a political virtue. Despite its developed mass organizations, the WP's unchallenged authority with the lack of inner contestation showed the highly retarded aspect. In this regard, Erbakan's charisma could be sustainable due to its lack of internal democracy.

Meanwhile, two main leaders in the JDP tried to strengthen its top leadership groups rather than the bottom mass organizations. The collective leadership of Erdogan and Gul has created and controlled procedural mechanisms for the inner interactions and internal democracy. Hence, as the JDP developed relatively open procedures, the party is sustained by the legitimate support of the party members. However, the procedures were exclusively initiated from top down by a handful of the party leaders rather than extra parliamentary groups, and

those processes generated weakened party discipline among the autonomous deputy members. To sum up, the leadership of the WP was personalistic whereas that of the JDP is coalitional.

### **vii. Constituency and Supporters' Dimension**

The dimension of constituency and supporters can be differentiated between specific and pervasive (Kirchheimer 1966: 58-59, Mair 1990: 6). The WP held a highly tight voter linkage with its loyal supporters to the Just Order and National Outlook program. Building an obvious Islamic orientation, the WP had a specific constituency who identified itself as a Muslim, Sunni or Kurd. Yet, as the party asserted the hyper populist policies, soft liners who considered themselves on the center-right or center-left, were added to its constituency.

On the other hand, the JDP attempted to cast its appeals in sufficiently broad terms without assertions on Islamic mission, and thus the party could capture the sympathies of broad segments of population. Namely, the JDP eschewed narrowing positions and began to operate at one remove from its old constituency. Presumably, the JDP adapted its strategy of Islamic liberalism to the needs of the emerging interest group, the Islamic bourgeoisies. Hence, the WP's electorate was a contradictory combination of specific and pervasive, but the JDP's supporters are quite pervasive.

In summary, the WP had a quite organized party structure in which ideal-promoted mass organizations coexisted with some clientele networks. Also, the WP possessed both ideological and pragmatic attitude toward Islam in the

secularist system. This ambivalent attitude combining its populist stance put the WP into a vague position. Also, its programs and agenda showed that the party's role was quite limited to a veto group particularly regarding the foreign policy issues. Finally, the WP's leadership was highly personalist while its electorate was a contradictory coalition of specific and pervasive, which was not durable after all. On the other hand, the JDP's structure does not hold intensive and coherent party membership, which is usually generated by highly devoted mass organizations. Accordingly, there are not Islam-promotional groups in the JDP. In a similar vein, the JDP's attitude is quite pragmatic, and thus the party can recruit voters from all segments. In terms of positioning dimension, the JDP now is centrist on the ground of its synthesis of conservatism and liberal elements. The communitarian-liberal synthesis of the JDP represents reconciling the market-based liberalism with community values, societal norms of equality, and local traditions (Onis and Keyman 2003: 101). In this regard, the JDP seems to inherit Ozal's MP during the 1980s<sup>48</sup> which sponsored liberal economic measures, which were favorable for a new provincial business class, who was in touch with world markets, culturally conservative, and religiously observant. For a time, the forces of free markets and globalization yet were held back by an old rent-seeking and rent-granting coalition of the beneficiaries from the state-led development policies. In fact, the JDP promised to deliver a growth and stability, as in the Ozal years of the 1980s, a decade to which most Turks now look back with nostalgia

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<sup>48</sup> According to the polling conducted in July 2003, the pattern of Erdogan's personal support which is about 10% higher than that of his party, is similar to the Ozal era in the 1980s when prime minister Turgut Ozal also enjoyed a higher support rating than that of his MP (AK Partisi 2003).

(Ozel 2003: 83-84). Also, the JDP highly focuses on the primacy of the EU entry playing the role of a policy group. Finally, the JDP's leadership is coalitional, and the constituency of the JDP is quite pervasive securing access to a variety of interest group. Overall, the JDP can be categorized as an all-pervasive and all-embracing catch-all 'people's' party (Kirchheimer 1966).

Meanwhile, the FP or the mini WP presents the basic principles of the party as love, tranquility, peace and fraternity, human rights and freedoms, justice, welfare, honor and respect, aiming the felicity of all humanity, primarily of the people who live in Turkey. The FP in the election campaigns, still blamed not only the government but also the IMF and World Bank for the failure of economic recovery. The secretary general of the FP Suat Pamukcu, formerly a main figure in the WP, said that the supporters of the IMF program were just like seeking the United States' mandate in Turkey. He added that those supporters and the IMF forces never wanted a powerful Turkey because it is dangerous to Israel's security. Also, the party criticized the unjust operation of the United States in Afghanistan and highly opposed sending soldiers to fight alongside the United States troops. Besides, the FP condemned the Israeli troops and the United States government for killing the Palestinians and organized anti-Israel rallies in Istanbul in April 2002. Not surprisingly, Erbakan continued to be at the frontline of the FP's election campaigns making numerous speeches in the meetings and rallies. In May 2003, Erbakan became the chair of the FP after his political ban was released (Dagi 2002: 31-33, *Turkish Daily News* September 18, 2001, August 2, 2002).

## VI. CONCLUSION

This chapter is designed for an investigation of the evolution and moderation of the Turkish Islamic party. Since the Democrat Party (DP) brought up the peripheral values, Islamic parties have claimed to represent the periphery whose political recognition and economic interests were excluded by the entrenched Kemalist elite. In fact, the Turkish mode of modernization has been very illustrative of the embedded tension between secularism and democracy. The Turkish party system has been subject to the secularist elite reshaping from above since it has experienced several democratic breakdowns and transitions. The Islamist Welfare Party (WP) emerged as the largest party during the mid-1990s, but was outlawed in 1998 marking the third ban by the secularist military. After the shutting down of the Virtue Party (VP) in 2001, the political Islamists were divided into reformist and traditionalist parties. The moderate Islamic party or the Muslim democrat Justice and Development Party (JDP) was formed by the Islam liberals and reformists, claiming to represent a continuation of the Motherland Party (MP) under Ozal and a renewal of the conservative liberal legacy which originated from the DP.

The WP found it necessary to construct extensive mass organizations because it faced the substantial repress of the secularist state. In this political environment, the WP could not have even the support of allies from other parties and lacked other means to retain power except for heavily relying on the mass organizations. In this regard, the WP showed a similarity to a mass party based on

tightly organized and branch-based mass organizations. Compared to the WP, the grassroots party members of the JDP tend to be less active and crucial, and instead the overall party mechanisms are initiated and controlled by a handful of the top leaders and professionalized elite. In this sense, the JDP is more inclined to be a top-down party rather than a bottom up party. Also, the WP possessed not only idea-promotional groups with an Islamic activist zeal but also spoils-power groups involved in the machine politics. Yet, the JDP's are neither enthusiastically Islamic mission-motivated groups nor clientele networks. The WP had a mixed attitude of both ideological and pragmatic stances especially concerning the religion issues as a surviving strategy in the radical secularist country, whereas the JDP's attitude is pragmatic reducing Islamic-oriented manifesto and discarding hostile stances toward the West. Besides, the WP was a typical populist party with a vague and inconsistent ideology whereas the JDP is a centrist party intending a de-emphasis of specific social strata in favor of recruiting voters among the population at large. In addition, the WP's strategy showed its role as a veto group with a perspective of a zero sum game between the world view and Islam especially concerning the foreign policy while the role playing of the JDP is quite similar to a policy group relying on less conflicting and more urgent issues. Also, the leadership composition of the WP was personalistic, whereas that of the JDP is more coalitional trying to further strengthen top leadership groups and to downgrade the role of the individual party members but in a relatively secured internal democracy. Finally, the WP's electorate was a conflicting coalition of specific hard liners and pervasive soft

liners, while the range of the JDP's supporters is quite pervasive, securing access to a variety of interest group instead pushing for the benefits of a particular group at the expense of others. As argued so far, the JDP tends to be a Muslim catch-all party.

## **Chapter 5. The Politics of Islamic Banks in Turkey**

Islamic banking was first introduced to Turkey in 1985 under the government of Prime Minister Ozal, who embarked a comprehensive market reform and financial liberalization policy. Turkish Islamic banks have been clearly growth oriented in terms of their balance sheets, market shares, and numbers of branches and employees and have shown solid performance compared to the conventional banks since the mid-1990s. Also, the Islamic banks were finally officially integrated into the banking system in 1999 and first guaranteed by the state's deposit insurance fund in 2001.

Since the logic of Islamic banking requires a high degree of trust and close relations with business partners in order to reduce the information and monitoring costs, the growing Turkish Islamic banks may develop and consolidate connections with some of the political Islamists. It is hypothesized that the Islamic banks may strengthen more liberal and moderate Islamist political forces more favorable to business interests, also hoping that they might offer reliable information about prospective borrowers from a tightly knitted party constituency. In other words, while the Islamic bankers do not necessarily share any commitment to political liberalism or democracy, their drive for markets and profits may indirectly contribute to moderating the political Islamists. In turn, the political Islamists who acquire new financial stakes from the growing Islamic

banks may discard old radical and fundamentalist behaviors or anti-system stances in order to secure predictable capitalist interests (Henry 1996: 22-24).

In Turkey, the liberal and moderate faction within the political Islamists, encouraged by the Islamic financial intermediaries through various connections, finally formed a reformist Islamic party the Justice and Development Party in 2001, which later won a landslide victory in the 2002 general election. The JDP clearly differentiated itself from the conservative wing, or the traditionalists, within the political Islamists. This was the first split among the Turkish political Islamists since 1970, when the Islamist National Order Party first entered the Turkish party politics under the charismatic leadership of Necmettin Erbakan.

This chapter seeks to trace the evolution and development of Turkish Islamic banks, and to track ties between the Islamic banks and moderate Islamic party in Turkey, assessing the political contribution of the former to the ongoing moderation of the latter. Part I investigates theories with regard to the politics of Islamic banks. Part II shows the development of Turkish Islamic banks. In part III, in order to document the growth of the banks, this study analyzes the banks' balance sheets, profit-loss statements, market share of total banking, and number of branches and employees. It compares their performance in terms of capital structure, asset quality, profitability, income structure, and branch with those of the conventional banks. Part IV examines the political implications of the growth of the Islamic banks and their influence on the political Islamists. It tracks personal ties between the Islamic banks and the moderate political Islamists. Also, it focuses on geographical connections between the locations and numbers of

branches of the Islamic banks, and the electoral performance of the moderate political Islamists in the regions.

## **I. THE POLITICS OF ISLAMIC BANKS**

Islamic banking is a distinctively modern phenomenon and an international effort to make contemporary economic practices in Muslim countries conform to Islamic norms and Koranic principles. Islamic banks currently capture substantial shares of commercial banking markets in a number of Muslim countries, although Western models still predominate in banking as in other sectors of economic activity (Henry 2004: 125).<sup>49</sup> Modern Islamic banking was first launched in the mid-1970s to meet a need for an international institution to finance governmental projects in Muslim countries. In 1975, the Islamic Development Bank was established in Jeddah following the call from the rulers of Saudi Arabia, Algeria, and Somalia, and the Islamic Bank of Dubai was also founded in the same year by the lead of some pious Arab sheiks. In the 1980s, Islamic banking grew more decentralized, diverse, and pragmatic. The pioneers of the first wave lost their near monopoly on Islamic finance (Warde 2000: 73, 80). Two transnational Islamic financial institutions Dar al Maal al Islami<sup>50</sup> and Dallah

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<sup>49</sup> Islamic financial institutions now operate in over 70 countries and there are hundreds of Islamic banks around the world. Their assets have increased more than forty-fold since 1982 to exceed \$200 billion. In 1996 and 1997, they have grown at respective annual rates of 24 and 26 percent (Warde 2000: 1).

<sup>50</sup> The house of Islamic funds, Dar al Maal al Islami was established in Geneva in 1981 as an international Islamic investment house, employing professional bankers of many nationalities and catering for a wide spread of Muslim depositors. The largest transnational Islamic group with a paid-up capital over \$500 million is headquartered in the Bahamas and operates primarily out of Geneva yet uses the language of the Islamic Umma. The institution is backed by Prince

Al Baraka group<sup>51</sup> were established in the late 1970s, and the majority of Islamic banking belongs to or is otherwise associated with these institutions. In the new markets of individual countries they have penetrated, the groups have established links with the local power structure and worked within the established oligopolies. Also, those groups are keen on remaining embedded within the global system unlike the first wave's nascent pan-Islamic movement and assertiveness on the South. In fact, in its transnational operations, the current Islamic banking operates more out of London, Geneva or the Bahamas than it does out of Jeddah, Karachi or Cairo. Although Dar al Maal al Islami is controlled by Prince Mohammed al-Faisal al-Saud, the second son of the late King Faisal, the group does not operate a commercial bank in Saudi Arabia. Also, the Al Baraka Group controlled by a Saudi citizen Saleh Kamel with mostly Saudi capital does not operate a bank in his home country. Meanwhile, the Islamic Development Bank as a consortium of the Islamic Conferences' states has become more globally oriented and provided for cooperation and collaboration with the IMF and other international organizations (Warde 2000: 107, 194).

The most fundamental characteristic in Islamic economics is the prohibition of interest, more accurately the avoidance of *riba*, which is defined as

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Mohammed al-Faisal al-Saud, a member of the Saudi royal family (Presley and Wilson 1991: 146-147, Warde 2000: 2-3).

<sup>51</sup> The main rival institution of Dar al Maal al Islami is Dallah Al Baraka Islamic Investment Group founded by Sheikh Saleh Kamel in 1982 largely with Saudi Arabian capital. Al Baraka Group was the first Islamic bank to be given authorization by the Bank of England to act as a licensed deposit taker and has offices in London and Birmingham. It also operates joint banking in a number of Muslim countries including Bahrain, Turkey, and Malaysia and owns a stake in the Jordan Islamic Bank (Presley and Wilson 1991: 147). It is controlled by Saleh Kamel, a Saudi Citizen, largely with Saudi Arabian capital. but does not operate a bank in his home country (Warde 2000: 194).

the unjustified increase in wealth. To avoid interest or *riba*, Islamic banking replaces interest with profit and loss sharing (PLS) where depositors, lenders, and investors receive not a fixed percentage return but a predetermined share of any income generated in the borrower's business transactions. They also share in any losses according to a predetermined formula, and the banks do not charge interest to the borrowers, in turn. The interest-free returns of Islamic banks usually match the explicitly interest-based returns of conventional banks in many countries where the former compete with the latter (Kuran 1995, Warde 2004). In other words, the average profit-sharing earned by the depositors of Islamic banks has been more or less identical to the interest rates of conventional banks. Also, the loss-sharing rates have been very similar to the market rate of lending by commercial banks. However, what distinguishes Islamic banking from conventional banks is the logic of PLS operations, a sharing of business risks that is quite similar to equity-like forms of financing (Henry 2004: 104-105, Kazarian 1993: 5).

Based on the PLS logic, Islamic banks operate 'investment accounts' on behalf of their depositors. They invest the funds in various financial instruments that their boards of religious advisors consider to be in conformity with *shari'a* law. These contracts include: *mudaraba* and *musharaka* for the long-term lending instrument, and *murabaha* and *ijara* for the short-term lending.<sup>52</sup> The *mudaraba* and *musharaka* contracts are known as distinctively Islamic financial instruments. Islamic banks participate in certain feasible business projects submitted by

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<sup>52</sup> Islamic banks also operate current accounts which provide only safe custody for precautionary and transaction purposes.

companies, by either providing the entire capital requirement of the project (mudaraba) or by providing a part of the capital requirement (musharaka). In mudaraba, the bank accepts deposits from individuals in return for a share of the proceeds from these deposits, and lends to firms in return for a share of these firms' corresponding profits. In other words, the bank may act as an intermediary and offer the funds to a third party for investment purposes. Musharaka is a flexible form of equity financing where two or more partners contribute to the joint capital of an investment: the bank holds shares in the borrowing firm's equity and participates in its management but may be bought out by the other partners' shares of subsequent profits (Atici 2000: 217-226, Buyukdeniz 1995: 9-10, Henry 1996: 22-23, Kazarian 1993: 70, 220-221). On the other hand, the short-term trade financing *murabaha* and leasing *ijara*<sup>53</sup> are less risky operations. The short term financing requires less transparency and credibility in the market, but generates less revenue than the long-term lending mudaraba and musharaka. In murabaha, the bank buys the investment goods desired by the customer, such as real estate, cars, and machinery and sells them to the customer by adding a sum said to represent the lender's share of the profit. Ijara involves purchase of a fixed asset by the bank and lease to a company under a financial contract where the company makes regular installment payments, and at the end of the contract period the title of ownership is transferred to the lessee.

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<sup>53</sup> In Egypt, compared with the operations of traditional banks, Islamic banks had a lower share of direct investment, long-term funds, and funds directed towards the productive sectors of the economy such as agriculture and industry. Rather, the main activities of Islamic banks were not based on profit and loss sharing principles, but rather on traditional financial practices—financial instruments based on a fixed rate of return (Kazarian 1993: 226-228).

As argued so far, *mudaraba* and *musharaka* based on the Islamic PLS transactions are quite similar to those of equity financing, mutual funds, and stock exchanges (Kazarian 1993: 5). Since modern finance has seen a sharp increase in risk sharing arrangements along the lines of the merchant banking or the venture capital model where the financier is no longer a lender but a partner, *mudaraba* and *musharaka* seem increasingly relevant. Furthermore, in global financial markets interest income, once the cornerstone of banking, has recently declined its importance. Most financial institutions have increasingly been relying on fee and commission rather than on interest income as a result of competitive pressures and thinning margins in the new market. Thus, Islamic equity markets have been growing, and many foreign institutions have established Islamic banking subsidiaries. For instance, Dow Jones Islamic Market Index tracks 600 companies whose products and services do not violate Islamic law, and Citibank, UBS AG, HSBC Holdings Plc, and Barclays Plc operate Islamic units or mutual funds (Warde 2000: 102-103, 2004: 38-40).

Yet in most Muslim countries, the operation of *mudaraba* and *musharaka* requires high information costs to monitor a borrower's business due to the necessary risk sharing in the absence of transparent and trustworthy market. High information and transaction costs are currently one of the greatest challenges facing Islamic banking and hindering its ability to compete fairly with conventional banks. In order to minimize information costs in the market, the *mudaraba* and *musharaka* operation prefers small-scale bank units with local roots. In a small community with social control, information about borrowers and

entrepreneurs can be acquired at a lower cost, and hence the banks can face a lower rate of default (Kazarian 1993: 232). In fact, the *shari'a* scholars in the consultant board of Islamic banks<sup>54</sup> have close contacts with businessmen and daily contacts with Muslim masses, from whom the clientele of Islamic banks is to be derived. In doing so, the banks may finance small and medium size industry located in rural areas in theory and promote new entrepreneurs, who are unable to obtain funds from the conventional banks. Also, the banks may rely on ties and networks of the political patrons of Islamic party which can offer reliable information about prospective borrowers (Henry 1996: 22). However although empowered, capital is always shy, and Islamic bankers try to avoid offending governments in the Muslim countries.

In conclusion, the operation of *mudaraba* and *musharaka* based on the PLS logic requires a clear standard of accountability and transparency in the market, a high degree of trust and credibility between business partners, and an economically liberalized climate to prosper (Henry and Springborg 2001: 15-17). Islamic banking has been growing in the era of globalization, and its drive for markets and profits can shift the political weight within popular Islamist movements and become a catalyst to foster liberal trends within these movements.

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<sup>54</sup> The Faisal Islamic Bank of Egypt was the first to have a formal *shari'a* board consisting of selected Ulama from Egypt. This tradition continued with the establishment of the Jordan Islamic Bank (1978), the Sudanese Faisal Islamic Bank (1978), the Kuwaiti House of Finance (1979), and it went on with other Islamic banks throughout the Arab countries, Turkey, Bangladesh, and more recently, the private sector's Islamic banks in Pakistan (Warde 2004: 37-39).

## **II. THE DEVELOPMENT OF ISLAMIC BANKS IN TURKEY**

Prime Minister Ozal first introduced Islamic banking in Turkey as an aspect of his economic liberalization policy in 1985 and tried to attract Arab capital. Ozal government passed a special law on interest-free banking, the Decree no. 83/ 7506 issued on December 1983, launching Islamic banks under the name of “Special Financial Houses.” A stabilization and structural adjustment program was also launched in 1980 under a standby agreement with the IMF after two unsuccessful attempts in 1977 and 1978, and it was continued under the military government until 1983. The main features of the program were a switch from import substitution to export promotion, trade reform, and the liberalization of the financial sector. The new Ozal government then accelerated the market reform to break the structures of etatism by lifting quantitative restrictions on imports, liberalizing interest rates, simplifying the procedures for foreign direct investment and promoting exports of goods and services, while strengthening the basic infrastructure of the economy, especially in telecommunications and transport. The new adjustment and liberalization program during the period of 1983-1987 was consistent in the sense that policy makers recognized the need for laying the institutional foundations of the financial system (Atiyas and Ersel 1994: 106, Onis 1998: 184).

In the context of this program, the goals of introducing Islamic banks were three fold. First, it was to bring into the economy all funds that were being kept out of the conventional banking system, including foreign exchange kept under pillows and jewelries of families oppose to interest. Second, it was to develop

economic linkages to the oil-producing Arab states and to attract a fair amount of the Gulf capital which also avoids interest-paying financial institutions.<sup>55</sup> In secular but cash-strapped Turkey, Islamic banks mostly from oil-rich Gulf states were welcomed, but were not allowed to use the word Islam in their name, nor explicitly refer to their Islamic character. In those years, Turkey also obtained substantial aid from other Arab and Islamic sources, particularly the Islamic Development Bank (Warde 2000: 24, 79). Third, by encouraging the Islamic banks, Ozal cemented his ruling coalition of the center-right by developing domestic political counterbalance to the secular left, which he was seeking to destroy to help pave the way for structural adjustment (Henry 1996: 130-132).

The first Islamic bank was the Al Baraka Turkish Finance House established in February 1985 followed by the Faisal Finance House two months later. Both were partly owned by Arab capital, and these two Saudi-Turkish joint ventures represented the two principal transnational networks of Islamic banking, Sheikh Saleh Kamel's Al Baraka group and Prince Mohammed al Faisal's Dar al Mal al Islam. Korkut Ozal, Prime Minister Ozal's younger brother, has a close business relationship with Sheikh Saleh Kamel, the main shareholder of the Al Baraka Turkish Finance House and introduced him to Turgut Ozal. Prince Mohammed Al-Faisal, the main shareholder of the Faisal Finance House, sold the bank to Kombassan Holding in 1998, which resold it to Ulker Group, a leading

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<sup>55</sup> It has been claimed that the Islamic banks have served to benefit a few individuals or groups in Turkey. For instance, its introduction contributed to the fortune of Korkut Ozal, a younger brother of Turgut Ozal since the first two banks had an active role in financing oil imports from the Gulf countries and the younger Ozal had been deeply involved in the oil importing sector (Bugra 1999: 29).

food producer with 22 companies in 2001. Sabri Ulker, the owner of Ulker Group was one of the founding shareholders of the Faisal Finance House possessing now 97% shares, and the name of the financial house was changed to Family Finance House. Another Arab capital-financed bank is the Kuwait Turkish Finance House founded in 1989, a joint venture between the Kuwait Finance House and Turkiye Vakiflar Bankasi. Vakiflar is a small public sector bank with historical ties to Turkey's religious endowments (Henry 2004: 119-120).

As for locally-financed Islamic banks, the Turkish private investors established three banks: Anadolu Finance House in 1991, Ihlas Finance House in 1995, and Asya Finance House in 1996. Anadolu Finance House is owned by Istikbal Group, a leading furniture manufacturer in Turkey.<sup>56</sup> The owner of Ihlas Finance House is Enver Oren, the owner of Ihlas Holding covering diverse sectors of industry and focusing on a media sector with ownership of daily newspaper Turkiye and television channel TGRT TV (Bugra 1999: 18-19). Asya Finance House is owned by more than 200 partners from different industries. The chairman has several companies in a shipping industry serving also as one of the board of directors of Isik Sigorta, an insurance company affiliated with the Fethullah Gulen community (Baskan 2004: 233-235).

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<sup>56</sup> Istikbal Group began its production and marketing activities in 1940s. The owner Hacı Boydak, one of the top 25 richest Islamic capitalists, is known as a moderate Muslim who does not care to use top models to advertise the products in quite westernized commercials. The main companies of the Group are Merkez Celik company, Istikbal Mobilya company, Boytas Mobilya company and Hes Hacilar electric company. The first three companies focus on manufacturing home textile and furniture while the fourth produces telecommunication and electric cables or wires. In 2000, the export volume in these four companies exceeded about 35 million US dollars (Anadolu Finans Kurumu 2002: 5, Bulut 1997: 413-417).

Ihlas Finance House, however, went bankrupt in February, 2001. The Banking Regulation and Supervision Agency (BRSA) revoked the license of Ihlas Finance House, a subsidiary of media and industry group Ihlas Holding because the finance house faced acute liquidity problems. According to the BRSA, the funds were transferred to the companies of the affiliated group who used them to their own advantage, impeded it from working in a reliable manner, and had difficulties paying back to Ihlas Finance House<sup>57</sup> (*Turkish Daily News* February 12, 2001).

During the late 1980s, the decree that allowed the establishment of Islamic banks had given them a competitive advantage compared to other conventional banks. The decree that established the SFH reserved to the Prime Ministry the right at all times to supervise them, and especially exempted the Al Baraka Turkish and Faisal Finance House from the provisions of the banking law. For instance, the Islamic banks were required to keep only 10% of their current accounts and 1% of their much larger profit and loss sharing participation accounts as required reserves with the Central Bank, whereas other banks lost the use of 10 to 15% of their deposits (Henry 1996: 125-126). Nevertheless, their market share in the total banking system's total assets was less than 1% before 1990 and could not exceed 2% until 1994. Their market share of the total banking deposits also started to exceed 1% in 1990 and 2% in 1992.

During the Welfare Party (WP) and the True Path Party (TPP) coalition government period from 1995 until 1997, the Islamic banks enjoyed a relatively

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<sup>57</sup> About \$1.3 billion, nearly 70% of Ihlas Finance House's funds was channeled to other companies of Ihlas Holding (*Turkish Daily News* February 12, 2001).

favorable climate. But in February 28, 1997, the National Security Council (NSC) decided to ban the coalition government due to the Islamic fundamentalist stance of the WP, defined the Islamist capital including the Islamic banks to be their supporters, and took a number of legal measures against the Islamic banks. Following the NSC meeting on Dec. 23, 1997 chaired by then State Minister Gunes Taner, the Islamic banks would not be allowed to open new branches and the “the privileges of interest-free banks would be abolished” (*Turkish Daily News* December 30, 1997).

Two years later, a new banking law, the Banking Act no. 4389 effective on December 12, 1999, however, began to recognize the Islamic banks as one component of the Turkish banking system which then comprised three different kinds of banking: commercial banks, investment and development banks, and interest-free banks. Before the 1999 law, the Islamic banks had been continuously regulated by the special legislation of 1983 by which the Ozal government first allowed the establishment of Islamic banks in Turkey. Due to the 1999 law, Islamic banks could be officially integrated within the banking system, and the IMF played an important role in implementing this law as an effort of the Turkish financial reform. Regarding the 1999 law, the chairmen of the Islamic banks expressed their overall satisfaction about “protection by the law even though it did not bring very much” (Can Akin Caglar, the executive board chairman of the Faisal Finance House) and “rescue from the previous system” (Yunus Nacar, the chairman of Anadolu Finance House) (*Activeline* 2001: 15-18).

Nonetheless, the Islamic banks still could not be a member of the Banks Association, and thus they were not included in the deposit insurance fund and would not receive state guarantee on deposits as other conventional banks did.<sup>58</sup> Although investment and development banks with more and less 1% of market share and foreign banks with around 1.5% of market share enjoy the membership benefits of the Turkish Banks Association, the Islamic banks with about 3.5% of market share in the total banking system's deposits could not. Hence, when the license of one of them, Ihlas Finance House, was canceled, it was liquidated rather than handed over to the deposit insurance fund.

A new banking law, the Banking Act no. 4491 effective from May, 2001, however, provided the Islamic banks greater security with the legal arrangements that they had demanded. This law was implemented largely by the suggestion of the IMF and World Bank in the process of financial sector reform. The Islamic banks were to be transformed into the current banking system and be guaranteed by the necessary legal arrangements in order to avoid unfair competition. The IMF suggestions largely overlapped with the demands of the Islamic banks. As a result, these banks were guaranteed by the deposit insurance fund of the government, and liquidation would be more difficult than earlier. Also, the Islamic banks established their own public and legal association, "the Special Finance Institutions' Union (Finansbir)," as a banks' union.

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<sup>58</sup> Unlimited state guarantee on bank deposits was introduced during the 1994 financial crisis in Turkey. Then regulations were issued to gradually reduce the amount of guaranteed deposits to the European Union standards. However, during the most recent financial crisis last November of 2001 the government announced a temporary guarantee to protect all lenders to the Turkish banking system.

### **III. THE GROWTH OF TURKISH ISLAMIC BANKS**

Similar to other Islamic banks, Turkish Islamic banks also offer their customers profit-sharing proceeds instead of interest and charge borrowers various fees or shares of their profits. Thus, the banks operate two types of accounts to collect funds from their depositors. One is “current accounts” that do not entail any return in any form and receive conventional services such as check book, money transfer, and documentary collection.<sup>59</sup> The aim of the current account is to create a means by which the depositors are offered safe custody for precautionary and transaction purposes. The second and most popular one is “profit and loss sharing accounts” that can be opened in the US dollars, Euro, and Turkish lira for a minimum of thirty days. The accounts can be opened by signing a “contract for participation in profits and losses” and in the name of depositor or anonymously. The holders of accounts share both the profits and losses as a result of investment of these funds. At the end of the investment activity, profits are shared between the banks and account holders, and the banks get a maximum of 20% of the profits. After the deduction for the banks’ share from the accruing profits, the balance is paid to the holders prior to maturity provided. Not surprisingly, the profit-loss sharing participation accounts constitute around 85-90% of the total funds collected by the Islamic banks, much more than the current accounts (Buyukdeniz 1995: 7-9, Ozsoy 1997: 161-165).

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<sup>59</sup> Current accounts are demand deposits which may be withdrawn in whole or in part whenever desired. They may be opened either in the Turkish lira or in foreign currency. The accounts may be opened in the name of the depositor or they may be anonymous accounts. The holders of such accounts are paid no interest, profit, or sum of money in any form (Al Baraka Turk Ozel Finans Kurumu 1985: 4-5, Buyukdeniz 1995: 7-8).

As for the instruments of financing, Turkish Islamic banks also operate four different methods: mudaraba, musharaka, murabaha, and ijara. Like for Islamic banks in other countries, a short-term murabaha financing is the most common transaction for the Turkish banks. Until the mid-1990s, murabaha transactions constituted around 90% of their total fund utilization while ijara made up around 7-8%. In fact, mudaraba and musharaka, forms of long-term financing, composed only 1-2% of the total fund utilization. Yet, since the mid-1990s murabaha transactions have decreased to around 60% of the total fund utilization while ijara has increased to around 15% according the annual reports of each Islamic bank. In turn, mudaraba and musharaka have increased to around 25% of the total fund utilization (Buyukdeniz 1995: 10, Ozsoy 1997: 172-176).

The actual growing trends and their dynamics of the Islamic banks can be examined in detail since the Central Bank of the Republic of Turkey started to report the balance sheets and profit - loss accounts of the Islamic banks in 1991. Table 5-1 shows the important indicators of the balance sheets and profit-loss accounts from 1991 until 2001: total assets, loans or placement of funds, deposits or funds raised, equities, and profits or net income. Yet due to the rampant inflation rate of the Turkish lira<sup>60</sup>, an adjustment needs to be applied to remove

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<sup>60</sup> The notorious rates of inflation have been fueled by the Turkish electoral economics and by the chronic budget deficits since the early 1990s. While the military's chosen instruments to deal with the non-secularists and non-Turks are coercive ones, the civilian political system when it is allowed by the military to struggle with identity and other issues, responds in a different way. Standard operating procedure is the making of extensive side payments to politicians and the social forces they represent in order to secure their support. Thus, the governmental budget remains in chronic deficit, inflation continues at one of the highest levels in the region, the Turkish lira steadily devalues, the public sector persists as a substantial net drain on national resources, and the state in general remains disproportionately large for the size of economy (Henry 1996: 98-100, Henry and Springborg 2001: 210-212).

the effect of changing prices. Thus, figure 5-1 illustrates the indicators' growth trend in real terms, which is calculated by dividing the nominal values in table 5-1 by a price index in order to deflate the nominal terms and to find real terms as expressed in the constant Turkish liras. This study uses the price index of IMF data which uses 1995 for the base year (1995 = 100).<sup>61</sup>

Table 5-1. Islamic Banks: Main Economic Indicators in Balance Sheets and Profit-Loss Accounts in Nominal Terms

| (Trillion TL) | Total Assets | Loans   | Deposits | Equities | Profits |
|---------------|--------------|---------|----------|----------|---------|
| 1991          | 3.65         | 2.48    | 2.63     | 0.23     | 0.05    |
| 1992          | 7.94         | 5.89    | 6.14     | 0.40     | 0.10    |
| 1993          | 17.73        | 13.81   | 13.89    | 0.75     | 0.15    |
| 1994          | 41.61        | 29.11   | 33.92    | 1.39     | 0.21    |
| 1995          | 84.84        | 60.34   | 66.81    | 4.24     | 0.79    |
| 1996          | 198.69       | 144.63  | 157.12   | 10.20    | 2.54    |
| 1997          | 462.11       | 332.11  | 361.46   | 24.09    | 6.81    |
| 1998          | 853.19       | 622.18  | 686.17   | 56.91    | 12.45   |
| 1999          | 1672.92      | 1260.40 | 1420.56  | 101.85   | 14.66   |
| 2000          | 2266.40      | 1726.29 | 1863.46  | 161.02   | 11.90   |
| 2001          | 2365.53      | 1071.92 | 1917.50  | 203.53   | -24.81  |

Source: Central Bank of the Republic of Turkey, *Annual Report*, various issues.

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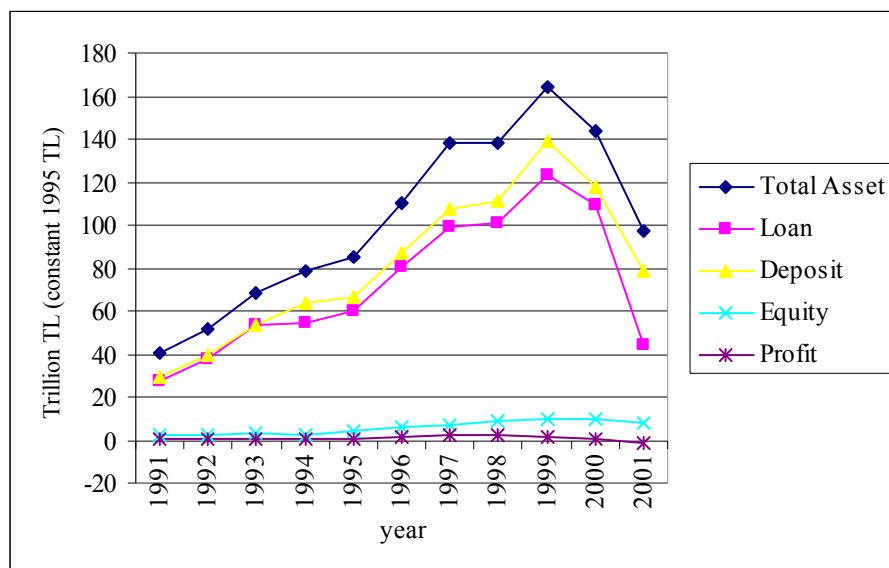
<sup>61</sup> "Consumer price index" is the most frequently used indicator of inflation and reflects changes in the cost of acquiring a fixed basket of goods and services by the average consumer (IMF 2004).

In figure 5-1, as for the consolidated balance sheets or total assets they have steadily grown from TL 40.08 trillion in 1991 to TL 137.94 trillion in 1997 in real terms. During this period, Anadolu, Ihlas and Asya Finance House were established in 1991, 1995 and 1996 respectively in addition to the Al Baraka Turkish, Faisal-Family, and Kuwait Turkish Finance House. Yet owing to the investigation against the Islamic banks by the state and military which started in the end of 1997, the banks could not raise their assets in 1998 and held almost the same amount in real terms as in 1997. Also since 2000 when Turkey began to experience a major banking crisis followed by a severe foreign exchange crisis in 2001 that adversely affected the financial performance of virtually every commercial bank in the country, the Islam banks' total assets also decreased. The assets declined from TL 164.06 trillion in 1999 to TL 143.47 trillion in 2000 and TL 96.98 trillion in 2001 in real terms. In addition to the general economic crisis, the severe decline of 2001 was mainly ascribed to the collapse of Ihlas Finance House in February, 2001. Just after the collapse, the state stopped the activities of the other Islamic banks in a short period, which resulted in US 300 - 400 million dollars loss from the savings of the other Islamic banks within three months (*Turkish Daily News* May 22, 2001).

With regard to the loans or the sum of funds used through profit and loss sharing (mudaraba and musharaka), production support (murabaha), and leasing (ijara), they show a quite similar growth trend to that of the total assets. In figure 5-1, the loans have increased from TL 27.23 trillion in 1991 to TL 99.13 trillion in 1997 in real terms. Despite the recovery from the investigation in 1999, the loans

however have declined from TL 123.60 trillion in 1999 to TL 109.28 trillion in 2000 and TL 43.93 trillion in 2001 in real terms. As for the deposits or the sum of the funds in the current accounts, profit-loss sharing participation accounts, and special project accounts, the trend of growth is also very similar to those of total assets and deposits. While they illustrate a steady growth until 1997 rising from TL 28.89 trillion in 1991 to TL 107.89 trillion in 1997 in real terms, the deposits have declined from TL 139.31 trillion in 1999 to TL 117.97 trillion in 2000 and TL 78.61 trillion in 2001 in real terms.

Figure 5-1. Growth of Islamic Banks' Indicators in Real Terms



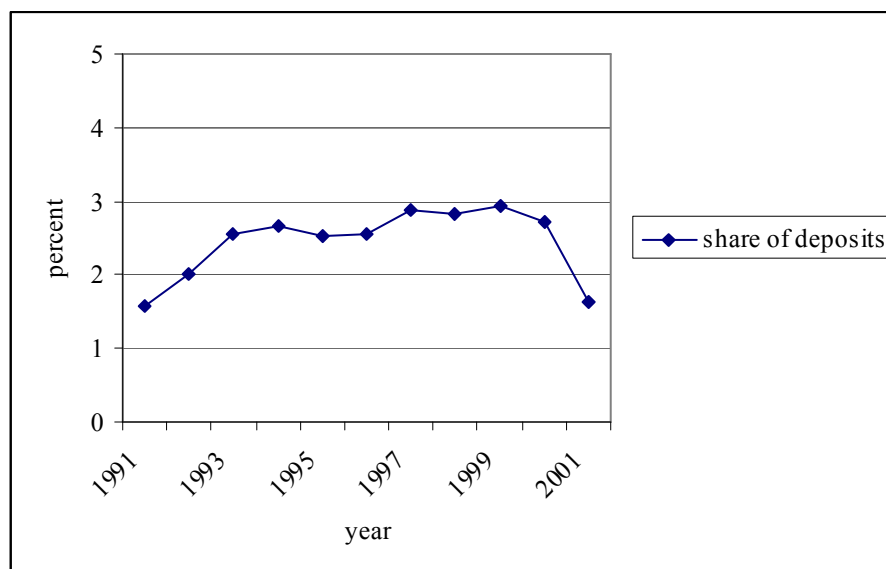
Source: Central Bank of the Republic of Turkey, Annual Report, various issues; International Monetary Fund, International Financial Statistics Yearbook 2003; Türkiye Bankalar Birliği, Bankalarmız 2000.

Regarding the equities or the net worth stemmed from the paid-up capital and profits, they illustrate a continual but not significant growth since 1991 with a bit decrease especially from 2000 to 2001. They have grown from TL 2.50 trillion in 1991 to TL 8.34 trillion in 2001 in real terms, but marked -18% of growth rate from 2000 to 2001. The growth trend of profits generally tends to be similar to that of equities, but a bit more volatile. They have increased from TL 0.55 trillion in 1991 to TL 2.03 trillion in 1997 in real terms, but decreased from TL 2.01 trillion in 1998 to TL 1.43 trillion in 1999, TL 0.75 trillion in 2000, and TL -1.01 trillion in real terms. In terms of growth rate, it has shown negative rate since 1998 marking as -0.89% in 1998, -28.57% in 1999, -47.59% in 2000 and -234.98% in 2001. Again, the periods of growth coincided with the establishments of Anadolu, Ihlas and Asya Finance House, but those of decline started with the investigation by the state and military since 1997 and were deepened as the financial crisis embarked in 2000 followed by the bankruptcy of Ihlas Finance House in 2001.

Meanwhile, in order to examine their growth in comparative perspective, it is necessary to observe the changes of their market share in the total banking system. Concerning their market share of the deposits, the Islamic banks were steadily expanding their share since 1990 even though it was minor portion. As figure 5-2 illustrates, the market share has increased from 1.59% in 1991 to 2.02% in 1992 and 2.56% in 1993. Since it went up around 2.5% in 1993, the market share of the deposits has stayed between 2.5% and 3% until 2000 despite small fluctuations. Yet the market share dramatically diminished to 1.63% in 2001 due

to the collapse of Ihlas Finance House, which possessed about 40% of the Islamic banks' total assets in 2000, as table 5-2 shows. As for the changes of the Islamic banks' market share in the loans, the share tends to be higher than that of the deposits. In figure 5-3, it started as 1.92% in 1991 and exceeded 3% in 1993. The share in the total banking loans has steadily grown during the mid-1990s and exceeded 5% in the end of 1990s, but dropped off as 2.61% in 2001. In fact, the Islamic banks tend to carry higher percentage loans to total asset than conventional banks, hence the greater market share of loans, compared to deposits.

Figure 5-2. Islamic Banks' Market Share of Deposits



Source: Central Bank of the Republic of Turkey, Annual Report, various issues; International Monetary Fund, International Financial Statistics Yearbook 2003; Türkiye Bankalar Birliği, Bankalarmız 2000.

Table 5-2. Market Share of Each Islamic Bank

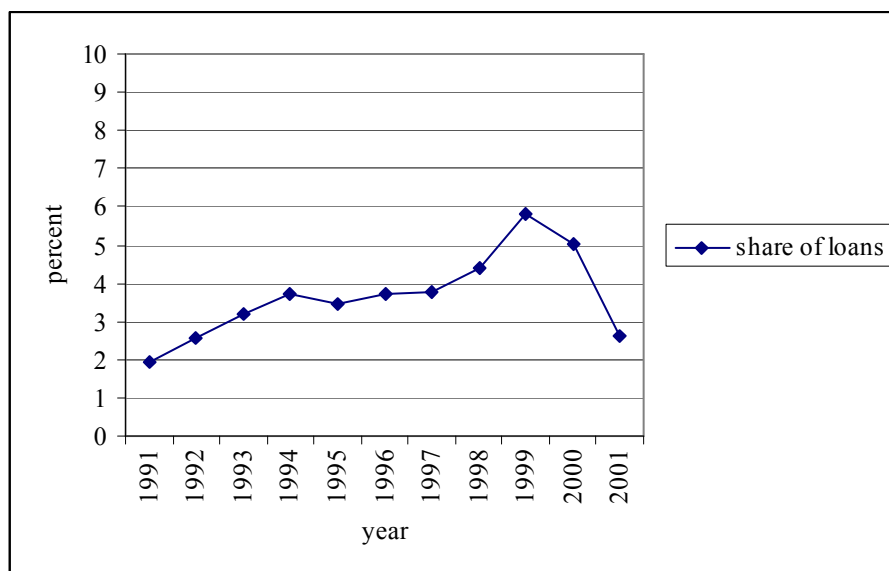
| (%)  | Al Baraka Turkish | Faisal-Family | Kuwait Turkish | Anadolu | Ihlas | Asya |
|------|-------------------|---------------|----------------|---------|-------|------|
| 1992 | 54                | 24            | 18             | 4       |       |      |
| 1993 | 52                | 20            | 19             | 9       |       |      |
| 1994 | 47                | 21            | 22             | 10      |       |      |
| 1995 | 45                | 17            | 21             | 9       | 8     |      |
| 1996 | 41                | 13            | 18             | 8       | 20    |      |
| 1997 | 34                | 8             | 16             | 9       | 27    | 6    |
| 1998 | 31                | 7             | 15             | 8       | 30    | 9    |
| 1999 | 22                | 8             | 14             | 7       | 40    | 9    |
| 2000 | 21                | 7             | 15             | 8       | 40    | 9    |
| 2001 | 27                | 12            | 31             | 10      |       | 17   |

Source: Central Bank of the Republic of Turkey, *Annual Report, Quarterly Bulletin*, various issues.

Each Islamic bank has also experienced the changes of their share in the total Islamic market. As table 5-2 shows, the Arab capital-backed banks have decreased their shares while the Turkish capital financed banks started to expand their portions. Specifically, the Al Baraka Turkish and Faisal-Family Finance House, the first two banks introduced during the Ozal government period, tended to lose their overall market share. In particular, the market share of the Faisal-Family Finance House has drastically diminished since the mid-1990s, and this instability is reflected by the changes of ownership in 1998 and in 2001. The poor performance of these two original Islamic banks might be due to discontinued benefits resulting from Ozal's death in 1993. As the Faisal Finance House was sold to a Turkish investor in 1998, the market share of the domestically owned

banks exceeded 60% before the collapse of Ihlas Finance House in 2001. Those locally financed banks are all owned by the Turkish manufacturers.

Figure 5-3. Islamic Banks' Market Share of Loans

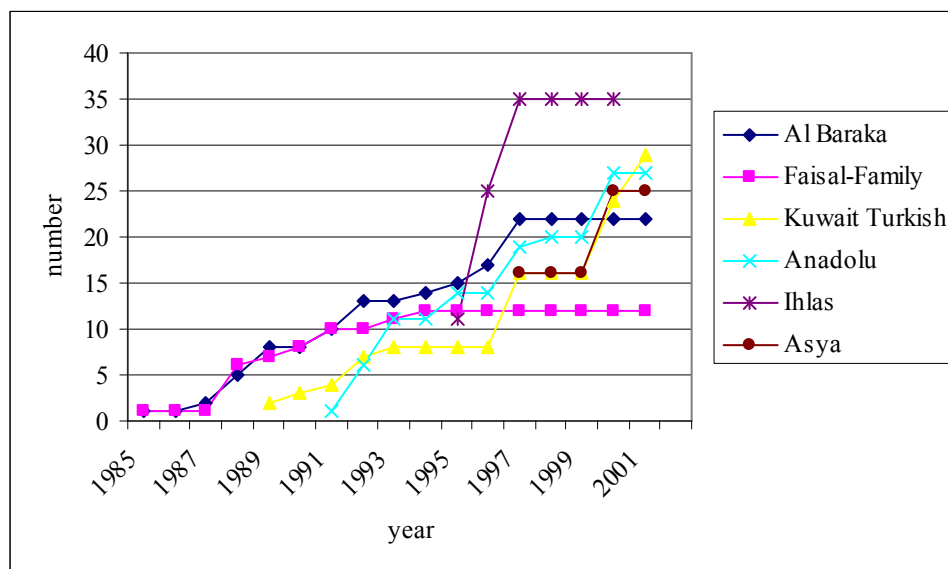


Source: Central Bank of the Republic of Turkey, *Annual Report*, various issues; International Monetary Fund, *International Financial Statistics Yearbook 2003*; Turkiye Bankalar Birliđi, *Bankalarmiz 2000*.

The trends in the growth of branches and employees are similar to those in overall developments for the total Islamic banks in general and to those in the market share changes of each Islamic bank in specific. First, the number of branches started to increase from 25 in 1991 to 60 in 1995 when Ihlas Finance House formed and to 120 in 1997 when Asya Finance House began to open the local branches. Yet due to the decision of NSC which did not allow the Islamic banks to open new branch, none of banks added one branch from 1998 to 1999.

The banks started to expand branches again, reaching 145 in 2000, but decreased to 115 in 2001 due to the collapse of Ihlas. Nonetheless, other five banks have been preparing to branch out since 2001 according to their annual reports.

Figure 5-4. Growth of Islamic Banks' Branches

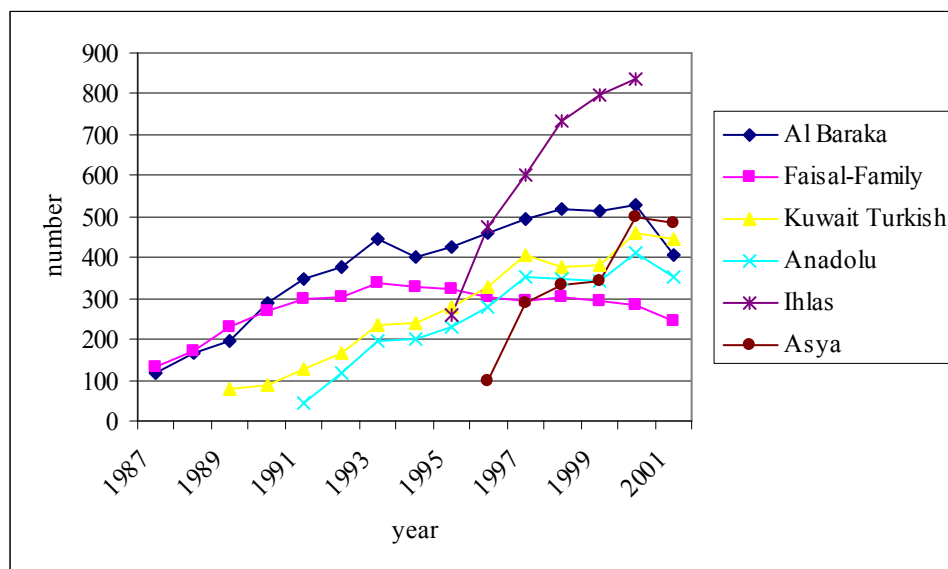


Source: Annual Reports of each Islamic bank; Finansbir, *Ozel Finans Kurumlari Mali Tablolar*, 2000.

Specifically, as figure 5-4 shows, the Al Baraka Turkish Finance House has shown status quo having 22 branches since 1997 as the Faisal-Family has been with 12 branches since 1994. Meanwhile, the Kuwait Turkish Finance House has fairly expanded their local networks while Anadolu and Asya Finance House as late comers caught up the early ones rapidly. In 2001, there were 22 branches for the Al Baraka Turkish, 12 for the Faisal-Family, 29 for the Kuwait Turkish, 27 for Anadolu, 25 for Asya Finance House, respectively. According to

their projects announced at the beginning of 2002, the Faisal-Family planned to open 7 new branches as 6 more for the Kuwait Turkish and 2 more for Asya Finance House, respectively.

Figure 5-5. Growth of Islamic Banks' Employees

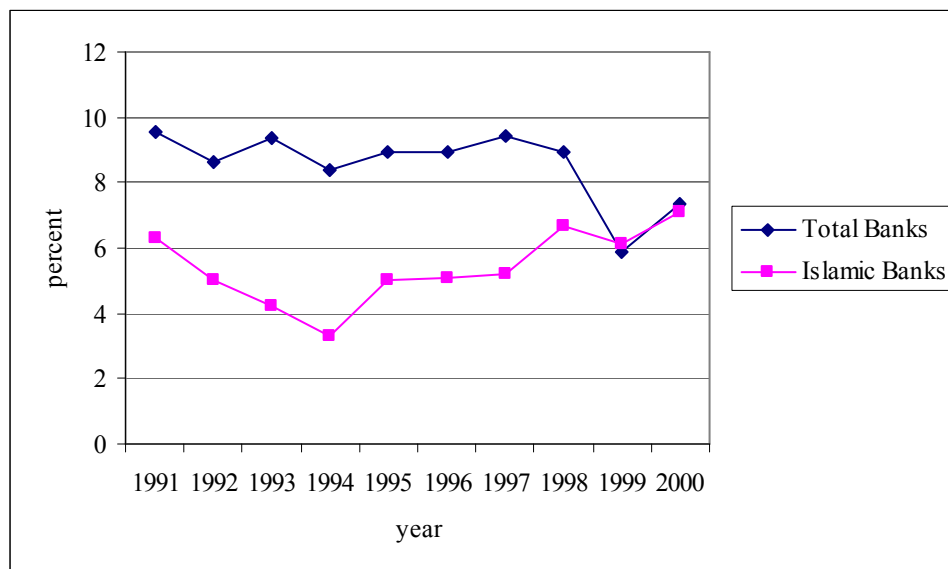


Source: Annual Reports of each Islamic bank; Finansbir, *Ozel Finans Kurumlari Mali Tablolar*, 2000.

Regarding the growth of employees in figure 5-5, the number raised from 813 in 1991 to 1514 in 1995 and to 2436 in 1997. After the periods of slower increases as 2615 in 1998 and as 2667 in 1999, the number of employees expanded as 3023 in 2000, but again decreased by 1935 in 2001 owing to the bankruptcy of Ihlas after all. In particular, according to figure 5-4, the Faisal-Family Finance House experienced the slowest growth in their employee numbers. For the year of 2001, Asya Finance House has the largest number of

employees as 486 followed by the Kuwait Turkish with 445, the Al Baraka Turkish with 404, Anadolu with 353, and finally the Faisal-Finance House with 247. According to the data of 2002, Asya Finance House again has the largest number of employees as 567 followed by the Kuwait Turkish with 499, the Al Baraka Turkish with 454, Anadolu with 389, and finally the Faisal-Finance House with 306.

Figure 5-6. Comparison of Capital Ratios



Source: Central Bank of the Republic of Turkey, *Annual Report*, various issues; Turkiye Bankalar Birliği, *Bankalarmiz 2000*.

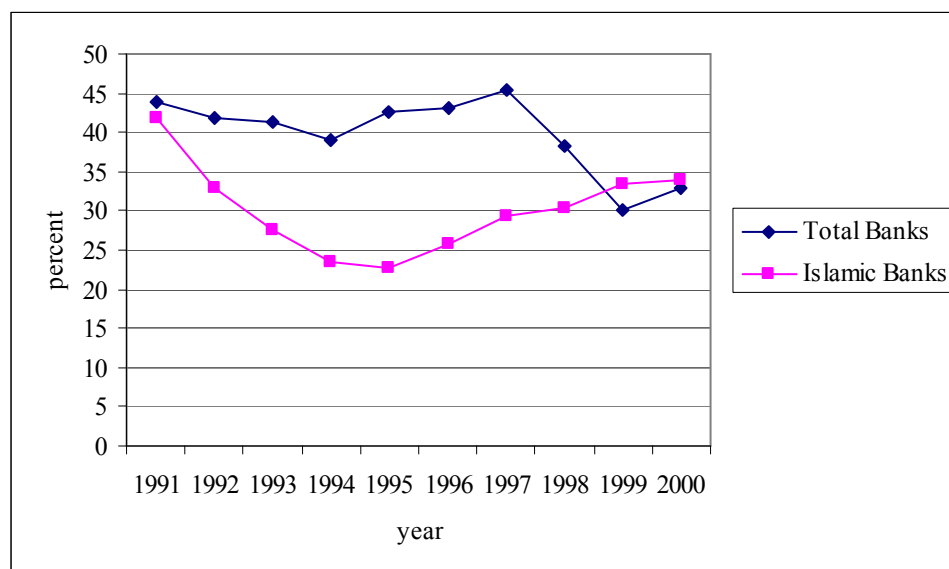
In addition to the main indicators of the balance sheets and profit-loss statement, the market share, and the number of branches and employees, it is plausible to examine the performance ratios of the Islamic banks and to compare them with those of the conventional banks. The Banks Association of Turkey reports its yearly analyses of the conventional banks' performance ratios, such as capital ratio, asset quality ratio, profitability ratio, income structure ratio, and branch ratio. As figures 5-6 through 5-10 show, the Islamic banks' ratios themselves have clearly augmented since the mid-1990s. Compared to the conventional banks, the Islamic banks have not shown better performance except for the branch ratio until the end of 1990s. Yet beginning from the end of 1990s, the Islamic banks have reduced the performance gaps with the conventional banks and outperformed them in all parts.

The poor performance of the conventional banks in late 1990s reflected the banking crisis starting in 1999. In fact, the conventional banks operated at a loss in 1999 and 2000 under the burden of bank failures. Among them, 11 banks with 12.9% of the total bank deposits were managed by December 31, 2000 under the deposit insurance fund (Henry 2004: 122-123). This suggests that the financial crisis had more serious effects on the conventional banks than the Islamic banks, as evidenced by poorer performance of the former compared to the latter.

In figure 5-6, capital ratio is shareholder's equity divided by total assets. The capital ratio of the Islamic banks has increased since 1995, but was lower than that of the conventional banks during 1990s. Yet the Islamic banks started to improve their performance since 1999 by catching up the conventional banks. The

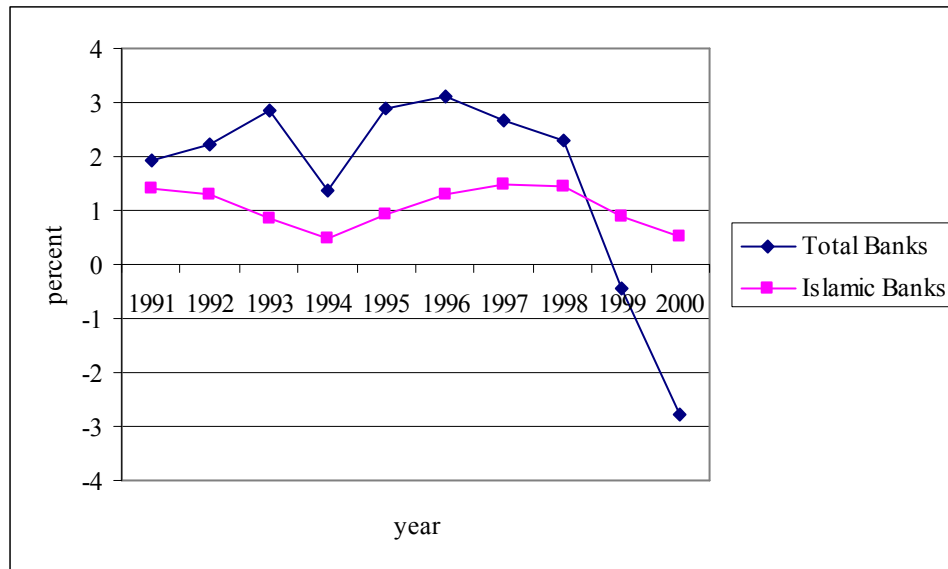
Islamic banks held shareholder's equity of 6.1% of total assets compared to 5.87% of the conventional banks in 1999. Figure 5-7 illustrates asset quality ratio as total loans by total assets. For the Islamic banks, loans are the sum of funds utilized through profit-loss sharing (mudaraba and musharaka), production supporting (murabaha), and leasing (ijara). The asset quality ratio of the Islamic banks continued to decline until 1995, but began to improve it since 1996. Furthermore, since 1999 the Islamic banks have outperformed the conventional banks by holding 33.32% compared to 30.11% of the conventional banks in 1999 and by improving as 33.95% compared to latter's 32.81% in 2000.

Figure 5-7. Comparison of Asset Quality Ratios



Source: Central Bank of the Republic of Turkey, *Annual Report*, various issues; Türkiye Bankalar Birliği, *Bankalarmız 2000*.

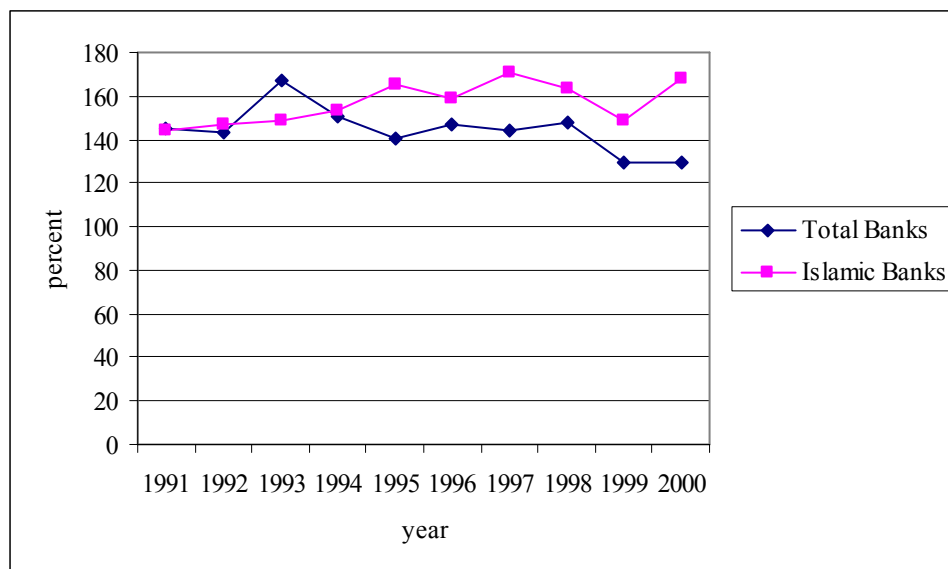
Figure 5-8. Comparison of Profitability Ratios



Source: Central Bank of the Republic of Turkey, *Annual Report*, various issues; Turkiye Bankalar Birliđi, *Bankalarmız 2000*.

Figure 5-8 shows profitability ratio, net income (or loss) by total assets. The profitability of the Islamic banks steadily decreased until 1994, but increased after 1995. Overall, the profitability of the Islamic banks fell behind that of the conventional banks until 1999 when the profitability of the latter began to decline rapidly. Since 1999, the Islamic banks have been more profitable than the conventional banks. The Islamic banks marked 0.88% compared to -0.45% of the conventional banks in 1999 while the former marked 0.53% compared to latter's -2.79% in 2000.

Figure 5-9. Comparison of Income Structure Ratios

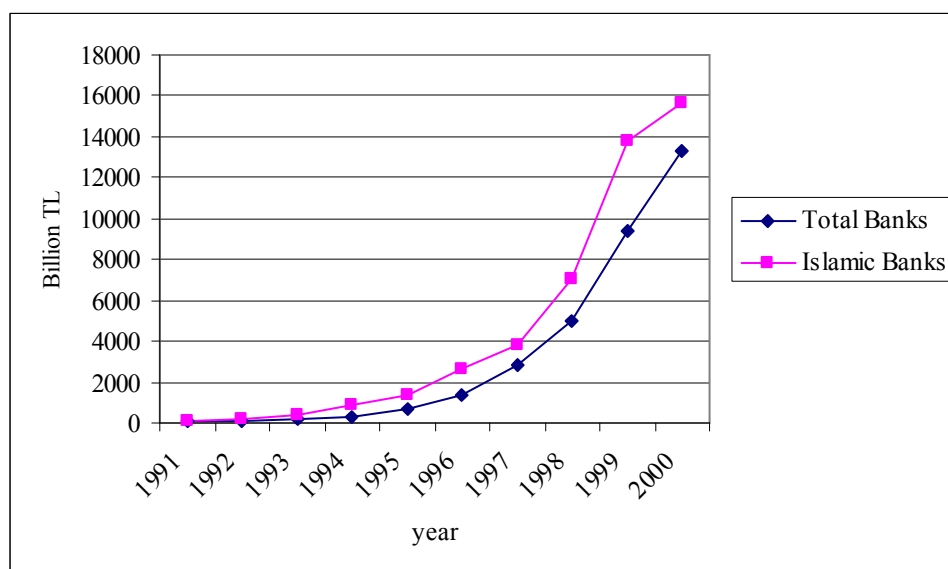


Source: Central Bank of the Republic of Turkey, *Annual Report*, various issues; Turkiye Bankalar Birliđi, *Bankalarmız* 2000.

Figure 5-9 is about income structure ratio, interest income divided by interest expenses. For the Islamic banks, interest income is income from the funds used through mudaraba, musharaka, murabaha, and ijara, while interest expenses are profits distributed to the depositors of the current accounts, profit-loss sharing participation accounts, and special project accounts. In terms of comparisons, the profits of mudaraba, musharaka, murabaha, and ijara might overstate the Islamic banks' interest revenues because the conventional banks separate their interest income out from other income (income from commissions and other financial services), while the Islamic banks' revenues include them. In figure 5-9, the Islamic banks performed slightly better than the conventional banks by

outperforming the latter since 1994. The income structure ratio of the Islamic banks increased from 153.1% in 1994 to 168.01% in 2000, while that of the conventional banks decreased from 150.51% in 1994 to 129.62% in 2000.

Figure 5-10. Comparison of Branch Ratios



Source: Central Bank of the Republic of Turkey, *Annual Report*, various issues; Türkiye Bankalar Birliği, *Bankalarmız 2000*.

Finally, in figure 5-10 branch ratio indicates total assets by number of branches. The Islamic banks have outperformed the conventional banks since 1991, increasing the ratio from TL 145.92 billion in 1991 to TL 15630.31 billion in 2000 while the conventional banks have held from TL 52.79 billion in 1991 to TL 13306.51 billion in 2000. The higher productivity of the branches in the Islamic banks is still significant when we observe total deposits by number of branches. The Islamic banks raised deposits per branch from TL 105.18 billion in

1991 to TL 12851.46 billion in 2000 while the conventional banks registered from TL 29.74 billion in 1991 to TL 8733.24 billion in 2000.

In sum, Turkish Islamic banks introduced by Ozal's financial liberalization policy in 1985 have developed in many ways for more than 15 years. In general, the Islamic banks were officially integrated into the Turkish commercial banking system instead of standing apart under special legislation in 1999 and received a legal guarantee by the deposit insurance fund in 2001 owing to the financial reform program of the IMF and World Bank. In particular, the local capital financed banks with concentrated ownership in the manufacturing sector began to be established in the early 1990s, and it resulted in the modest increases of mudaraba and musharaka as the long term lending financing of fund utilization since the mid-1990s, noted earlier.

Also, Turkish Islamic banks have illustrated a fair amount of growth in many aspects since the mid-1990s. Generally, the main indicators of their balance sheets and profit-loss statements, their market share of total banking deposits, and the number of branches and employees have increased since the mid-1990s. Specifically, the domestically owned banks have expanded their market share and the number of branches and employees during that period. Yet the trends of their overall growth since the mid-1990s slightly decreased in 1998 with the severe investigations of the state and military after the ban of the WP, and the decline was intensified as the financial crisis embarked in 2000 followed by the collapse of Ihlas Finance House in 2001. However then so also did the conventional banks since the late 1990s.

Compared with the conventional banks in terms of capital structure, asset quality, profitability, income structure, and branch, the Islamic banks have steadily improved their performance. They finally outperformed the conventional banks at the end of 1990s. In this regard, the general financial crisis more seriously affected the conventional banks while the Islamic banks were hurt less by the crisis.

According to the recent data of the Central Bank, the Islamic banks have shown remarkable performance in terms of market share and branch expansion under the JDP government. The market share of deposits increased from 1.6% in 2001 to 2.1% in 2002, 2.9% in 2003, and 3.8% in 2004. The market share of the loans increased from 2.6% in 2001 to 4.4% in 2002, 4.7% in 2003, and 4.8% in 2004. Their branches also increased from 115 in 2001 to 136 in 2002, 182 in 2003, and 195 in 2004.

#### **IV. THE TIES BETWEEN ISLAMIC BANKS AND ISLAMIC PARTIES IN TURKEY**

The logic of Islamic banking requires close relations between bankers, depositors, and borrowers, and a high degree of trust between business partners in order to reduce the information and monitoring costs. In this regard, Islamic banks favor the cohesion of Islamic party constituencies and solid relations with the party politicians who might offer reliable information about prospective borrowers. Turkish Islamic banks also have been connected with the Islamic parties, by opening their branches to seek out the deposit bases in areas where the support of the Islamic parties is strong and by establishing close personal

relationships with the local politicians of the party. In doing so, the Islamic banks that have been growing since the mid-1990s may be strengthening the Islamist political forces who are committed to more liberal and moderate stance in favor of business interests. While the Islamic bankers do not necessarily share commitment to democracy, their drive for markets and profits may indirectly contribute to moderating the political Islamists. In fact, since the late 1990s there has been a growing liberal faction among the Turkish political Islamists, and it finally formed a reformist Islamic party in 2001. The recent transformation from a fundamentalist stance to Islamic liberalism may indeed reflect the growing political importance of an Islamic bourgeoisie, promoted by Islamic bankers.

The transformation tendency was observed since the Virtue Party (VP) established in 1998 as a successor of the Welfare Party (WP), began to project more moderate programs and electoral manifestos. Although opposition to and exclusion by the secular regime forged a sense of unity under the leadership of Necmettin Erbakan, the VP witnessed a growing rift among its leadership. The rift has developed between the conservative wing of the party led by the founder of the party, Necmettin Erbakan, and a younger generation of reformists gathered around Recep Tayyip Erdogan and Abdullah Gul. In fact, the traditionalists loyal to the charismatic leadership of Necmettin Erbakan for the first time faced a significant leadership challenge from a younger group of reformists.

Yet the VP was charged with being a reincarnation of the fundamentalist WP and was banned by the constitutional court in June, 2001. Following the VP's closure, the Justice and Development Party (JDP) was formed under the

leadership of the reformist wing, while the Felicity Party (FP) was established by the conservative faction. This faction was still under the leadership of Necmettin Erbakan, who was banned from political activity with the VP's closure. The reformist JDP rejects anti-Western attitudes and emphasizes privatization, marketization, and decentralization. The new party apparently has changed its attitude from 'rejection' of liberalism in the name of Islamic values toward 'synthesis' of Islam and liberalism. The Party responds to the impact of secularism and Westernization by pursuing a strategy of co-existence with the state and by seeking a reformist solution and finally won a landslide victory in the 2002 general election.

#### **i. Geographical Ties**

This section examines relationships between locations and numbers of branches of the Islamic banks, and the election results of the Islamist parties. Even before the recent rise of reformist wing, the Islamic banks were implanting branches in regions where people were especially likely to vote for an Islamic party.

Table 5-3 locates the growth of the Islamic banks' local branches. The time periods are between the election years, and the 2000-2002 period covers 9 new branches opened in spring of 2002. Also the table includes 35 branches of Ihlas Finance House because its possible ties with Islamist parties over 7 years, until the Bank was closed in February, 2001.

Table 5-3. Growth of Islamic Banks' Local Branches

|               | 1985-87 | 1988-91 | 1992-95 | 1996-99 | 2000-02 |
|---------------|---------|---------|---------|---------|---------|
| Istanbul      | 2       | 6       | 23      | 40      | 59      |
| Ankara        | 1       | 4       | 8       | 10      | 11      |
| Izmir         |         | 2       | 3       | 6       | 6       |
| Konya         |         | 2       | 3       | 6       | 7       |
| Bursa         |         | 2       | 4       | 6       | 6       |
| Adana         |         | 2       | 4       | 4       | 4       |
| Sanliurfa     |         | 1       | 1       | 2       | 2       |
| Kayseri       |         | 1       | 2       | 4       | 5       |
| Sakarya       |         | 1       | 2       | 3       | 4       |
| Denizli       |         | 1       | 3       | 3       | 4       |
| Trabzon       |         | 1       | 1       | 2       | 3       |
| Gaziantep     |         | 1       | 1       | 3       | 4       |
| Samsun        |         | 1       | 1       | 2       | 3       |
| Kocaeli       |         |         | 1       | 4       | 5       |
| Eskisehir     |         |         | 1       | 3       | 3       |
| Balikesir     |         |         | 1       | 2       | 2       |
| Kahramanmaras |         |         | 1       | 2       | 2       |
| Malatya       |         |         |         | 2       | 2       |
| Antalya       |         |         |         | 3       | 3       |
| Diyarbakir    |         |         |         | 1       | 2       |
| Afyon         |         |         |         | 2       | 2       |
| Corum         |         |         |         | 2       | 2       |
| Elazig        |         |         |         | 1       | 2       |
| Erzurum       |         |         |         | 1       | 3       |
| Karaman       |         |         |         | 1       | 1       |
| Kutahya       |         |         |         | 1       | 1       |
| Manisa        |         |         |         | 1       | 1       |
| Isparta       |         |         |         | 1       | 1       |
| Van           |         |         |         | 1       | 1       |
| Sivas         |         |         |         | 1       | 1       |
| Aydin         |         |         |         | 1       | 1       |
| Aksaray       |         |         |         |         | 1       |
| Hatay         |         |         |         |         | 1       |
| Icel          |         |         |         |         | 1       |
| Osmaniye      |         |         |         |         | 1       |
| Bolu          |         |         |         |         | 1       |
| Rize          |         |         |         |         | 1       |
| TOTAL         | 3       | 25      | 60      | 121     | 159     |

Source: Annual Reports of each Islamic bank.

Table 5-4 shows correlation analyses of the Islamic banks' branches in table 5-3 and the Islamist parties' votes. The correlation analysis is based on the Pearson product-moment correlation, the most widely used statistic when describing the relationship between variables, estimating a population correlation and resting on the assumption of a bivariate normal distribution with a linear interdependence for continuous variables. The association is between the votes the Islamic parties received in each general election of 1991, 1995, and 1999 in each electoral region on the one hand, and the number of the Islamic bank branches in each region on the other. It is plausible not to consider the period of 1985-1987 because there have been only 3 branches of the Al Baraka Turkish and Faisal-Family Finance House. As table 5-4 shows, even before the recent emergence of reformist faction among the political Islamists, there have been unsurprisingly strong geographical association between the regions where the local branches of the Islamic banks were located and where the Islamic parties received electoral support. The coefficients of correlation are all in the predicted direction, statistically significant, and robustly positively associated.

As for the association from 1988 to 1991, the number of the Islamic banks' branches has increased from 3 in 1987 to 25 until 1991 adding Istanbul, Ankara, Izmir, Konya, Bursa, Adana, Sanliurfa, Kayseri, Sakarya, Denizli, Trabzon, Gaziantep, Samsun branch in table 5-3. Regarding the general election in 1991, the WP received 16.9% of the total votes with 62 parliament seats marking the fourth largest party in parliament. In the correlation analysis in 5-4-1,

the Pearson's  $r$  or the correlation coefficient value of 0.885 describes a positively and significantly correlated association between the two variables. The coefficient suggests that a one standard deviation increase in the local branches is associated with an increase in the WP's votes by 0.845 (obtained by multiplying 0.885, the coefficient and 0.955, the standard deviation). Also, the value of Pearson's  $r^2$  or the coefficient of determination can be interpreted as a proportion in explaining the correlation. The  $r^2$  value of 0.783 is interpreted as about 78% of the variance in the growth of local branches accounted for by the WP support.

From 1992 to 1995, the number of branches increased to 60 expanding into Kocaeli, Eskisehir, Balikesir, and Kahramanmaras in figure 5-3. With regard to the general election in 1995, the WP won 21.4% of the total votes and 158 parliament seats becoming the largest party in parliament. This time the electoral precincts increased from 74 to 79 adding Ardahan, Igdır, Yalova, Karabuk, and Kilis. The correlation coefficient value of 0.947 describes a positively and highly significantly correlated association in the analysis 5-4-2 implying that a one standard deviation increase in the local branches is associated with an increase in the WP's votes by 2.675 (obtained by multiplying 0.947, the coefficient and 2.825, the standard deviation). That is, regions with greater local branches of the Islamic banks were related to regions with greater electoral support of the Islamic party. Also, the  $r^2$  value of 0.896 is interpreted as about 89% of the variance in the Islamic banks' regional bases accounted for by the WP support.

Regarding the time period between 1996 and 1999, the number of branches increased to 121, and new branches were opened in Malatya, Antalya,

Diyarbakir, Afyon, Corum, Elazig, Erzurum, Karaman, Kutahya, Manisa, Isparta, Van, Sivas, Aydin, and Aksaray. In the 1999 election, the VP a successor of WP received 15.4% of the total votes and earned 111 parliament seats as the third largest party. This election included one more electoral precinct as Osmaniye increasing the number of precincts from 79 to 80. In the correlation analysis 5-4-3, the Pearson's  $r$  value of 0.976 suggests that a one standard deviation increase in the local branches is associated with an increase in the VP's votes by 4.606 (obtained by multiplying 0.976, the coefficient and 4.720, the standard deviation). Thus, the magnitude and significance of the coefficient on the growth of local branches in this correlation fairly rise compared to those in the correlation 5-4-1 and 5-4-2. Also, the proportion of variance explained also rise showing more than 95% according to the  $r^2$  value of 0.952. Thus, the proposition referring to the robust and positive correlation between the growing Islamic banks' local branches and the Islamic party's regional support is supported.

Table 5-4. A Correlation Analysis: Ties of Islamic Banks with Islamic Parties in General

| (5-4-1)                                    | Number of Islamic Banks'<br>Local Branches | WP's Votes in 1991 |
|--|--|--------------------|
| Number of Islamic Banks'<br>Local Branches |  |                    |
| <i>Pearson correlation</i>                 | 1  |                    |
| <i>Sig. (2-tailed)</i>                     |  |                    |
| <i>N</i>                                   | 74   |                    |
| WP's Votes in 1991                         |  |                    |
| <i>Pearson correlation</i>                 | .885**                                     | 1                  |
| <i>Sig. (2-tailed)</i>                     | .000                                       |                    |
| <i>N</i>                                   | 74   | 74                 |

\*\* denotes statistically significant at  $p < .01$ .

| (5-4-2)                                    | Number of Islamic Banks'<br>Local Branches | WP's Votes in 1995 |
|--|--|--------------------|
| Number of Islamic Banks'<br>Local Branches |  |                    |
| <i>Pearson correlation</i>                 | 1  |                    |
| <i>Sig. (2-tailed)</i>                     |  |                    |
| <i>N</i>                                   | 79   |                    |
| WP's Votes in 1995                         |  |                    |
| <i>Pearson correlation</i>                 | .947**                                     | 1                  |
| <i>Sig. (2-tailed)</i>                     | .000                                       |                    |
| <i>N</i>                                   | 79   | 79                 |

\*\* denotes statistically significant at  $p < .01$

| <b>(5-4-3)</b>                             | Number of Islamic Banks'<br>Local Branches | VP's Votes in 1999 |
|--|--|--------------------|
| <hr/>                                      |  |                    |
| Number of Islamic Banks'<br>Local Branches |  |                    |
| <i>Pearson correlation</i>                 | 1  |                    |
| <i>Sig. (2-tailed)</i>                     |  |                    |
| <i>N</i>                                   | 80   |                    |
| VP's Votes in 1999                         |  |                    |
| <i>Pearson correlation</i>                 | .976**                                     | 1                  |
| <i>Sig. (2-tailed)</i>                     | .000                                       |                    |
| <i>N</i>                                   | 80   | 80                 |

\*\* denotes statistically significant at  $p < .01$ .

Source: Annual Reports of each Islamic bank; Turkiye Buyuk Millet Meclisi, Son Donem Uyeleri 2002; Turkiye Cumhuriyet Basbakanlik Devlet Istatistik Enstitusu, Milletvekili Genel Secimi Sonuclari (Il ve Ilce Sonuclar ve Ozet Tablolar), various issues.

And now, it analyzes geographical correlations between the Islamic banks and the political Islamists, who by this time are split between the moderate wing and conservative faction. Through the general election of 1999, the VP received 111 parliament seats with 15.4% votes. After the Party was banned in June, 2001, the 111 parliament deputies choose among four different possibilities. First, fifty of the 111 VP deputies joined the JDP formed by the younger generation of reformists. Second, 46 ex-VP deputies participated in the FP founded by the conservative faction, which continued to support Necmettin Erbakan. Third, thirteen of the 111 VP deputies joined the other parties, such as the Motherland Party (MP), the True Path Party (TP), the NAP (Nationalist Action Party), or the GUP (Great Union Party) or stayed as independent. Finally, two of the VP deputy members, Ayse Nazli Ilicak from Istanbul and Bekir Sobaci from Tokat lost their seats by the order of constitutional court when the VP was outlawed.

Considering the dichotomous rift between the reformist JDP and the traditionalist FP from the ex-VP deputies, table 5-5 illustrates the new configuration of deputy members according to regions. Meanwhile, the JDP had 59 parliament members when it entered the general election in November 3, 2002. In addition to the 50 deputies from the VP, nine deputies from the MP, the TP, and the NAP joined the Party before the election. It was mainly due to the growing popularity of the JDP, and in fact the opinion polls before the election have consistently shown the JDP to be a front runner (*Turkish Daily News* September 23, 2002). On the other hand, the number of FP's deputy remained as 46 when it entered the 2002 election.<sup>62</sup> Table 5-6 shows the correlation analysis results for the different association between the growing Islamic banks and the JDP members on the one hand and the FP members on the other. In 2002, one more electoral district Duzce was added by increasing the number of precincts from 80 to 81. The number of the Islamic banks' branches increased to 159 as new branches in Hatay, Icel, Osmaniye, Bolu, and Rize were added by 2002.

In table 5-6, the Pearson's  $r$  or the correlation coefficient of the number of the Islamic banks' branches and the JDP from VP is positive and strong. The coefficient value of 0.793 suggests that a one standard deviation increase in the number of local branches is associated with an increase in support for the JDP from VP by 5.330 (obtained by multiplying 0.793, the coefficient and 6.722, the standard deviation). Also, the impact of the correlation is significant at .01 level,

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<sup>62</sup> According to the 2002 general election results, the JDP achieved a landslide victory in their first election with 34.3% vote and 363 parliament seats while the FP only won 2.1% far below the 10% threshold to enter parliament. [0]

and the amount of variance explained in this correlation is around 62% (the Pearson's  $r^2 = 0.628$ ). That is, regions with greater number of the Islamic banks' branches tended to support the reformist wing more or vice versa. On the other hand, the correlation between the number of the Islamic banks' branches and the FP from the VP is also positive and strong. The coefficient of the correlation is 0.626 implying that a one standard deviation increase in the number of local branches is associated with an increase in support for the FP from the VP by 4.207 (obtained by multiplying 0.626, the coefficient and 6.722, the standard deviation). The Pearson's  $r^2$  of 0.391 is interpreted as about 39% of the variance in the Islamic banks' regional bases accounted for by the traditionalist FP members, suggesting that 60% of the variance between them do not have in common.

Table 5-5. New Configuration of ex-VP Deputies before the 2002 Election

|           | JDP                 | FP                      |
|-----------|---------------------|-------------------------|
| Adana     |                     | YAKUP BUDAK             |
| Adiyaman  | MEHMET OZYOL        |                         |
|           | DENGIR MEHMET FIRAT |                         |
|           | MAHMUT GOKSU        |                         |
| Afyon     | SAIT ACBA           |                         |
| Aksaray   | RAMAZAN TOPRAK      |                         |
| Amasya    | AKIF GULLE          |                         |
| Ankara    | EYYUP SANAY         | MEHMET ZEKI CELIK       |
|           | CEMIL CICEK         | OYA AKGONENC MUGISUDDIN |
|           |                     | RIZA ULUCAK             |
| Antalya   |                     | MEHMET ZEKI OKUDAN      |
| Balikesir | ISMAIL OZGUN        |                         |
| Batman    |                     | ALAATTIN SEVER AYDIN    |
| Bayburt   |                     | SUAT PAMUKCU            |
| Bingol    | MAHFUZ GULER        | HUSAMETTIN KORKUTATA    |

|            |                       |                       |
|------------|-----------------------|-----------------------|
| Bitlis     | ZEKI ERGEZEN          |                       |
| Bolu       | ISMAIL APTEKIN        |                       |
| Bursa      | FARUK CELIK           | AHMET SUNNETCIOGLU    |
|            | M. ALTAN KARAPASAOGLU |                       |
| Cankiri    |                       | HUSEYIN KARAGOZ       |
| Corum      |                       | YASIN HATIBOGLU       |
| Diyarbakir | OSMAN ASLAN           | OMER VEHBI HATIPOGLU  |
|            |                       | SACIT GUNBEY          |
| Elazig     |                       | AHMET CEMIL TUNC      |
|            |                       | LATIF OZTEK           |
| Erzincan   | TEVHIT KARAKAYA       |                       |
| Erzurum    |                       | ASLAN POLAT           |
|            |                       | FAHRETTIN KUKARACI    |
|            |                       | LUTFU ESENGUN         |
| Gaziantep  | NURETTIN AKTAS        |                       |
| Giresun    |                       | TURHAN ALCELIK        |
| Gumushane  |                       | LUFTI DOGAN           |
| Hatay      |                       | MUSTAFA GECER         |
|            |                       | SULEYMAN METIN KALKAN |
| Istanbul   | ABDULKADIR AKSU       | ALI OGUZ              |
|            | ALI COSKUN            | BAHRI ZENGIN          |
|            | AZMI ATEŞ             | MUKADDER BASEGMEZ     |
|            | HUSEYIN KANSU         | OSMAN YUMAKOGULLARI   |
|            | IRFAN GUNDUZ          | SULEYMAN ARIF EMRE    |
|            | MEHMET ALI SAHIN      |                       |
|            | MUSTAFA BAS           |                       |
|            | NEVZAT YALCINTAS      |                       |
| K.Maras    | ALI SEZAL             | MUSTAFA KAMALAK       |
|            | AVNI DOGAN            |                       |
| Karaman    | ZEKI UNAL             |                       |
| Kayseri    | ABDULLAH GUL          |                       |
|            | SALIH KAPUSUZ         |                       |
| Kirikkale  | KEMAL ALBAYRAK        |                       |
| Kocaeli    | OSMAN PEPE            | MEHMET BATUK          |
|            | MEHMET VECDI GONUL    |                       |
| Konya      | OZKAN OKSUZ           | LUTFI YALMAN          |
|            | REMZI CETIN           | TEOMAN RIZA GUNERI    |
|            |                       | VEYSEL CANDAN         |
| Malatya    |                       | MEHMET RECAI KUTAN    |
|            |                       | OGUZHAN ASILTURK      |
|            |                       | YASAR CANBAY          |
| Manisa     | BULENT ARINC          |                       |

|              |                      |                       |
|--------------|----------------------|-----------------------|
| Mardin       |                      | FEHİM ADAK            |
| Mus          | SABAHATTİN YILDIZ    |                       |
| Nevşehir     | MEHMET ELKATMIS      |                       |
| Ordu         | EYUP FATSA           |                       |
| Osmaniye     | SUKRU UNAL           |                       |
| Rize         |                      | MEHMET BEKAROĞLU      |
| Sakarya      |                      | CEVAT AYHAN           |
|              |                      | NEZİR AYDIN           |
| Samsun       | MUSA UZUNKAYA        | AHMET DEMİRCAN        |
| Sanlıurfa    | YAHYA AKMAN          | AHMET KARAVAR         |
|              | ZULFUKAR İZOL        | MUSTAFA NİYAZI YANMAZ |
| Siirt        | AHMET NURETTİN AYDIN |                       |
| Sirnak       | ABDULLAH VELİ SEYDA  |                       |
| Sivas        | ABDULLATİF SENER     | MUSA DEMİRCİ          |
|              |                      | TEMEL KARAMOLLAĞLU    |
| Tokat        | M. ERGÜN DAĞCIOĞLU   |                       |
| Trabzon      |                      | SEREF MALKOÇ          |
| Van          | MALİKİ EDER ARVAS    | FETHULLAH ERBAS       |
| Yozgat       | İLYAS ARSLAN         |                       |
|              | MEHMET ÇİÇEK         |                       |
|              |                      |                       |
| <b>TOTAL</b> | <b>50</b>            | <b>46</b>             |

Source: Türkiye Büyük Millet Meclisi, Son Donem Uyeleri 2002; Türkiye Cumhuriyet Basbakanlık Devlet İstatistik Enstitüsü, Milletvekili Genel Seçimi Sonuçları (İl ve İlçe Sonuçları ve Özet Tablolar), various issues; Adalet ve Kalkınma Partisi, Parti Uyeleri 2002.

In brief, the impact of correlation between the Islamic banks' branches and the reformists' regional base is a bit stronger (the Pearson's  $r = 0.793$ ) than that with the traditionalists (the Pearson's  $r = 0.626$ ). Also, the proportion of variance explained in the former correlation is a bit bigger (62%) than that in the latter correlation (39%).

Table 5-6. A Correlation Analysis: Location of Islamic Banks in Reformist and Traditionalist Constituencies

|   | Number of Islamic Banks' Local Branches in Constituency | Representatives to JDP from VP | Representatives to FP from VP |
|---|---|--------------------------------|-------------------------------|
| <hr/>   |   |                                |                               |
| Number of Islamic Banks' Local Branches in Constituency |   |                                |                               |
| <i>Pearson correlation</i>                              | 1   |                                |                               |
| <i>Sig. (2-tailed)</i>                                  |   |                                |                               |
| <i>N</i>  | 81  |                                |                               |
| Representatives to JDP from VP                          |   |                                |                               |
| <i>Pearson correlation</i>                              | .793**  | 1                              |                               |
| <i>Sig. (2-tailed)</i>                                  | .000  |                                |                               |
| <i>N</i>  | 81  | 81                             |                               |
| Representatives to FP from VP                           |   |                                |                               |
| <i>Pearson correlation</i>                              | .626**  | .473**                         | 1                             |
| <i>Sig. (2-tailed)</i>                                  | .000  | .000                           |                               |
| <i>N</i>  | 81  | 81                             | 81                            |
| <hr/>   |   |                                |                               |

\*\* denotes statistically significant at  $p < .01$ .

Source: Annual Reports of each Islamic bank; Türkiye Büyük Millet Meclisi, *Son Donem Uyeleri 2002*; Türkiye Cumhuriyet Başbakanlık Devlet İstatistik Enstitüsü, *Milletvekili Genel Seçimi Sonuçları (İl ve İlçe Sonuçları ve Özet Tablolar)*, various issues.

Yet, a positive and robust correlation does not necessarily prove causation. As a matter of fact, the distinction between independent variable and dependent variables is not relevant in the correlation context, and the causal conclusions

cannot be substantial from the above relationships. Moreover, the difference between 62% and 39% in terms of variance explained in the correlation analyses, is not that critical. However, the correlation analyses provide a clue for the plausible causal relationships, and the dynamic nature of the causal process should be sought by logical reasoning that provides a solid ground for a causal inference and by detailed process tracing. The results imply that the impact of the growing Islamic banks is highly, robustly, and geographically associated with the moderate political Islamists. Yet in order to catch the dynamic impacts on the ongoing moderation of the political Islamists, it should track the personal ties and new power configuration.

## **ii. Personal Ties**

After the introduction of Islamic banking in the mid-1980s, the close personal ties between the bankers and the Islamic-oriented MP members who gathered around Ozal and eagerly tried to promote Islamic banking, were observed. Some of the ties were also interwoven with tarikats, silent but influential religious orders with large networks. Later in the end of 1990s, as the split between the reformists and traditionalists among the political Islamists arose, those personal ties seemed to transfer to the newly growing reformist wing under the leadership of Erdogan. The seemingly transferred ties were possible as the former MP members joined the moderate JDP, and the various tarikats' members also preferred to work with the JDP members.

First, quite a few of the former MP members in the Ozal times and close friends of the Ozal family worked as the board directors or managers of the banks, possessed the ownership shares, and joined the reformist Islamic party. In the mid-1990s, predominantly Islamic-oriented MP deputies, such as Ali Coskun, Abdulkadir Aksu, and Cemil Cicek, left the party and joined the moderate faction in the Islamist VP when the MP under Yilmaz's leadership shifted its orientation away from Ozal's conservative liberalism. Ali Coskun, the Ozal family's close friend, served as the director of board member of Ihlas Finance House in the late 1990s. Coskun was a deputy president of the Istanbul Chamber of Industry, president of TOBB (the Turkish Union of Chambers and Commodities Exchanges) and deputy president of the Islamic Countries Union of Chambers. After Coskun joined the VP, he leded "the Ali Coskun - Nevzat Yalcintas' group" as a main economic policy maker within the moderate wing. Later, Coskun became a founding member of the JDP, was elected as an Istanbul deputy for the JDP in the 2002, and later an industry and trade ministerin 2003 due to his close link with the Chambers of Commerce.

Professor Nevzat Yalcintas, Korkut Ozal's close friend, had introduced many promoters of the Islamic banks into Turkey because he had served in Jiddah as a director of the Islamic Development Bank in the late 1980s. He was a WP and VP deputy in the 1990s, ran for the presidency in 2000, and later joined the JDP, working as an economic policy maker, after the VP was shut down. Yalcintas was elected as an Istanbul deputy of the JDP in the 2002 election.

Second, the personal ties were strengthened by tarikats or Islamic orders, such as the Nakshibendi, Nurcu, and Fethullahci tarikat, whose members have been the managers and important share holders of the Islamic banks. The tarikats were dissolved in 1925 by the RPP regime, their wealth confiscated, and any reorganization prohibited. Deeply rooted in the Turkish social and religious life, the tarikats went underground and cemented their secret solidarities until the Ozal's government gave them semi legal status (Carley 1997: 87, Zubaida 1996: 12). The MP under Ozal's leadership successfully obtained most of the mainstream support from the tarikats increasing their political effectiveness. Even though the tarikats have no formal or direct link to the political parties, they could provide a comprehensive network after the tarikats' capital increased due to the flow of Arab capital during the Ozal's rule (Bulut 1999: 263).

The most influential tarikat is the Nakshibendi.<sup>63</sup> Its main members are the Ozal family, the Topbas family, Necmettin Erbakan, Tayyip Erdogan, professor Nevzat Yalcintas, professor Ayhan Songar, professor Salih Tug, the MP deputy Ali Coskun, and other many MP parliamentarians (Mumcu 1987: 182-183, Shankland 1999: 68, Yesilada 1989: 4). The Ozal and Topbas families are also the main shareholders of the Al Baraka Turkish Finance House. Korkut Ozal, a younger brother of Turgut Ozal, played a pivotal role in bringing Saudi and other

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<sup>63</sup> The Nakshibendi order has been the most widely subscribed Sunni tarikat in Turkey since the eighteenth century. Particularly in the eastern regions, they have had a significant influence as the community leaders of traditional Sufi orders. The most influential contemporary leader was Sheikh Mehmed Zahit Kotku. The current leader is Mahmut Esad Cosan, a son-in-law of Kotku, who was a professor of Theology, Ankara University, and published several Islamic periodicals including the influential *Ilim ve Sanat*. The order under the leadership of Cosan is most influential in Istanbul, Izmir, Kayseri, and Adapazari with an extensive network of trusts and publications (Mardin 1991: 134, Shankland 1999: 68, Yesilada 1999: 137).

Gulf states' capital into Turkey. He was the deputy of the NSP serving as a minister of agriculture in the coalition government of the RPP and the NSP in 1974, and later a member of the First Nationalist Front coalition government of the JP, the RPP, the NAP, and the NSP during 1975-1977. Also, Mustafa Topbas has been the vice president of the Al Baraka Turkish Finance House since its foundation, and Eymen Topbas was the chairman of the MP's Istanbul branch. The Hak Yatirim ve Ticaret and Akabe Insaat companies, both owned by the Ozal and Topbas families, were the founding partners of the Al Baraka Turkish Finance House. The Nakshibendi tarikat and the members supported the DP in the 1950s and the Islamist NOP and NSP during the pre-1980 period. The leader Mehmed Zahit Kotku encouraged Erbakan to develop a factory that manufactured irrigation pumps in the 1970s (Ayata 1993: 52). However, the tarikat switched its support to the MP as the key followers of the order attained major positions within the party and Ozal government (Yesilada 1989: 4). The strong support of the tarikats to the MP during the 1980s diminished after Ozal's death in 1993. The new leader of the Nakshibendi tarikat Cosan did not get along with Erbakan. At a conference in Istanbul in 1990, Cosan explicitly accused Erbakan of deserting the Nakshibendis. Cosan also accused him of banning the WP supporters from buying his journal or from making donations to the trust Halk Yol Vakfi, through which the activities of the tarikats were supported (Shankland 1999: 83-84, 91). Also, the owner of Ihlas Holding and Ihlas Finance House Enver Oren is known as the member of Isik branch, the small offshoot of the Nakshibendi tarikat, and as the supporter of the moderate JDP.

On the other hand, the Nur is the second biggest tarikat,<sup>64</sup> and the members are Salih Ozcan, Ahmet Tevfik Paksu, Halil Sivgin, Gunduz Sevilgen, and Resat Saruhan who were the main Turkish shareholders of the Faisal Finance House in the 1980s. Ozcan and Paksu possessed a close relationship with Prince Faisal. Ozcan as a big supporter of the Ozal government served as one of the board of directors in the Faisal Finance House and was also the Turkish member of Rabita's founding congress. Ozcan was the Sanliurfa deputy of the NSP while Paksu, a former JP deputy, was also the Kahramanmaras deputy of the NSP and served as a labor minister in the First Nationalist Front coalition government. Sivgin, a former member of the NAP, later joined Ozal's MP, and Kulahli was the deputy of the JP. Sevilgen and Saruhan were both the deputies of the NSP in the mid-1970s (Blut 1997: 269, 285, Yesilada 1989: 5 -6). Also, other main members are the MP deputies Abdulkadir Aksu and Cemil Cicek. The Nur tarikat and members backed the DP in the 1950s and the JP in the 1970s while some of them supported the Islamist NOP and NSP. Later, the Nur tarikat supported the MP during the reign of Ozal, and two grandchildren of Said Nursi, Kamran Inan and Edip Safder Gaydali were the MP deputies (Ayata 1993: 55, Shankland 1999: 68, 83-84). In terms of party preference, the Nurcu are not fundamentally different from the Nakshibendi in the 1980s. The Nur tarikat supported the TPP since the mid-1990s, but the support was not coherent and concrete compared to the earlier support toward the MP (Carley 1997: 87, Zubaida 1996: 12).

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<sup>64</sup> The Nurcu tarikat, the followers of Said Nursi is the only one to rival the Nakshibendi. Said Nursi advocated the idea of Islamic solidarity to which Mustafa Kemal strongly opposed and was accused of inciting revolt in 1925 among the Kurds which resulted in his exile from his homeland Van in eastern Anatolia to Burdur in western Anatolia (Yesilada 1999: 137-138).

Meanwhile, a neo-Nurcu group emerged under the leadership of Fethullah Gulen, a former mosque preacher in Izmir with a rich and complex web of business networks and large media empires in the 1980s.<sup>65</sup> The so-called Fethullahci supported the MP during the reign of Ozal when Fethullah Gulen was interested in opening Islamic banking in Turkey. In 1996, the Gulen community finally founded Asya Finance House, one of the fastest growing Islamic financial institutions. The crucial difference between the Fethullahci and other tarikats is that the Fethullahci order stressed Turkish nationalism and the market economy, symbolizing moderate Turkish Islam. Gulen, with pro-American inclinations, is very critical of the regimes in Iran and Saudi Arabia and known to be well aware of the opportunities available in a free market. He stresses the value of business community and receives much support from business circles (Shankland 1999: 81-84, Yavuz 1999, 118-120). Fethullah Gulen has been in a serious conflict with

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<sup>65</sup> The Fethullah group operates a disciplined community through education, mass media, and financial networks. First, the group has highly organized and effective educational institutions including universities, colleges, high schools, private academic institutes, dormitories, and summer camps in Turkey and Central Asia. Those institutions are Fatih University, Cankaya Medical Center, Firat Educational Center, Ufuk Education Corporation, Cag Teaching Corporation, Istanbul FEM Academic Institution, Ozel Maltepe Academic Institution, Fatih Education and Teaching Association, Akyazili Orta ve Yuksek Education Foundation, Turkiye Teachers Foundation, and Turkiye Journalists and Writers Foundation. Second, the Fethullah group owns a large empire of media possessing several periodicals such as Zaman (a daily newspaper), Fountain (an English-language newspaper), Sizinti (a science monthly), Ekoloji (an environment-related magazine), Yeni Umit (a theological issues journal), Aksiyon (a weekly magazine), Isik advertising company, Samanyolu TV, and Burch FM station. Third, the group has an insurance company Isik Sigorta founded in 1995 and an Islamic bank Asya Finance House established in 1996. Also, two business associations, ISHAD (Is Hayatinda Dayanisma, The Association for Solidarity in Business Life) and AGIAD (Anadolu Genc Isadamlari Dernegi, The Young Businessmen's Association) are the big supporters of Fethullah. ISHAD in particular, has been focusing its business into the newly independent Turkic republics in the Central Asia. The group is also known to possess vast real estate property from which it secures a huge rent income. Akyazili Foundation for instance, has innumerable dwellings, shops, offices, private schools, malls, and hostels in 23 provinces. Most of the members are teachers, students, journalists, and businessmen, and the supporters are estimated around 200,000 (Aras and Caha 2000: 5, Bulut 1997: 404-405, *Turkpulse* August 16, 2001).

Erbakan and the Islamic party under his leadership since the foundation of the NSP. Gulen harshly accused Erbakan of using Islam as a political instrument. Gulen also established fair relationships with most center right party politicians, such as Demirel, Ecevit, Ciller, and Yilmaz (Kristianasen 1997: 4). In doing so, he stood as a bulwark against Erbakan and supported the official statism by arguing that Islam should not be limited to one party's identity when the secularist governments were seeking to counterbalance the Islamic party (Yavuz 1999: 121-122). Gulen hardly questioned the oppressive policies toward the Islamic groups and, in fact, publicly defended the military crackdown against the WP in 1997 (*Radikal* April 21, 1998). Yet such a behavior of Gulen's community is criticized by other Islamist groups as well as by Erbakan (Aras and Caha 2000: 2-3).

However, recent reports note that there is personal closeness between Gulen's community and Erdogan. Cuneyd Zapsu, a founding member of the JDP and a Kurdish businessman who worked in the Turkish-American Council of TUSIAD, introduced Erdogan to Ishak Alaton, an influential Jewish businessman as well as a big supporter of the Fethullaci. Alaton, an owner of the 10 largest business groups in Turkey, became persuaded by Erdogan's new practical stance without anti-West perspectives just as Zapsu did earlier. Later, Alaton built a connection between the American Jewish community and Erdogan, and helped Erdogan by sending signals that he would maintain Turkey's relationship with Israel (Sontag 2003). Also, another Jewish businessman, Uzeyir Garih, supports both Erdogan and Gulen (Yavuz 1999: 140). Fazil Kahraman, the executive of Dost Sigorta insurance company which has a close connection with Erdogan, is at

the same time the partner company of Isik Sigorta, an insurance company owned by the Gulen community (*Cumhuriyet* April 22, 1998).

Indeed, Gellner (1981) points out that there is a dichotomous tension between superstitious and mystical practices led by the tarikats in local communities on the one hand, and orthodox, scripturalist and *shari'a*-based fundamentalist activities led by the urban radical Islamist movements on the other. Thus, the tarikats tend to be informal, personal, flexible, and liberal, and accordingly have conflicts with Erbakan and his rigid traditionalist faction who driven Islam in a confronting way against the state. Because of this, the tarikat members have preferred the moderate wing over the traditionalist faction.

Meanwhile, in addition to the former MP members and close friends of the Ozal family who joined the moderate wing of the Islamic party, and in addition to the tarikat connections, the new generation within the Islamic party has also cultivated connections with the Islamic banks. Abdullah Gul, the second-most important figure in the JDP after chairman Erdogan, also has a close connection with Islamic banking. Gul, a pro-Western economist, received his BA and Ph D degrees in Economics from the Faculty of Economics at Istanbul University and taught economics at the University of Sakarya. He worked as a specialist at the Islamic Development Bank from 1983 to 1991 where Korkut Ozal exercised great influence. Kahraman Emmioglu, a former secretary general of Istanbul municipality under mayor Erdogan, was the manager of the Al Baraka Turkish Finance House in the late 1980s. Emmioglu was charged with corrupt dealings in which a pro-Islamist company took the contract for the advertisement of the

Istanbul municipality's Electricity Telephone Tramway (IETT). The director of the company, Muammer Kantarci, had previously worked for the Al Baraka Finance House with Emmioglu (Akinci 1999: 95). Emmioglu was a VP deputy in Kahramanmaraş and later was appointed as the chairman of oil refiner TUPRAS by Erdogan in 2003. Also, Kemal Unakitan, Erdogan's close friend from school years, was one of the board directors in the Al Baraka Turkish Finance House during the 1980s, and also a founding member of the Faisal- Family Finance House. Unakitan previously worked at the firm owned by the Ozal family and is known as a member of the Nakshibendi tarikat. Unakitan was elected as the Istanbul deputy of the JDP in the 2002 election and has served as the minister of finance since 2003 (Yesilada 1989: 6). Professor Nazim Ekren, an expert on Islamic banking and a chair in the Islamic banking and insurance institute in Marmara University, Istanbul, joined the JDP as a founding member. He was the WP-appointed director general of the state-owned Vakifbank in the WP government, and was elected as an Istanbul deputy of the JDP in the 2002 election. (AK Partisi 2002a, *Turkish Daily News* April 14, 2003).

## **V. CONCLUSION**

This chapter explores the evolution of Turkish Islamic banks and the links between the Islamic banks and moderate political Islamists. In general, Turkish Islamic banks' balance sheets, profit-loss statements, market share, and number of branches and employees have increased considerably since the mid-1990s. Compared with the conventional banks, the Islamic banks have steadily improved

their performance, and have outperformed the conventional banks since the end of 1990s. Recently, Turkish Islamic banks were officially integrated into the commercial banking system largely owing to the financial reform programs of the IMF and World Bank. The locally financed Islamic banks, such as Anadolu and Asya Finance House, began to be established in the early 1990s, whereas the Al Baraka Turkish, Faisal-Family, and Kuwait Turkish Finance House emerged in the mid-1980s as joint ventures with the Arab financial groups. The domestically-owned banks have expanded their market share, number of branches, and employees more than the Arab-financed ones since the mid-1990s.

Regarding the geographical connections, the impacts of the growing Islamic banks on the reformist JDP are stronger than on the traditionalist FP. The local branches of the Islamic banks are more closely correlated with regions providing support of the JDP than those of the FP. Also, there are strong personal ties between the Islamic banks and newly growing reformist wing in the political Islamists, which largely includes the former MP members during Ozal's leadership. These Islamic-oriented MP members have been deeply involved with Turkish Islamic banking sector and the tarikat community.

## **Chapter 6. The Politics of Islamic Business in Turkey**

In the 1980s, Ozal's economic liberalization policy, based on conservative liberalism, gave birth to a new business group: small but export-driven Islamic business in the inner Anatolian periphery. The new policy engineered a shift from import substitution and the first generation of big state-linked industrialists to the outward-orientation of a new generation of "practical moralizers" (Henry and Springborg 2001: 211). The newly-encouraged Islamic business in manufacturing and services organized their own business representation, MUSIAD (Mustakil Sanayiciler ve Isadamlari Dernegi, the Association of the Independent Industrialists and Businessmen), in 1990 and have been clearly growth-oriented. They have been able to capture the benefits of globalization.

Criticizing the exclusive regulation of resources and control of religion by the state, MUSIAD and its constituency of traditional small and medium sized merchants, wanted the state to be dramatically downsized. In this regard, Islamic capitalists have been ardent free marketers, and as a matter of fact, economic Islam and neo-liberalism had a common target, the all powerful state (Warde 2004: 37). In the era of globalization, the market-driven Islamic capitalists became economically empowered and politically independent as the state lost control of local capital.

However, capital does not like to oppose governments openly, because any direct confrontation is likely to endanger business interests. In Turkey, the

Islamic business prefers to push the political Islamists in a more liberal direction, and to motivate them to adopt more market-oriented programs favorable to business interests and their future wealth. In this study, we are hypothesizing that Islamic business, which has risen in the globalization process, has had a moderating effect on Islamic party. While Islamic capitalists do not necessarily share any commitment to political liberalism or democracy, their drive for markets and profits may indirectly contribute to moderating political Islamists (Henry 1996: 24-25).

Recently in Turkey, the Justice and Development Party (JDP) was formed by the liberal and reformist wing and developed into be a moderate, catch-all party. It represents quite a remarkable transition from previous Islamist parties. The JDP has claimed to represent a continuation of the Motherland Party (MP) under Ozal, and a renewal of the conservative liberal legacy which originated from the Democrat Party (DP). In the 2002 national election, the JDP won a landslide victory and formed a single party government.

This chapter delves into not only the rise and growth of Turkish Islamic businesses, but also their possible ties to the moderate political Islamists. Part I investigates theories with regard to the politics of Islamic business. Part II traces the evolution of Islamic business since Ozal's liberalization policy. Part III of the chapter analyzes the growth of the Islamic businessmen association, MUSIAD, in terms of its strategy, organizational capacity, market base, branch, and membership. It compares the performance of MUSIAD with that of TUSIAD, the secular conglomerates' association. In part IV, this study examines the relations

between the Islamic businesses and Islamic banks, analyzing the association between MUSIAD members and the five Islamic banks in Turkey. It tracks geographical and personal connections between the local MUSIAD members and moderate political Islamists.

## **I. THE POLITICS OF ISLAMIC BUSINESS**

The colonial experience in the Middle East and North Africa contributed to the partial, discontinuous, and unstable nature of state building, social formation, and capitalist development in the post-colonial countries. The most problematic legacy from the colonial era was the overdeveloped state and the underdeveloped class structure in the newly capitalist countries (Anderson 1987, Ayubi 1995, Henry and Springborg 2001, Owen 2004). The rulers produced much the same type of European colonial rule via the creation of authoritarian regimes or, in the case of republican Turkey, by building the statist bureaucratic practices of the late Ottoman period. Huge expansion in the state's power and size including a number of public enterprises was a common feature of the post independent Middle East and North Africa (Owen 2004: 4, 32). Also, there was no contesting bourgeoisie, but only the state-created industrialists who had no desire to challenge the authoritarian regime and its direct intervention in capitalist development (Keyder 1987: 198-199).

Exclusive control of resources by the state and its crony capitalists continued until the import substitution industrialization era in the 1980s. Small traders, artisans, and old guild members often felt threatened by the huge

industrialization policy and heavy protectionism (Birttek and Toprak 1993: 197). Traditional merchants committed to Islamic values have been less favored by the state than their secularist competitors and the big capitalist cronies of the military-political elite who received governmental privileges (Henry and Springborg 2001: 212). In the 1980s, the Islamic business community was politically subdued and over-regulated by the state as its Islamist counterpart in politics challenged the incumbent regime, accusing it of rampant inefficiencies and corruption in the import substitution system and asking for greater political participation.

To counter what they perceived as extensive regulation and discrimination at the hands of the state, Islamic capitalists sought to disengage the state from the economy. They therefore supported privatization. They have called for an end to red tape and unnecessary regulation, the replacement of secret concessions with a transparent and competitive process, and decentralized governmental decision making by empowering local governments. Islamic capitalists have thus tended to buy into the Washington consensus based on their common target, the all powerful state. In fact, ideologically, both liberalism and economic Islam were driven by their common opposition to socialism and state controlled economy, and the globalization process witnessed the alliance between Islamists and competitive liberals. (Warde 2000: 45). In doing so, liberal Islamists developed a new idea of Islamic Protestantism suggesting that an entrepreneur who works hard for material gain and is spiritually pure (“Homo Islamicus”) will be rewarded here on earth in the form of shared profits and social recognition. According to this Islamic version of Max Weber’s “Protestant Ethic,” commercial gain with an

honorable ambition should be returned to the community via zakat or faithful charity, and zakat can be paid directly to the poor without involvement of political institutions. It is compatible with a minimal role of the state. The concept also emphasizes the rules set by Muhammad to guide the exchange activity in the Medina Market, which is a clearly defined competitive system with minimum state intervention (Bugra 2002b: 132, Ozel 1994: 3-5).

Those market-driven Islamic capitalists became increasingly successful as most import substitution industries in the region faced international pressure to implement structural adjustment reform, and to participate in the globalization process. The incumbent regimes became heavily indebted and increasingly dependent on rents from oil and foreign aid, which were getting scarcer, and thus could not keep up economic growth and legitimacy. On the other hand, Islamic capitalists, clustered in an outward-oriented sector mainly due to the exclusion and neglect by the import substitution strategy of the state, have been benefiting from market reform. As local economic groups grow and gain economic stature, local entrepreneurs can attract transnational allies on their own, without the help from the state (Evans 1997: 67). As a matter of fact, these upwardly mobile Muslim businessmen earned structural power owing to their capacity to mediate with connect with global capital markets, to establish transnational ties, and to accumulate their own wealth. These new riches from the globalization process economically empowered them and gave them a measure of political independence.

Islamic capitalists have much more to lose through direct confrontation with the state than their Islamist counterpart in politics, a political party drawing its constituencies from the bottom segment of the socio-economic spectrum. In fact, capital generally tends to be cowardly and does not like to enter in adversarial relationships with governments in order to secure their business interests. Islamic business in Turkey is like capital in general in this regard; it prefers to pursue a strategy of co-existence with the state (Onis 2001: 285). In doing so, it encourages the emergence of reconciliatory reformists pushing the political Islamists in a more liberal direction. This can stabilize relationships between the moderate faction of the Islamic movement on the one hand and their respective governments on the other hand. Therefore, it is hypothesized that Islamic business may strengthen more liberal and moderate Islamist political forces. These more moderate forces are likely to be more favorable to business interests.

## **II. THE DEVELOPMENT OF ISLAMIC BUSINESS IN TURKEY**

Ozal's economic liberalization policy and outward-oriented strategy in the early 1980s invigorated Islamic business. The Ozal government needed not only to vitalize the exporting sector which small but export-driven Islamic businesses mostly occupied, but also to cement a new coalition as a counter-balance to the big secular industrialists of the import substitution regime. Coming to power through the 1983 election, Ozal, who was not the military's favorite, but was acceptable to the military, accelerated the market reform. Market reform had

already started under a stabilization and structural adjustment program designed in agreement with the IMF during the military rule in 1980-1983. Ozal's policies clearly departed from the inefficient import substitution strategy. Not surprisingly, big business and the industrial bourgeoisie, who openly argued for the indispensability of statist economy and restrictive political system, opposed Ozal's policy (Keyder 1987: 202). The big businessmen who worried about a rapid decrease in the state protection, and who feared a challenge from small and medium sized export-oriented firms, backpedaled on earlier demands for the reform (Henry and Springborg 2001: 211). In fact, the big firms with large fixed assets in the protected industries were not fully converted to manufacturing exportable goods in the mid-1980s.<sup>66</sup> With the exception of a few holding companies whose activities were focused on the textile sector, the big industrialists did not abandon their import substitution orientation and still sought the governmental subsidies. For example, the two largest conglomerates, the Koc and Sabanci holding companies, exported only about six percent of their turnover in 1986 and were largely oriented to the home market (Erlap 1990: 241, Patton 1992: 118-119). The state-supported industrial conglomerates that possessed close links with the military defended the 1980 military intervention, lobbied the

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<sup>66</sup> A study published in 1986 by the Istanbul Chamber of Industry reported that many of large firms found it difficult to adjust to the new competitive market rules. An increasing number of the Fortune 500 companies of Turkey experienced net losses 35 in 1984 and 55 in 1985. In fact, a comparison of the 500 largest firms with the rest revealed an interesting trend with respect to exports. Whereas the Fortune 500 Turkish firms accounted for 63.7% of industrial exports in 1983, this figure had dropped to 45.1% by 1987. Even in terms of total exports, the Fortune 500 firms generated 42.8% of the total in 1983 and 36.9% in 1987 (Patton 1992: 118-119).

military against Ozal,<sup>67</sup> and also gave their strong support to the TPP, another center-right party and the MP's rival.<sup>68</sup>

Faced with the serious opposition, the Ozal government developed two strategies. First, it was to structure a highly centralized top-down decision making mechanism by enlarging the power of prime minister in particular. The top positions of economic administration were deliberately appointed from a selected group of young U.S.-educated technocrats, who were strongly committed to neo-liberal model and also tried to integrate Islamic values as well. These technocrats handpicked by Ozal and popularly known as the princes, were dependent on and loyal to Ozal and became key figures implementing a harsh structural adjustment during the latter half of the 1980s (Bugra 1994: 56, 264, Gulap 1999: 8). Accordingly, the locus of decision making clearly shifted from the Kemalist bureaucratic elite to the political elite committed to conservative liberalism under the leadership of economic czar Ozal<sup>69</sup> (Erlap 1990: 253, Onis 1998: 255, 342).

Second, it was to solidify new support of the outward-oriented strategy which the big conglomerates opposed. The trick of the successful reformer was to cajole and threaten big business to keep it in line behind the market oriented reforms even when they caused short run pain (Henry 1996: 88). The base of the

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<sup>67</sup> Ozal once worked at Sabanci Holding in the late 1960s.

<sup>68</sup> In 1982, the key businessmen Sabanci and Koc from TUSIAD, a business association for the big secular conglomerates, traveled to Ankara to pressure the military government to remove minister of Finance Ozal who was eagerly implementing the 1980 structural adjustment package and opposing to the governmental bailouts of the bankrupted firms. Ozal was subsequently fired by the generals in 1982. Also, prior to the 1987 election, the major newspapers reported that the big businessmen contributed significant campaign money to the TPP led by Demirel who was regarded as a strong supporter of the industrialists (Erlap 1990: 241, Patton 1992: 118-119).

<sup>69</sup> The powerful State Planning Organization lost its functions and influences while the Central Bank gained some degree of independence during the market reform in the 1980s (Atiyas and Ersel 1994: 106).

new coalition of interests was small and medium sized enterprises committed to religiously conservatism, based on provinces, and thus remarkably distinguished from the westernized, secular, and urban big business. The Islamic-oriented small business had been discriminated by the state compared to the huge privileges bestowed upon the big industrialists since the Kemalist authoritarianism with the short exceptional period of the DP's rule from 1950 to 1960 when the Republican industrialists'<sup>70</sup> hold over the economic middle class temporarily weakened. But the DP government still arbitrarily expanded the state owned enterprises and restricted the market through a series of intricate interventions (Bugra 1994: 120-121, Karpas 1973: 56).<sup>71</sup> Over the period of 1960-1980, the import substitute industrialization once again permitted the big industrialists to become richer by hiding behind a cozy system of heavy protectionism. Also, the state-business relations existed exclusively with this particular group of businessmen (Keyder 1987: 202). The public sector investment discriminated against the traditional small and medium size enterprises, and the bureaucracy did not favor them.<sup>72</sup> In

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<sup>70</sup> Since the foundation of the modern state in 1923, the Republican bourgeoisie created by the Kemalist elite filled positions already carved out by the non-Muslim bourgeoisie during the Ottoman Empire, which were destructed and abandoned during the war time after the collapse of the multi-ethnic empire. Also, the absence of a feudal-commercial landowning class in the old empire made the task of the state-created bourgeoisie easy (Keyder 1999: 198-199).

<sup>71</sup> "The paradox of Turkish liberalism" or "liberal interventionism" appeared as a crucial characteristic of the first experiment in liberalism during the DP's rule (Bianchi 1984: 256, Bugra 1994: 120-121). In the 1950s, the DP had found it difficult to realize the anti-statist promises and changed the axis of the political debate from state versus market into the best use of state power for economic growth. Instead of being dismantled as promised, the state owned enterprises expanded their presence in absolute terms, but at the same time were effectively subordinated to the requirements of private accumulation. Sometimes, the product prices of state enterprises were fixed to favor the private sector (Keyder 1987: 168-169, 197).

<sup>72</sup> The official statistics showed that credit given by the state institutions and banks to the small firms as a percentage of total credits had run at around three to four percent during the 1970s (Gulap 1999: 9).

this regard, the cleavage between the big secular business and the rest of the business community, mainly the small and medium sized Islamist firms, became increasingly clear (Bugra 1994: 131, 158-159, Patton 1992: 112). However, Ozal's economic liberalization policy combined with Muslim conservatism since the early 1980s, encouraged the Islamic business to speed up their exports through several incentive programs. The conscious efforts of pro-Islamist deputies in the MP provided those small and medium firms access to credit from the official sources (Ayata 1993: 58). Indeed, Ozal's market reform delivered enough small business to keep the ruling party's political machines rolling (Henry 1996: 88).<sup>73</sup>

Before the new market reform, the Islamic businesses, mostly the small and medium firms or the KOBIs (Kucuk ve Orta Buyuklukteki Isletmeler, Small and Medium Size Enterprises) were represented by a semi official organization, the Union of Chambers (TOBB, Turkiye Odalar ve Borsalar Birligi), a union of local chambers in every city and in many towns to which all commercial and industrial employers with ten or more workers were required to belong. This corporatist association, established in 1950, was under close government control and had little influence on the policy making process. Also, this compulsory association was a mixture of a wide variety of heterogeneous interests, and thus there existed an obvious split between the large industrialists in Istanbul and Izmir versus the smaller merchants in the inner Anatolia (Bianchi 1984: 261, Weiker 1981: 95). The provincial Anatolian business clustered in labor intensive sectors

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<sup>73</sup> In an interview with Euromoney magazine in 1988, Yusuf Ozal, brother of Turgut Ozal and at the time minister for Planning, Treasury, and Foreign trade, made sure that new policy did not mean easy money for the big industrialists of pre-1980s (Patton 1992: 118-119).

with low skill and low technical sophistication, such as retail and wholesale trades in textiles, clothing, leather, glass, and to a lesser extent, food industries, was frustrated by the state's exclusive investment in the bigger enterprises of the largest cities (Turel 1993: 76-78). The large chambers of the big business were autonomous from the Union, and their demands were increasingly voiced by the powerful conglomerates' connection to the government authorities without the intermediation of the Union of Chambers. In turn, the small Anatolian businesses dominated the Union of Chambers by weight of their numbers, but became marginalized by the bigger conglomerates.<sup>74</sup> The growing antagonism between the commercial and industrial interests was exacerbated, and the internal conflict of the Union was a major factor in the formation of TUSIAD (Turk Sanayiciler ve Isadamlari Dernegi, the Association of the Turkish Industrialists and Businessmen) in 1971<sup>75</sup> (Bianchi 1984: 256-259, Bugra 1994: 257, 2002b: 121, Onis 1998: 336).

Since Ozal's liberalization policy in the early 1980s, most of the Islamic businesses that had maintained export-oriented and flexible manufacturing without subsidy from the import substitution regime derived great benefits from the outward-oriented policy and learned to adapt to markets. In doing so, the newly developed Islamic capitalists became wealthy as the globalization process

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<sup>74</sup> Erbakan had successfully mobilized the small and medium businesses who felt alienated by the Union of Chambers' leadership which was largely controlled by the big business interests. He won the Union election in 1969 through a campaign against the JP candidates (Bugra 1994: 243). Yet, the election result was contested by the Chambers of Trade of Istanbul and Izmir, which provided a pretext for the decision of the Ministry of Commerce not to ratify it. Hence, Erbakan was shortly to be replaced by the candidate supported by the JP (Bugra 2002b: 122).

<sup>75</sup> The law prevented the formation of separate unions of the Chambers of Industry even though it permitted the separate chambers themselves (Weiker 1981: 97-98).

deepened, and some of them grew into big firms which founded joint ventures in Europe, mainly Germany, financed with funds collected from the Turkish guest workers. Many of the Turkish workers in Europe kept their money out of banks because of their religious opposition to interest, and they were attracted to the Islamic-committed companies based in Turkey which offered investors shares in profits instead of interest. For example, Kombassan Holding and Yimpas, the examples of Islamic corporation model, had grown with funds from not only the small investors of the inner Anatolia but also the huge savings of the conservative Turkish workers in Europe in the late 1980s. The fast rise of the conservative Anatolian entrepreneurs in the 1980s is known as the emergence of the “Anatolian tigers,” the main supporters of Ozal’s reform forming the most vibrant parts of the Turkish export sector in terms of numbers and influence. Furthermore, despite the terminology of “Anatolian” tigers, lots of the Islamic business extended the boundary beyond the provincial Anatolian towns to the outskirts of the big cities, mainly Istanbul. The new urban petite bourgeoisie joined in the expanded commercial sector, as peddlers, dealers, contractors, restaurant owners, small firm owners, textile shop owners, and food producers, preserving their provincial identity and religious tradition.

Also, Ozal’s policy which favored the Anatolian periphery in pursuing the new coalition building, revitalized the tarikats or Islamic Sufi orders. The tarikats which remained as secret brotherhoods after the abolition of all Islamic organizations since the early RPP regime, finally received semi legal status during the Ozal government and were able to raise funds through their comprehensive

network. In addition, the flow of Saudi and other Gulf states' capital in the process of establishing Islamic banking in Turkey relatively increased their funds. The most significant and oldest tarikats are Nakshibendi and Nurcu. In fact, Ozal's family was devoted to the Nakshibendi as Korkut Ozal, brother of Turgut Ozal, held an important position within the order, and Hafize Ozal, the late mother of Turgut Ozal was buried in a Nakshibendi cemetery. Also, the Islamic-oriented MP members did not hide their strong connections to the Nakshibendi tarikat. As Ozal's conservative liberalism policy was implemented, those tarikats took a role of lobbyist for the Islamist capitalists in textile, construction, and banking sector, and furthermore many of them established their own investment companies, private TV channels, hospitals, and schools in the 1980s. The Anatolian tigers were known to have a strong connection to the tarikats which provided benefits from a transnational market especially, from the Gulf states (Shankland 1999: 68, Yesilada 1999: 137-138, Zubaida 1996: 11).

Overall stabilization and growth during the period of 1983-1987 was followed by an economic crisis developed after the 1987 election and subsequent reform fatigue and a noticeable decline in the appetites of reformers for implementing a second stabilization package of February 1988 (Atiyas and Ersel 1994: 108-110, Onis 1998: 184). As the harsh structural adjustment reform could not sustain the initial popularity and support for Ozal and his party, Ozal perceived little option but to increase expenditures before the election, yet the result was a surge in inflation. In fact, the late 1980s witnessed "popular capitalism" which was clearly based on electoral and political considerations and

accordingly caused the lingering fiscal problem (Haggard and Kaufman 1995: 253, Henry 1996: 98-99, Krueger 1995: 358-359). Moreover, as Ozal's direct involvement in economic decision and management diminished after he became a president in 1989, inter-bureaucracy struggles in economic decision making became widespread, increasing rent seeking and discretionary allocations albeit in modified forms (Balkir 1993: 152, Bugra 1994: 153, Ozbudun 2000: 136).

Although many reforms faltered and inflation increased, the export sector, the only sector which successfully accomplished enormous structural changes, continued to grow (Krueger 1995: 345, Onis 1998: 194, 366). The Islamic businesses owning the export-oriented companies along with overseas investors, accordingly maintained their growth and finally formed their own voluntary business association, MUSIAD (Mustakil Sanayiciler ve Isadamlari Dernegi, the Association of the Independent Industrialists and Businessmen) in 1990 differentiating themselves from TUSIAD (Turk Sanayiciler ve Isadamlari Dernegi, the Association of the Turkish Industrialists and Businessmen). Yet, as Ozal died in 1993 and his followers in the MP, the Islamic-oriented MP members, lost their influence within the party, the Islamic business again lost favor with the state. Rather, the increasing growth of the Islamic capitalists, despite the economic difficulties of the mid-1990s, raised widespread concern among the military and big industrialists.

In February 28, 1997, the military assessed that the politics under the WP coalition government was as dangerous as the situations that had required military intervention in 1960 and 1980 (*Radikal* March 13, 1998). The military insisted

that Islamic business and banks channeled huge funds to the Islamist movements and decided to undertake investigations of the Islamist capitalists. The WP coalition government was shut down in June, 1997 and the WP was banned in January, 1998. As the military's fight against fundamentalism, known as "the February 28 process," accelerated, the prosecutor of the NSC charged MUSIAD with violating laws of association and the chairman Erol Yerar with inciting hatred, and arrested 16 leading Islamic businessmen on suspected links to the fundamentalists in April 1998. Also, the NSC issued a blacklist of 100 Islamic capitalists, mostly the members of MUSIAD, such as Kombassan, Ulker, Yimpas, Ihlas, Albayrak, Begendik (later discarded), Ittifak, Endustri, Esra, Setas, Sayha, Kedas, Ipek Mobilya, Gumus Soba, Yozgatspor, the Kuwait Turkish Finance House, the Faisal-Family Finance House, the Al Baraka Turkish Finance House, and Asya Finance House, and those companies would be excluded from bidding for any military tenders (*Milliyet* June 7, 1997, *Radikal* February 2, 1999, *Sabah* April 22, 1998). By 2001, 20 individual members and 33 companies of MUSIAD had been under the close investigation by the NSC (*Hurriyet* March 31, 2001).<sup>76</sup> The secularist media, such as *Milliyet*, *Hurriyet*, and *Yeni Yuzyil* actively joined the accusations against those Islamist companies and their connection to the Istanbul municipality under former Mayor Tayyip Erdogan.

The February 28 process had unfortunate consequences for Turkish economy. The Turkish workers in Europe stopped sending money to back to

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<sup>76</sup> The NSC filed a case against the new president of MUSIAD Ali Bayramoglu accused of inciting people to malice based on religious differences in his speeches supporting Fethullah Gulen in 1999 and given one year suspended prison sentence in 2000 (*Hurriyet* March 31, 2001, *Radikal* July 6, 1999).

Turkey. Not surprisingly, MUSIAD membership dropped and some of the member companies lost their fortunes. However, in spite of the major hardship in the late 1990s, MUSIAD elected a new president in 1999 and has managed to survive in terms of strategy, organizational capacity, fortunes, branch, and membership during the early 2000s.

To sum up, after Ozal came to power in 1983, the decision making locus clearly transferred from the Western-oriented secularist bureaucratic elite to the technocrat elite who tried to integrate Islamic values with liberalism. The new elite committed to conservative liberalism of the 1980s was more pragmatic than the modernizing elite of the 1970s (Erlap 1994: 222, Gole 1997: 48). Under these changes, the Islamic capitalists for the first time received the state's favor and began to prosper during the mid-1980s. The Islamic business promised to serve as viable competition for the big industrialists who were still strongly rooted in the state protection and import substitution strategy. The export-oriented Islamist firms expanded their boundary into Europe attracting the conservative Turkish guest workers there and establishing joint ventures. They did not have to depend completely on bank finance because of their ability to earn foreign exchange.

### **III. THE GROWTH OF MUSIAD AND ITS MEMBER COMPANIES**

MUSIAD was founded on May 5, 1990 in Istanbul by a number of young Muslim businessmen. Since its pro-Islamic attitude is quite obvious, the first letter of the acronym "M" is commonly perceived as standing for "Muslim" rather than for "mustakil" as "independent" in Turkish. MUSIAD is considered as the most

solid representative of the conservative businessmen who owned most of KOBIs in the long-neglected heartland of Anatolia, as a counterpart to the secular oriented TUSIAD. Although MUSIAD and the member companies experienced hardship after the severe investigations led by the military and several economic crises in the late 1990s, MUSIAD has deepened its market-oriented strategy, developed the organizational capacity, expanded the market bases, and successfully sustained its branches and membership.

First as for the ideology and strategy, MUSIAD has become more business-oriented, market-driven, and liberal regarding the issues of religion, economy, and domestic politics.<sup>77</sup> Concerning the religion issue, MUSIAD set its goal as promoting commercial development without sacrificing moral values. The first president Yerar<sup>78</sup> introduced a concept of “Homo Islamicus,” the Islamic version of Max Weber’s “Protestant Ethic” in which the goal for a Muslim entrepreneur is to get the consent of Allah through hard working, honest trade, and fair transaction. This Islamic Protestantism filled the missing ethics in the new and sudden consumerism after Ozal’s liberalization. Yet, later the association less emphasized Islamic spirituality or ethics, and tried to symbolize itself as one of pure civil society organizations. In March 2000, about 20 MUSIAD member

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<sup>77</sup> All the policy debates are based on their publications, local newspapers, and a set of interviews held in 2002.

<sup>78</sup> Yerar was born in 1960, Gaziantep. He received BA from Computer science, Bogazici University and MA from England. His father was among the first members of TUSIAD. Yerar was the first president of MUSIAD and is one of the top twenty richest Islamic businessmen. The second president Ali Bayramoglu was born in 1958, Rize. He received BA from Istanbul University. Ali Bayramoglu became MUSIAD president in May 1999, and he is one of the top twenty five richest Islamic businessmen (Bulut 1997: 413-417, MUSIAD 1995).

companies agreed not to refer to Islamic symbols in promotional activities (*Milliyet* March 8, 2000).<sup>79</sup>

Regarding the economic policy, the association at the beginning, was influenced by the economic success of the East Asia and by the close affinities of the Asian communitarian cultures. The first president Yerar did not support trade with the EU countries, but instead advocated closer economic links with Muslim countries through which MUSIAD made donations to the Muslim charities (MUSIAD 1996: 2, Yerar 1996: 11-12, 45-51). But, since the late 1990s, MUSIAD increasingly adopted a pro-EU and pro-globalization position and demanded an accelerated privatization reform package.<sup>80</sup> Also, the association strongly insisted that the state should be regarded no longer as a father but rather as a servant and that it should not intervene in economy (Cam 2002: 68-70, MUSIAD 2001, Onis and Turem 2002: 448-449).

With regard to domestic politics, although MUSIAD kept opposing state intervention in the economy, the association did not develop specific and explicit proposals concerning political reform until 2000. In April 2000, MUSIAD

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<sup>79</sup> Those companies were Kombassan, Yimpas, Buyuk Anadolu, Apitas, Avantaj, Endustri, GAP Investment, Itifak, Jet-Pa Group, Kamer, Katra, Kimpas, Konya Sanayi, Kuralkan, Noya, Oncu, Sayha, Silm Yatirim, Umpas, Adim, and Ihsan (*Milliyet* March 8, 2000, *Turkish Daily News* March 9, 2000).

<sup>80</sup> In an interview with Dr. Omer Bolat, the vice president of MUSIAD held on June 25, 2002 at MUSIAD headquarter, Mecidiyekoy, Istanbul, he said, "EU membership for Turkey is beneficial for the economy and for securing civil rights. But, I do not totally agree with the EU's Cyprus policy, though." As for the globalization issue, he said, "we pursue free market and fair competition. We agree with IMF's policies about structural adjustment especially on banking, privatization of state-owned sector, and reduction of public expenditures. But, we do not agree with some of their policies which do not care about unemployment and inequality. Also, their policy of exchange rate has been so inconsistent." Also, in an interview with Dr. Ahmet Helvacı, the secretary general of MUSIAD held in the same day, he said, "we believe the benefits of globalization. The IMF policy can work for democracy in Turkey, but the state still has the power and intervenes economy while the private sector is still small."

published a report entitled “Constitution Reform and Democratization of Administration” with plans to downsize the state, to decrease the power of the NSC, and to reduce the government consumption.<sup>81</sup> Also, the report called for respecting the Copenhagen criteria and for protecting individual rights and civil liberties including minority rights, implying that solving the Kurdish issue is a necessary step to democratization (Duner and Deverell 2000: 15-20, MUSIAD 2000: 7-32, Onis and Turem 2002: 449). Analysis of MUSIAD’s annual reports entitled “Turkish Economy” since the mid-1990s indicates that the association has been steadily increasing the sections of democracy and individual liberty (MUSIAD 2000-2002).

Second, as for its organizational capacity, MUSIAD has developed inner-collaboration and transparency based on a strong solidarity among the members and tightly woven information networks. Most of all, exclusion and repression by the state and subsequent political vulnerability led the Islamic businesses to collaborate and cooperate to survive. That is, relative external threats provide the business elite with strong incentives to invest in maintaining favorable conditions for survival (Schneider and Maxfield 1997: 25). The small and medium scale firms secured little access to the state and governmental rents while the large conglomerates enjoyed the privileges. As a matter of fact, the division between

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<sup>81</sup> The report argued the following: Parliament should be respected; Inner-party democracy should be achieved; Rule of law should be respected; Local governments’ autonomy should be protected; Foreign debts and state consumption should be reduced; Economic liberties should be protected; the Chief of General Staff should be subject to the Ministry of National Defense; the NSC’s power should be reduced; A civilian should be appointed as the NSC’s general secretary; The members of the High Board of Education (YOK) should be appointed from members of political parties represented in parliament; the Religious Affairs Directorate should be autonomous (MUSIAD 2000).

Istanbul versus inner Anatolian capital has been a crucial axis aggravating regional and social disparities (Erlap 1990: 230). Thus, the Islamic businesses developed a shared sense of independence from the hegemony of the ruling Republican elite, switching the disadvantage into the solidarity. Also, the Islamic bond among the members strengthened mutual trust, loyalty, and communal integration. Furthermore, since the Islamic community usually possesses dense and embedded networks, the business community could develop multiple monitoring mechanisms through community networks by wielding costly sanctions. It was possible because ethnic kinship or religious identity transmitted cheap signals of reputation and trustworthiness, and because exclusion would be socially and economically disastrous to any member in such associations (Schneider and Maxfield 1997: 23, 28). In doing so, the tightly knitted Islamic business community increased transparency deterring more collusive behavior by network participants and mitigating the tendency to seek rents (Haggard et al 1997: 56-57).

MUSIAD as a collective self-governing body, has held regular regional meetings, Friday conferences, weekly hiking tours, and picnics, and arranged subcontracts and partnerships among the members based on its own networks. For example, the association played a mediator role to connect the big firms, such as Kombassan or Ihlas and the small Anatolian companies which manufactured small machinery for the big firms' products on the European markets. Also, MUSIAD has provided training courses for foreign languages, management skills, and foreign trading tips and published several periodicals to update market

information. Since 1993, MUSIAD has organized its annual international trade fair where the members met foreign businessmen and made contracts while also arranging business trips to foreign countries. Indeed, the individual firms would not bypass the association to seek particular gains because they would be caught and then be in trouble for further business (Bugra 1999: 22-23, MUSIAD 2002b: 22-48).<sup>82</sup>

Third, regarding the market base, MUSIAD member companies expanded their markets into more diverse sectors at home and abroad. The Islamic firms were traditionally clustered in the labor-intensive sectors such as, textile, leather, clothing, and food industry, but they widened the bases to grocery retailing, furniture, computer, construction, automobile, travel, media industries, and Islamic banking since the mid-1990s. For instance, Kombassan Holding<sup>83</sup> founded in 1989, has extended its companies into a variety of industry including textiles, paper, construction, motorcycles, automobiles, and airlines through the 1990s, and purchased the state-owned Petlas tire factory in 1997. The group also owns supermarket and gas station chains, a film production, travel agency, and basketball team.<sup>84</sup> Yimpas Group<sup>85</sup> owns one of the largest supermarket chains

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<sup>82</sup> MUSIAD international trade fair was started in 1993, and the number of visitors increased from 20,000 in 1993 to 71,000 in 1997 and 135, 000 in 2002 (MUSIAD 2002a).

<sup>83</sup> Kombassan Holding was founded in 1989, Konya by Hasim Bayram, a former high school chemistry teacher and now one of the top five richest Islamic businessmen. A business tycoon Sakip Sabanci praised Kombassan as a rising giant. When Bayram noticed a shortage of copy and printer paper, he thought it would be a lucrative business and started Kombassan in 1989. The Holding employs about 25,000 workers in around 100 companies (Bulut 1997: 395-396, <http://www.kombassan.co.tr>).

<sup>84</sup> Afra hypermarket is a huge grocery retail chains in Konya where Kombassan group also sponsors the Konyaspor basketball team.

named Yimpas and is one of the largest shareholders of TV channel Kanal 7. Yimpas bought out a huge food processing company Aytac in 1993 and expanded its companies in hotel and restaurant chains, computer, telecommunication, and furniture industry during the mid-1990s. Albayrak Group owns daily Yeni Safak, and has involved in electronic and machinery industry since themid -1990s.

Ihlas Holding<sup>86</sup> owns daily Turkiye and TGRT TV channel, and also operates business in insurance, construction, real estate, hotel, automobile, and beverage industry. The group founded Ihlas Finance House in 1995, which held about 40% of the Islamic banking deposits in the late 1990s. But, its license was revoked in 2001 mainly because the banking illicitly transferred its funds to other companies of the Ihlas group who used them to their own advantage, but had difficulties paying back to Ihlas Finance House. Istikbal Group<sup>87</sup>, a leading furniture manufacturer and new comer in telecommunication industry, started Islamic banking, Anadolu Finance House in 1991. Ulker Group<sup>88</sup>, the biggest food producer, bought out the Faisal Finance House in 2001 after several

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<sup>85</sup> Yimpas was founded in 1982, Yozgat by Dursun Uyar, and the Group has 4,000 employees in 43 companies. Uyar is one of the top ten richest Islamic businessmen (Bulut 1997: 395-396, <http://www.yimpas.com.tr>).

<sup>86</sup> Ihlas Holding was established in 1970 by Enver Oren when the Holding first published its daily newspaper Turkiye. Oren is one of the top five richest Islamic businessmen (Bulut 1997: 395-396, <http://www.ihlas.com.tr>).

<sup>87</sup> Istikbal Group was founded in 1940, Kayseri by Hacı Boydak, one of the top twenty richest Islamic businessmen and also known as a moderate Muslim who does not care to use top models to advertise their products in quite westernized commercials (Bulut 1997: 395-396, *Turkish Daily News* November 1, 1999).

<sup>88</sup> Ulker Group was founded in 1944, Istanbul by Sabri Ulker in Istanbul, and it owns 55 companies. Ulker is one of the one of the top ten richest Islamic businessmen (Bulut 1997: 413-417, <http://www.ulker.com.tr>).

investigations and rejections by the Finance Ministry,<sup>89</sup> and renamed it as the Family Finance House.<sup>90</sup>

Kar Group<sup>91</sup> founded by Asim Ulker, older brother of Ulker Group's owner Sabri Ulker, in 1987, has operated business in food, construction, airline, and travel industry. Ittifak Holding<sup>92</sup> founded in 1988, started in textile and food industry but expanded to machinery industry and supermarket chains (Anadolu Finans Kurumu 2001, Bulut 1997: 395-396, *Milliyet* April 28, 1999).<sup>93</sup> Sayha Holding<sup>94</sup> established in 1993, has companies in machinery, construction, and travel industry, and Adim Group<sup>95</sup> started in 1993, operates business in construction, insurance, and automobile industry (Bulut 1997: 395-396, 409-410, 413-417, *Turkish Probe* February 14, 1999).

Also, MUSIAD companies expanded their market base overseas by establishing transnational partnerships, particularly in Europe, and became internationally competitive and domestically independent from the state. The

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<sup>89</sup> The Faisal Finance House was sold to Kombassan Holding in 1998 when Saudi Arabian capital was withdrawn, but Kombassan sold it to the Ulker Group.

<sup>90</sup> Sabri Ulker was one of the large shareholders of the Faisal Finance House and now possesses 97% shares.

<sup>91</sup> After the founder Asim Ulker died in 2001, his eldest son Selcuk Berksan became one of the top five richest Islamic businessmen (Bulut 1997: 413).

<sup>92</sup> Ittifak Holding was founded in 1988, Konya by Seyit Mehmet Buga, a former civil engineer who once served as head of youth organization of the National Salvation Party in Konya and now one of the top fifteen richest Islamic businessmen. The Holding employs around 1,000 people in 16 companies (Bulut 1997: 395-396, *Turkish Probe* February 14, 1999).

<sup>93</sup> The companies' websites are following, <http://www.kombassan.com.tr>, <http://www.ulker.com.tr>, <http://www.yimpas.com.tr>, <http://www.ihlas.com.tr>, <http://www.kargroup.com>.

<sup>94</sup> Sayha Holding was established in 1993, Konya by Mehmet Erol Dogru, a former student leader of Islamist movement. The Holding has 5000 employees in 10 companies (*Turkish Probe* February 14, 1999).

<sup>95</sup> Adim Group was founded in 1993, Istanbul by Hasan Aksay, now one of the top fifteen richest Islamic businessmen, and the Group employs 100 workers in 5 companies (Bulut 1997: 395-396).

Islamic firms founded joint ventures in Europe based on the savings of the Turkish guest workers there to whom the firms offered a share of the profit and loss instead of interest following Islamic economic principle. While the growth of the Islamic banks attracted international Islamic capital, particularly Arab capital from the Gulf countries looking for qualified the Turkish collaborators for joint investments, the development of the Islamic business attracted Turkish workers' money in Europe and vitalized the inner Anatolia regions (Kasaba and Bozdogan 2000: 15-18). For example, Ulker Group whose main target was the Middle Eastern market in the 1970s, expanded its market to Europe establishing its first joint venture in Netherlands in 1993 and in Denmark in 1995. Kombassan founded the joint ventures in Germany in 1997 and Netherlands in 1998.<sup>96</sup> The Holding was known to collect more than half of their funds from the Turkish workers in Europe during the late 1990s. In 1999, Kombassan attracted more than 80,000 investors from not only inner Anatolians but also the Turkish workers in Europe, and it was the largest public investment of the year in Turkey.<sup>97</sup> Yimpas was also known to have many the Turkish guest worker investors in Germany offering a share in an Islamic way. In doing so, the Group opened the Germany branches of its supermarket chain in Offenbach in 1995 and Koln in 1998 (*Financial Times* June 15, 1999). Yet, after the February 28 Process started,

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<sup>96</sup> Kombassan also started to invest in Kazakhstan and purchased a textile chain Cotton and Beyond Inc. in the U. S. in 1998 (<http://www.kombassan.com.tr>).

<sup>97</sup> When the owner of Kombassan Hassim Bayram started his business in 1989, he became tired of collecting money from his family and friends and finally sought funds from Turkish workers mostly in Germany but also in Austria, France, and Switzerland, who were looking for an Islamic way of investment. His success in financing and expanding business via an Islamic way is considered as one of the typical "Anatolian Tigers." (*Financial Times* June 15, 1999, *Turkish Probe* February 14, 1999).

Kombassan and Yimpas were accused of collecting money from unregistered partners and promising illegally fixed returns by the Capital Market Board. The Board ordered the companies to return the money to the shareholders after identifying their names, blocked some of the companies' assets, and investigated their alleged tax evasion through the late 1990s (*Cumhuriyet* May 11 1997, *Wall Street Journal* Jan 8 1998).

Fourth, as for its organization and membership, MUSIAD has shown large and encompassing local branches, overseas offices, and increasing membership. MUSIAD increased the number of the local branches from about 15 in the early 1990s to 28 since 2000. Those branches, dispersed all over the country, are located in Adana, Ankara, Antalya, Balikesir, Bandirma, Bursa, Cankiri, Denizli, Diyarbakir, Elazig, Erzurum, Eskisehir, Gaziantep, Gebze, Inegol, Istanbul, Izmir, Kahramanmaras, Eregli, Kayseri, Kocaeli, Konya, Malatya, Mersin, Rize, Sakarya, Samsun, Sanliurfa.<sup>98</sup> Also, its overseas focal offices increased from around 10 in the early 1990s to more than 30 since 1997. The countries include Germany with 7 offices, Netherlands, England, Austria, France, South Africa, Australia, the United States, Pakistan, Malaysia, Indonesia, Singapore, Egypt, Sudan, Jordan, Saudi Arabia, Iran, Bangladesh, and Bosnia.

The membership started with 12 in 1990 and increased to over 200 in 1991, over 1000 in 1993, over 2000 in 1995, around 3000 in 1998.<sup>99</sup> But,

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<sup>98</sup> The Mersin branch was closed in 1998, and Cankiri's was shut down in 2000, but later, those branches were reopened.

<sup>99</sup> The increased membership was 12 in 1990, 266 in 1991, 773 in 1992, 1616 in 1994, 1969 in 1994, 2146 in 1995, 2668 in 1996, 2853 in 1997, 2916 in 1998, 2378 in 1999, 2316 in 2000, 2016 in 2001.

following the February 28 process through which many of the member companies have come under the increasing scrutiny of the state agencies since 1997, the number of membership declined to around 2000 by 2001, but since then it has been stably maintained. In terms of location, MUSIAD companies have been dispersed throughout the country. Although the largest number of MUSIAD companies is located in Istanbul, a significant number are in diverse Anatolian cities, such as Ankara, Antalya, Bursa, Denizli, Gaziantep, Kahramanmaras, Kayseri, Kocaeli, Konya, and Sanliurfa (MUSIAD 2002b). The majority of the members are small and medium scale firms employing fewer than 100 workers, but the leading members are large firms, such as Kombassan, Ulker, Yimpas, and Ihlas. Regardless of the size, more than 70% of MUSIAD companies were formed after 1980. Their assets accounted for about 10 % of GNP, and their investment totaled about \$2.5 billion in the late 1990s (Bugra 2002a: 193, Nichols and Sugar, 2004: 156-157, MUSIAD 1995).

Meanwhile, TUSIAD, the oldest and most influential business association has a very different profile. TUSIAD was founded by the large secular Istanbul-based industrialists in 1971 against the corporatist Union of Chambers. The eighty two founding members were the most powerful businessmen including Vehbi Koc, Nejad Eczacibasi, Sakip Sabanci, Selcuk Yasar, Ertugrul Soysal, and Sinasi Ertan (Bianchi 1984: 268). Those big conglomerates successfully pressured the military government in 1971 to take foreign exchange allocation out of the hand of the Union of Chambers and place it under the authority of various ministries. Several incentive programs were manipulated for the conglomerates' favor as

opposed to small and medium sized firms, which could not afford to hire personnel to work in Ankara in the pre-1980s (Biddle and Milor 1997: 286, 291).

Table 6-1. Comparison between MUSIAD and TUSIAD

|                         | MUSIAD  | TUSIAD   |
|-------------------------|---|--|
| Ideology and strategy   | Conservative but economically liberal                 | Strongly secularist and elitist                        |
| Organizational capacity | High collaboration and transparency                   | Low internal cohesion and governing ability            |
| Market base             | Relatively multi-sectoral and highly outward-oriented | Highly multi-sectoral and relatively domestic-oriented |
| Branch and membership   | Encompassing and large                                | Selective and small                                    |

First as for the ideology and strategy, TUSIAD has been strongly secularist and elitist regarding the issues of religion, economy, and domestic politics. During the Ozal government, TUSIAD strongly criticized the incentives granted to the small exporters for penalizing its inward focused firms which had monopolized the rents. Currently, the association possesses a positive view of globalization and supports the EU membership and democratization. Compared to MUSIAD, TUSIAD has paid less attention to the individual rights and civil liberty issues and hesitated to criticize the state (Duner and Deverell 2000: 15-20).

Second, concerning the organizational capacity, TUSIAD has demonstrated lower internal cohesion and weaker governing ability compared to

MUSIAD. Because personal access directly to the decision makers was readily available and influential, the conglomerates preferred to act individually and informally without channeling their interests via their representation. In fact, along with the military elite, the large industrialists were pivotal players in lobbying and influencing the economic policies through the tight connections with the bureaucracy before the 1980s (Bianchi 1984: 270-275). The military has owned a huge financial group OYAK (Ordu Yardimlasma Kurumu, Armed Forces Assistance Fund)<sup>100</sup> established in 1961 in order to secure its stake from the crisis-prone Turkish economy and to increase its autonomy from civilian administration,<sup>101</sup> and developed closer ties with the key conglomerates, such as Koc, Sabanci, and Eczacibasi Holding by establishing joint ventures with them (Karabelias 1999: 141-143, Treverton et al 1998: 48).<sup>102</sup> Therefore, the highly private pursuit of interests through personal and informal contacts with the top bureaucrats and military among TUSIAD members, has resulted in frequent frictions among the members.

Third, concerning the market base, TUSIAD member companies have been highly multi-sectoral in the domestic market, but those large family-controlled holding companies have not been successful in expanding their markets

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<sup>100</sup> OYAK derives its income from the obligatory contribution of all active and reserve officers as well as civilian employees of the Ministry of National Defense, deducting 10% from their monthly salary, and from its financial investments in various sectors. OYAK has involved in automobile, cement, electronic, service, construction, food, agriculture, petroleum, and travel industry (Karabelias 1999: 141).

<sup>101</sup> There was also a pressing military reason for its 1980 intervention, a concern that the economic and social environment was harmful to the military's interest in OYAK (Owen 2004: 215).

<sup>102</sup> In the early 1960s, OYAK and Koc Holding established a joint venture for the local production of Fiat cars (Bugra 1994: 248).

overseas. TUSIAD companies were inward-oriented firms occupying all aspects of Turkish economy during the import substitution era. In addition to their large fixed assets in the protected economy, their concerns over loss of family control and associated lack of flexibility in the recruitment of management have emerged as leading impediments to foreign direct investment and joint ventures (Bugra 1994: 185, Treverton et al 1998: 47).

Fourth and finally, TUSIAD's branches and membership have been small in number and selective. In addition to the main office in Istanbul, TUSIAD has only one branch in Ankara, opened in 2000, and one each in Brussels and Washington D. C, opened respectively in 1995 and in 1998. The original membership of 82 in 1971 increased to only around 400 after 35 years and has been located exclusively in Istanbul area. Most members have been the top large holding companies owning the biggest banks, insurance companies, construction firms, and other service enterprises, such as Koc, Sabanci, and Eczacibasi. Quite differently from MUSIAD, around 80% of TUSIAD member companies were established before 1980. TUSIAD's overall impact on the economy has been much bigger than that of MUSIAD accounting for about 40% of total value added in manufacturing, construction, and banking services and nearly half of the production and employment of the manufacture industry (Bugra 1994: 185, Onis 1998: 337, Onis and Turem 2002: 450, Ozbudun 2000: 133, TUSIAD 1989).

#### **IV. THE TIES BETWEEN ISLAMIC BUSINESS AND ISLAMIC PARTIES IN TURKEY**

Islamic business has criticized the oversized and often arbitrary state for discriminating against in favor of its big secular competitors. The exclusion and repression by the secular regime forged a sense of solidarity and unity in Islamic society and led to cooperation between the political and economic Islamists for survival. Turkish Islamic business, located in areas largely overlapping with the areas where the support of the Islamic parties was strong, might establish close personal relationships with the local politicians of the party. In doing so, the Islamic business, in need of more liberal and market-oriented economic environments since their rapid growth in the mid-1990s, presumably collaborated with the political Islamists who were committed to more liberal and moderate stance in favor of business interests. While Islamic business does not necessarily seek political liberalism, its drive for markets and profits may indirectly moderate political Islamists.

As a matter of fact, a growing liberal wing from the younger generation among the political Islamists differentiated itself from the traditional faction and finally formed a reformist JDP in 2001. The liberal Islamic party suggested more moderate solutions and contended privatization, marketization, and decentralization. In fact, the JDP is inclined to be a catch-all party and finally won a landslide victory in the 2002 general election. The recent transformation from a fundamentalist stance to Islamic liberalism may indeed reflect the growing political importance of an Islamic bourgeoisie, promoted by MUSIAD and its members.

Table 6-2. Regional Bases and Numbers of MUSIAD Members

| City       | Numbers | City          | Numbers |
|------------|---------|---------------|---------|
| ADANA      | 49      | ISTANBUL      | 664     |
| AMASYA     | 9       | IZMIR         | 38      |
| ANKARA     | 138     | KAHRAMANMARAS | 27      |
| ANTALYA    | 57      | KARAMAN       | 2       |
| AYDIN      | 2       | KAYSERI       | 75      |
| BALIKESIR  | 54      | KOCAELI       | 110     |
| BARTIN     | 21      | KONYA         | 154     |
| BATMAN     | 2       | KUTAHYA       | 1       |
| BOLU       | 6       | MALATYA       | 43      |
| BURDUR     | 1       | MANISA        | 1       |
| BURSA      | 172     | MARDIN        | 1       |
| CANKIRI    | 24      | SAKARYA       | 44      |
| CORUM      | 12      | SAMSUN        | 19      |
| DENIZLI    | 57      | SINOP         | 1       |
| DIYARBAKIR | 25      | SANLIURFA     | 23      |
| ELAZIG     | 27      | TEKIRDAG      | 4       |
| ERZURUM    | 1       | TRABZON       | 1       |
| ESKISEHIR  | 22      | USAK          | 2       |
| GAZIANTEP  | 71      | VAN           | 1       |
| HATAY      | 4       | YALOVA        | 1       |
| ICEL       | 15      | ZONGULDAK     | 33      |
| ISPARTA    | 2       | Total         | 2016    |

Source: Mustakil Sanayiciler ve Isadamlari Dernegi, *MUSIAD Uyeleri 2002*.

### **i. Geographical Ties**

This section examines relations between the locations and numbers of MUSIAD members, and the election results of the Islamist parties. Table 6-2 presents 2016 MUSIAD members' locations based on the data of June, 2002.<sup>103</sup>

<sup>103</sup> I received this data from Dr. Ahmet Helvacı, the secretary general of MUSIAD while interviewing him in Istanbul, Turkey on June 25, 2002.

The regional bases are quite diverse covering a wide range of regions of the country. The number reached up to 2378 in 1999, but the membership started to decrease to 2316 in 2000 due to the several investigations following the February 28 process and has remained about 2000 since 2001.

First, the analysis starts with the relationship between MUSIAD members and the election result of the Islamist Virtue Party in 1999 before the split between the reformist party and traditionalist one in 2001. It is plausible enough to use MUSIAD data in 2002 for this association since these 2016 members were considered as loyal members who have stayed in MUSIAD at least since 1995 despite the hardship of the late 1990s. Table 6-3 shows the correlation of MUSIAD membership in table 6-2 and the Islamic party's votes in general. The correlation analysis is based on the Pearson product-moment correlation. As for the association of the number of MUSIAD members in each region with the votes that the Virtue Party received in each region in 1991, the correlation analysis presents MUSIAD members were located in regions where the support for the Islamic party was strong. In table 6-3, the Pearson's  $r$  or the correlation coefficient value of 0.967 describes a positively and highly significantly correlated association between the two variables. Also, the coefficient suggests that a one standard deviation increase in the local MUSIAD members was associated with an increase in the VP's vote by 72.296 (obtained by multiplying 0.967, the coefficient and 79.764, the standard deviation). That is, regions with greater number of MUSIAD members were related to regions with greater electoral support of the Islamic party. Also, the value of Pearson's  $r^2$  or the

coefficient of determination can be interpreted as a proportion in explaining the correlation. The  $r^2$  value of 0.935 is interpreted as about 93% of the variance in MUSIAD members' regional bases accounted for by the VP support.

Table 6-3. A Correlation Analysis: Ties of Islamic Business with Islamic Party

|                                   | Number of MUSIAD<br>Local Members | VP's Votes<br>in 1999 |
|-----------------------------------|-----------------------------------|-----------------------|
| Number of MUSIAD<br>Local Members |                                   |                       |
| <i>Pearson correlation</i>        | 1                                 |                       |
| <i>Sig. (2-tailed)</i>            |                                   |                       |
| <i>N</i>                          | 81                                |                       |
| VP's Votes in 1999                |                                   |                       |
| <i>Pearson correlation</i>        | .967**                            | 1                     |
| <i>Sig. (2-tailed)</i>            | .000                              |                       |
| <i>N</i>                          | 81                                | 81                    |

\*\* denotes statistically significant at  $p < .01$ .

Source: Annual Reports of each Islamic bank; Mustakil Sanayiciler ve Isadamlari Dernegi, *MUSIAD Uyeleri 2002*; Turkiye Buyuk Millet Meclisi, *Son Donem Uyeleri 2002*.

And now, this study examines geographical association between MUSIAD members and the political Islamists, differentiated between the recent rise of the reformist wing and the traditional faction. Table 6-4 shows the correlations of the local MUSIAD members to the different factions among the political Islamists. The rift between the moderate wing and conservative faction first appeared after the VP was banned in June, 2001. Fifty of the 111 VP deputies joined the JDP,

which was formed by the younger generation of reformists, while 46 ex-VP deputies participated in the FP, founded by the conservative faction, which continued to support Necmettin Erbakan. Thirteen of the 111 VP deputies joined the other parties. Two of the VP deputy members lost their seats by order of the constitutional court when the VP was outlawed. In table 6-4, JDP from the VP and FP from the VP refer to only the ex-VP deputies before the 2002 general election in which the JDP won a landslide victory. Due to the JDP's popularity prior to the election, nine deputies from the MP, the TP, and the NAP joined the JDP when the pre-election opinion polls had consistently shown the JDP to be a front runner.

As for the partisan association of MUSIAD members, table 6-4 shows that the Islamic business is differently associated with the JDP of the ex-VP deputies and the FP of the ex-VP deputies. In table 6-4, the Pearson's  $r$  or the correlation coefficient of MUSIAD members' location and the JDP from VP is in the predicted direction and strength. The Pearson correlation value of 0.804 describes a positive and highly significant correlation between the two variables. Conventionally as for the strength of relationship, the coefficient value pertains to small (0.1), moderate (0.3), and large (0.5) correlation, and particularly a high statistical power should possess at least 0.8 so that their studies are sensitive enough to assure the success of their research (Chen and Popovich 2002: 43-44). This highly statistically significant coefficient suggests that a one standard deviation increase in the number of the local MUSIAD members was associated with an increase in support for the JDP by 64.130 (obtained by multiplying 0.804,

the coefficient and 79.764, the standard deviation). That is, regions with high MUSIAD membership tended to support the reformist wing of the political Islamists. And regions where the reformist Islamists received weak support tended to have fewer MUSIAD members. Also, the Pearson's  $r^2$  of 0.646 is interpreted as about 65% of the variance in MUSIAD members' regional bases accounted for by the reformist JDP members.

On the other hand, the number of MUSIAD members and the FP from VP are also positively and highly correlated given the Pearson's  $r$  or the correlation coefficient value of 0.628. The coefficient indicates that a one standard deviation increase in the local MUSIAD members was associated with an increase in support for the FP by 50.091 (obtained by multiplying 0.628, the coefficient and 79.764, the standard deviation).

And this correlation is also quite statistically significant at the 0.01 level. The Pearson's  $r^2$  value of 0.394 suggests that there is 60% of variance that MUSIAD members' regional bases and the conservative FP members do not have in common while 40% of variance shared by those two variables.

Table 6-4. A Correlation Analysis: Location of Islamic Business in Reformist and Traditionalist Constituencies

|  | Number of MUSIAD Local Members in Constituency | Representatives to JDP from VP | Representatives to FP from VP |
|--|--|--------------------------------|-------------------------------|
| Number of MUSIAD Local Members in Constituency |  |                                |                               |
| <i>Pearson correlation</i>                     | 1  |                                |                               |
| <i>Sig. (2-tailed)</i>                         |  |                                |                               |
| <i>N</i>                                       | 81   |                                |                               |
| Representatives to JDP from VP                 |  |                                |                               |
| <i>Pearson correlation</i>                     | .804**   | 1                              |                               |
| <i>Sig. (2-tailed)</i>                         | .000   |                                |                               |
| <i>N</i>                                       | 81   | 81                             |                               |
| Representatives to FP from VP                  |  |                                |                               |
| <i>Pearson correlation</i>                     | .628**   | .473**                         | 1                             |
| <i>Sig. (2-tailed)</i>                         | .000   | .000                           |                               |
| <i>N</i>                                       | 81   | 81                             | 81                            |

\*\* denotes statistically significant at  $p < .01$ .

Source: Mustakil Sanayiciler ve Isadamlari Dernegi, *MUSIAD Uyeleri 2002*; Turkiye Buyuk Millet Meclisi, *Son Donem Uyeleri 2002*; Turkiye Cumhuriyet Basbakanlik Devlet Istatistik Enstitusu, *Milletvekili Genel Secimi Sonuclari (Il ve Ilce Sonuclar ve Ozet Tablolar)*, various issues.

In sum, the size and effect of the coefficient in the relationship between MUSIAD members and the reformist wing is bigger (the Pearson's  $r = 0.804$ ) than that in the correlation of MUSIAD members and the conservative faction (the

Pearson's  $r = 0.628$ ). Although the significance of both coefficients is high at the 0.01 level, the conventional frame for the particularly significant level is over 0.8 value of the coefficient, which applies to that of the correlation between MUSIAD members and the reformist wing. Also, in terms of  $r^2$  value, the correlation of MUSIAD members and the reformists extends the proportion of variance explained (68%) than that with the conservatives (43%).

Meanwhile, the number of the local MUSIAD members in a given locale and that of Islamic banks' local branches turned out to be highly positively and robustly significantly correlated. This is shown in table 6-5. The Pearson's  $r^2$  value of 0.942 suggests that there is 94% of variance that MUSIAD members' regional bases and Islamic banks' local bases do have in common. Not surprisingly, the Islamic banks opened their branches in order to seek out the deposit bases in the areas where the Islamic business was located, who also wanted to follow an Islamic way in their businesses to avoid interests. In fact, MUSIAD members seem to take the prohibition of paying interest seriously.<sup>104</sup> Some of the small Islamic firms refused the governmental credits for the Southeast Development Project to revitalize the poorest region of the country because the credits were allocated by the state-owned Halk Bankasi which based on interest system (*Turkish Daily News* April 30, 19 97). Also, many of Islamic

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<sup>104</sup> In an interview with Dr. Omer Bolat, the vice president of MUSIAD held on June 25, 2002 at MUSIAD headquarter, Mecidiyekoy, Istanbul, he said, "We and our member companies still see interests as sin, thus we may feel closer to the Islamic banks. Also, their working system is more reliable and sound than other non-Islamic banks." Also, in an interview with Dr. Ahmet Helvacı, the secretary general of MUSIAD held in the same day, he said, "we concerns about faiz (interest)."

banks' managers are the members of MUSIAD, and they have provided loans to the small and medium sized Islamist firms.

Table 6-5. A Correlation Analysis: Ties of Islamic Business with Islamic Banks

|  | Number of MUSIAD<br>Local Members | Number of Islamic Banks'<br>Local Branches |
|--|-----------------------------------|--|
| Number of MUSIAD<br>Members                |                                   |  |
| <i>Pearson correlation</i>                 | 1                                 |  |
| <i>Sig. (2-tailed)</i>                     |                                   |  |
| <i>N</i>                                   | 81                                |  |
| Number of Islamic Banks'<br>Local Branches |                                   |  |
| <i>Pearson correlation</i>                 | .971**                            | 1  |
| <i>Sig. (2-tailed)</i>                     | .000                              |  |
| <i>N</i>                                   | 81                                | 81   |

\*\* denotes statistically significant at  $p < .01$ .

Source: Annual Reports of each Islamic bank; Mustakil Sanayiciler ve Isadamlari Derneği, *MUSIAD Uyeleri 2002*.

However, a highly significant statistical correlation does not necessarily mean a causal connection, although it supports the notion of causation. The difference between 68% and 43% in terms of the proportion of variance explained in the correlation analyses does not prove the explanatory power of the former. Yet, these analyses provide a clue for the plausible causal relationships implying that the impact of the growing MUSIAD members is highly associated with the moderate political Islamists through the geographical ties. Therefore, in order to

capture the dynamic nature of the ongoing moderation process, this study tracks personal ties and new power configuration based on a detailed case study.

## ii. Personal Ties

MUSIAD members' fortunes and activities increased during the WP government from 1994 to 1997.<sup>105</sup> About 30 MUSIAD members participated in Erbakan's visit to a number of Muslim countries, and the member companies, such as Kombassan, Yimpas, Ulker, and Ittifak were known to receive credits from the WP government (*Cumhuriyet* June 12, 1997).<sup>106</sup> Yet as the rift between the reformists and traditionalists arose, the Islamic businessmen seemed to prefer Erdogan and his moderate faction to Erbakan and his traditional wing. Although MUSIAD executives maintained distance from all the political parties<sup>107</sup>, the close ties between MUSIAD members and the reformist JDP have been quite observable. Among the JDP founding members, about 10 members, including Ali Ihsan Arslan,<sup>108</sup> Ali Babacan,<sup>109</sup> Ibrahim Caglar,<sup>110</sup> Muammar Kaki,<sup>111</sup> Erdal

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<sup>105</sup> According to the survey among MUSIAD members in 1996, the members supported the WP the most, and then the MP, and thirdly the TPP. However, the respondents said that the Just Order, the core platform for the WP designed by Erbakan needed to be updated (*Turkish Daily News* June 7, 1996).

<sup>106</sup> One of the directors of board in the Yimpas, Kadir Sohret was a WP deputy candidate. Also, the owner of Ittifak, Seyit Mehmet Buga was a head of the youth organization of the Islamist National Salvation Party in Konya (*Turkish Probe* February 14, 1999).

<sup>107</sup> In an interview with Dr. Omer Bolat, the vice president of MUSIAD held on June 25, 2002 at MUSIAD headquarter, Mecidiyekoy, Istanbul, he said, "The JDP is like Ozal's party. It is a Muslim Democrat party, conservative and center-right. But, our policy is 'over-party policy'." Also, in an interview with Dr. Ahmet Helvacı, the secretary general of MUSIAD held in the same day, he said, "The JDP is more moderate than the FP. But, we are a civil society organization pursuing the heritage of the Ottoman Empire and concerning the national economy. So, there is no formal connection between MUSIAD and any parties. But, there can be ideological closeness."

<sup>108</sup> Arslan is a member of MUSIAD and an owner of Arslan Trade Company in Ankara (AK Partisi 2002d: 19, MUSIAD 2002 data).

Oner,<sup>112</sup> Ibrahim Reyhan Ozal,<sup>113</sup> M. Yasar Ozturk,<sup>114</sup> Ziyattin Yagci,<sup>115</sup> Murat Yalcintas,<sup>116</sup> were MUSIAD members. Also, among the JDP deputies elected in the November 2002 election, about 20 parliamentarians were MUSIAD members. Those seemingly close ties between MUSIAD members and the newly growing moderate Islamists were generated through complex networks which were set up

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<sup>109</sup> Babacan is State Minister in charge of economy of the current JDP government and a member of MUSIAD operating his own company, Ali Babacan Textile trading company. Babacan graduated from Middle East Technical University in Ankara with a degree in industrial engineering. In 1990, he received a Fulbright scholarship for an MBA at Northwestern University's Kellogg School of Business, where he specialized in marketing and business management. He worked as a financial consultant in the United States before returning to Turkey in 1994 (AK Partisi 2002d: 18, MUSIAD 2002 data).

<sup>110</sup> Caglar is an executive and founding member of the Istanbul Textile Raw material Exporters Association and a member of Istanbul Trade Society Council and MUSIAD. He served as a manager for several trading companies and later became a head of his own company, Nurtop Company in Istanbul. Caglar graduated from a trading high school (AK Partisi 2002d: 43, MUSIAD 2002 data).

<sup>111</sup> Kaki is a member of Istanbul Trade Society Council and MUSIAD. He has operated his business in a textile sector since 1976 in Istanbul. Kaki graduated from Istanbul Yuksek Islam Institute (AK Partisi 2002d: 60).

<sup>112</sup> Oner was a founding member and chief executive committee of MUSIAD's Antalya branch. He was a former member of Antalya Trade Society Council and Turkish Society and Stock Exchange Unity and a general founding delegate of the Union of Chambers. Oner was the executive committee member for several firms and now owns his own company, Makro Group. He received BA in theology from Konya Selcuk University (AK Partisi 2002d: 28, MUSIAD 2002 data).

<sup>113</sup> Ozal is a former member of Malatya Businessmen Association and a member of MUSIAD. He was a former manager of the insurance and trading company and now works at the Altmislar Group in Malatya (AK Partisi 2002d: 44).

<sup>114</sup> Ozturk is a member of MUSIAD and works at Oygu Trading Company in Kayseri. He received BA in economics and management science from Gazi University (AK Partisi 2002d: 58, MUSIAD 2002 data).

<sup>115</sup> Yagci is a member of the Adana Trade Society Council and MUSIAD. He worked at the Adana municipality and works at Nurpa Halicilik Company in Adana (AK Partisi 2002d: 88, MUSIAD 2002 data).

<sup>116</sup> Yalcintas is an executive committee member of MUSIAD and a member for Istanbul Trade Society Council. He is a general manager of Genesis-Genel Corporation. He received BS in mechanical engineering, Bogazici University. Now in Ph. D. program in production planning from Istanbul University. He is the son of Nevzat Yalcintas (AK Partisi 2002d: 64, MUSIAD 2002 data).

during Erdogan's Istanbul municipality, transferred from the former MP members of the Ozal times, and invigorated by the interlocking tarikats.

First, when Erdogan was Istanbul mayor from 1994 to 1998, the Istanbul municipality experienced lots of contacts with the Islamic businessmen particularly through several bidding processes and contracts. In fact, Istanbul is the very center of business with exceedingly concentrated banks and firms in the country. The top administrators of the municipality often met with MUSIAD executives and the managers of the Islamic firms, and worked closely with them. Especially, Erdogan's municipality implemented quite a lot of city projects for installation of water lines, upgrading of sanitation facilities, and improvement of transit system. Backed by the strong electoral support as 25.5% in the 1994 local election, the Islamist municipality made remarkable improvements in municipal services.<sup>117</sup> Even the opponents and critics admitted that his municipal administration made Istanbul "cleaner and greener" (*Turkish Daily News* August 28, 2001). In fact, the political Islamists have been quite efficient and relatively free from charges of clientelism and corruption in the principal municipalities under their control (Onis 2001, Zubaida 1996). Erdogan, after his first experience in the municipality emerged as one of the most popular politicians in Turkey. He had especially strong backing support from the Istanbul constituency.

Many municipality staff members who worked with Erdogan at that time later joined the JDP. In fact, fifteen JDP deputies elected in the 2002 election

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<sup>117</sup> The municipality of Istanbul instituted "people's council" as a new administrative mechanism where municipal representatives meet with people once a week to hear their grievances and give accounts of its past performance (Akinci 1999: 96-97). The VP, again in 1999 won the local election for the Istanbul municipality receiving 21% vote.

were ex-staff members of the Istanbul municipality.<sup>118</sup> In doing so, the political Islamists in the municipality who gained experience with the Islamic business at the local government level, perhaps were exposed to liberalism and pragmatism favorable to the business interests. As a matter of fact, the municipality team under Erdogan was known as efficient and professionalized with realistic views. The companies highly involved with the Erdogan's municipality were Kombassan,<sup>119</sup> Yimpas,<sup>120</sup> Ulker,<sup>121</sup> and Albayrak<sup>122</sup>. TV channel Kanal 7 owned

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<sup>118</sup> For instance, Binali Yildirim, a former manager of Istanbul Municipality's Ferry Enterprise, was appointed to Transport Minister. He received a BS and MS from Istanbul Technical University, Ship Building and Ocean Science Faculty. Hilmi Guler, a former board member of the Istanbul Gas Distribution Corporation, was appointed to Energy Minister. He received Ph. D. from Middle East Technical University. Idris Naim Sahin, a former deputy secretary general of Istanbul Municipality, became the JDP secretary general. He received MA in Middle East Public Administration Institution. Kahraman Emmioglu, a former secretary general of Istanbul municipality, was appointed to the chairman of mostly state-owned oil refiner TUPRAS. Particularly, Emmioglu was charged with illicit contract between Magic company affiliated with KANAL 7 and the Istanbul municipality's Electricity Telephone Tramway (AK Partisi 2002d: 24, 45, 54, *Turkish Daily News* April 14, 2003).

<sup>119</sup> Kombassan bought one of the most expensive areas in Istanbul, Sisli Buyukdere Street for quite lower price than its actual value through the bidding under Erdogan's Istanbul municipality (*Cumhuriyet* August 14, 1997).

<sup>120</sup> TV channel Kanal 7 mainly owned by Yimpas was accused of being received suspicious payments from the Istanbul municipality when the channel made and aired the municipality's promotional films (*Yeni Yuzyil* April 22, 1998). Also, Magic company affiliated with the Panel Ajans, an advertising agency of KANAL 7, was suspected of illicit contract with the Istanbul municipality's Electricity Telephone Tramway (Akinci 1999: 96).

<sup>121</sup> Ulker was suspected by the NSC that the company received unfair favor from the Istanbul municipality in the bidding for bending machines in the subways (from my interview with Dr. Ayse Bugra on June 21, 2002, Washburn Hall, Economics Department, Bogacizi University, Bebek, Istanbul).

<sup>122</sup> Albayrak Group was accused of illicit winning bidding on the electronic ticketing system Akbil contract, one of the Istanbul municipality's transportation projects under Erdogan. Due to this bidding fraud allegation, former mayor Erdogan faced a minimum of 14 years in prison on the charges of illegally transferring the public money into his personal account, and 13 executives of the Albayrak Group including the owner Mustafa Albayrak were detained in 1997. However, most of them were released in 1998 after critical evidence was not found. Interior ministry reopened the Albayrak files in 2001, but no corruption founded, again (*Hurriyet* April 28, 1999, *Milliyet* July 17, 2001).

by Yimpas, and daily *Turkiye* and TV channel TGRT owned by Ihlas<sup>123</sup> have more sympathized with the new Islamic liberalists under Erdogan's leadership than Erbakan and the traditionalists (*Turkish Daily News* April 14, 2003). Daily *Yeni Safak* owned by Albayrak has been highly supportive to Erdogan and the reformists. In fact, in July 2004, Erdogan's daughter got married with the son of Sadik Albayrak<sup>124</sup>, the member of Albayrak Group family. Also, Erdogan himself turned out to possess his shares in Ulker. In March 2004, Prime Minister Erdogan admitted his ownership of the shares in three Ulker distributors such as, Emniyet, Ihsan, and Yenidogan. He claimed there was nothing unethical about his business dealings, because he has owned the shares for the past 17 years and now his brother-in-law managed them after he became prime minister (*Hurriyet* March 4, 2004, *Milliyet* March 11, 2004). Meanwhile, Kombassan which often financially supported Erbakan's trips during the WP government, has tried to maintain a balance between the new reformists and traditionalists (*Turkish Daily News* August 14, 2001).

Also, running the Istanbul municipality, mayor Erdogan met liberal Islamic businessmen, such as Cuneyd Zapsu<sup>125</sup> and Ishak Alaton. Zapsu, the owner of the Azizler holding company and one of the top ten richest Islamic businessmen (Bulut 1997: 413-417), first met Erdogan when he had looked for a

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<sup>123</sup> Despite his old tie with Erbakan, Enver Oren the owner of Ihlas Holding chose to stand by Erdogan and his liberal initiative since the late 1990s (*Turkish Daily News* April 14 2003).

<sup>124</sup> Sadik Albayrak graduated from Istanbul Yuksek Islam Institute in 1966. He started his career as a writer for the *Milli Gazete* in 1979 and wrote 13 books about the Ottoman Empire and Islam.

<sup>125</sup> Zapsu whose grandfather was a well known Kurdish poet was a maverick with an open mind. During Erdogan's incarceration in 1998, Zapsu worked to persuade him to break with Erbakan and his anti-Western philosophy (Sontag 2003).

liaison to the business community while running for a mayor. Zapsu, who worked in the Turkish-American Council of TUSIAD and served as the president of the Istanbul Exporters Unity (AK Partisi 2002a: 38), later became a founding member of the JDP. In doing so, Zapsu accompanied with Erdogan in his trips to U. S. and Germany serving as his private translator and tried to build abroad connections for Erdogan. Zapsu also introduced Erdogan to Ishak Alaton, an influential Jewish businessman in Istanbul as well as a big supporter of the Fethullaci. Alaton built a connection between the American Jewish community and Erdogan and helped Erdogan by sending signals that he would maintain Turkey's relationship with Israel (Sontag 2003).

Second, the former MP members in the Ozal times who already established close ties with the Islamic capitalists when supporting the export-oriented Islamic firms during the 1980s, brought the business connections to the reformist wing. In the mid-1990s, the predominantly Islamic-oriented MP deputies, such as Ali Coskun, Abdulkadir Aksu, and Cemil Cicek left the party when the MP under Yilmaz's leadership shifted its orientation away from Ozal's conservative liberalism. Ali Coskun, a former deputy president of the Istanbul Chamber of Industry and president of the Union of Chambers, joined the reformist faction and led "the Ali Coskun - Nevzat Yalcintas' group" as a main economic policy maker. Ali Coskun, the Ozal family's close friend, was known as a member of the Nakshibendi tarikat and served as the director of board members of Ihlas Finance House in the late 1990s. Also, Ali Coskun's son O. Yildirim Coskun is the member of MUSIAD (Bulut 1997: 308). Professor Yalcintas,

Korkut Ozal's close friend and one of the main members of the Nakshibendi tarikat, worked at the Islamic Development Bank in the late 1980s establishing many connections with the Islamic capitalists. Nevzat Yalcintas' son Murat Yalcintas is an executive committee member of MUSIAD and also a founding member of JDP.

Third and finally, the ties with the tarikats which have tended to be more informal, personal, flexible, and liberal than with the political Islamists under the rigid leadership of Erbakan, brought more business links to the reformist wing. The tarikats' leaders have been known to have conflicts with Erbakan and his traditionalist faction who had driven Islam in a confronting way against the state. The new leader of the Nakshibendi tarikat Cosan explicitly accused Erbakan of deserting the Nakshibendi members, and Gulen, the leader of the Fethullahci harshly accused Erbakan of using Islam as a political instrument. (Shankland 1999: 83-84, 91). The tarikats have possessed comprehensively interwoven networks and several intermediary organizations at the community level. After their capital increased due to the flow of Arab capital during Ozal's rule, the tarikats have played a key role in connecting the Islamic business and facilitating the business activities in the Islamic community (Bulut 1999: 263).

The most influential tarikats have been the Nakshibendi and the Nur. The main members of the Nakshibendi order are the Ozal family, the Topbas family, professor Nevzat Yalcintas, professor Ayhan Songar, the former MP deputy Ali Coskun, and other many MP parliamentarians (Mumcu, 1987: 182-183, Shankland 1999: 68, Yesilada 1989: 4). This tarikat itself owns a company Server

Holding established in 1995 by the leader Mahmut Esad Cosan, Ahmet Coskun Dunder, Huseyin Emin Ozturk. The Holding has companies in food, internet service, and automobile industry and also owns a hospital and publisher (Bulut 1997: 395-396, 409-410, 413-417, *Turkish Probe* February 14, 1999). Also, the owner of Ihlas Holding Enver Oren is known as the member of Isik branch, the small offshoot of the Nakshibendi tarikat.

On the other hand, the Nur tarikat's members are the former MP deputy Abdulkadir Aksu and Cemil Cicek who joined the JDP (Ayata 1993: 55). The Ulker Group family is also known to be the devote Nur members. Meanwhile, a neo-Nurcu group or the Fetullahci tarikat owns Islamic banking Asya Finance House and other several companies including a well known insurance company Isik Sigorta. Indeed, the leader Gulen stressed the value of business community and received much support form business circles (Shankland 1999: 81-84). Daily Zaman and TV channel Samanyolu TV owned by Gulen seemed to side with Erdogan although the newspaper did not give as full support as Yeni Safak did. The Fetullahci members are Ishak Alaton, an influential Jewish businessman in Istanbul and another Jewish businessman, Uzeyir Garih who supports Erdogan (Yavuz 1999: 140).

Yet some of the other Islamic businesses have supported Erbakan and the traditionalists. Daily newspaper Milli Gazete criticized the reformist wing accusing it of the split in the Islamic community. Also, newspaper Akit has claimed that there should be no splits among Muslims (*Turkish Daily News* August 14, 2001).

## V. CONCLUSION

MUSIAD has become more business-oriented, market-driven, and liberal regarding the issues of religion, economy, and domestic politics since the mid-1990s. Also, the association has developed inner-collaboration and transparency based on a strong solidity among the members and tightly woven information networks. In doing so, MUSIAD member companies have expanded their markets into more diverse sectors at home and overseas. Also, MUSIAD has shown large and encompassing local branches, abroad offices, and the membership.

With regard to the ties between the Islamic business and the moderate political Islamists, the correlation analysis reveals that regions with greater numbers of MUSIAD members tend to be regions providing greater support of the reformist wing. Also, the strong personal ties between the Islamic business and the newly growing reformists were founded through interlocking ties established by the Istanbul municipality experience under Erdogan, the transfer of the former-MP members in the Ozal times to the reformist faction, and the tarikats' preference of the moderate faction over the traditionalist one.

## **Chapter 7. Conclusion**

In this thesis, I seek to explain the moderation of the Turkish Islamic party since the end of 1990s. The Islamist Justice and Development Party (JDP), a successor of the fundamentalist Welfare Party (WP), has rejected anti-West attitudes and emphasized marketization and privatization. The JDP formed by the liberal and reformist wing, represents quite a remarkable transition from the previous traditionalist political Islam.

Since the Democrat Party (DP) brought up the peripheral values in the late 1940s, Turkish Islamic parties have claimed to represent the periphery whose political recognition and economic interests were excluded by the secularist state. Islamic parties with different names but the same roots in the only and explicitly self-declared Islamic-oriented party, yet were banned four times by the secularist military. After the latest ban of the Virtue Party (VP) in 2001, the liberal tide among the young generation of the political Islamists was growing. The Islamic reformists formed the JDP in August 2001 claiming to represent a continuation of the Motherland Party (MP) under Ozal and a renewal of the conservative liberal legacy which originated from the DP. The JDP tends to be a Muslim catch-all party while the previous traditionalist WP was a mass party.

First, the JDP is inclined to be a top-down party with a handful of top leaders and professionalized elite while the WP was a bottom-up party heavily relying on mass organizations with strong loyalty and intense discipline. Second,

the JDP's organizations are neither enthusiastically Islamic mission-motivated nor clientele network-based whereas those of the WP were not only idea-promotional with an Islamic activist zeal but also involved in the machine politics. Third, the JDP's attitude is pragmatic reducing the Islamic-oriented manifesto and hostile stances toward the West, while the WP had a mixed attitude of both ideological and pragmatic position. Forth, the JDP is a centrist party recruiting its voters among the population at large whereas the WP was a populist party pushing for the benefits of a particular group at the expense of others. Fifth, the JDP tends to be a policy group relying on less conflicting issues while the WP was a veto group with a perspective of a zero sum game between the world view and Islam. Sixth, the leadership composition of the JDP is more coalitional whereas the leadership of the WP was rather personalistic in the lack of inner party democracy. Finally, the range of the JDP's supporters is quite encompassing while the WP's electorate was a conflicting coalition of hard liners and soft liners.

In explaining why Turkish political Islamists transformed their earlier, fundamentalist stance into a more liberal posture at the end of 1990s, I argue that in a relatively open and pluralist political system, like Turkey, growing Islamic business interests have taming effects on political Islamists. Islamic entrepreneurs rely on the power of capital to motivate political Islamists to adopt more liberal programs favorable to business interests. Political Islamists enjoying financial support, in turn, strengthen Islamic business interests in politics, and further moderate their radical behavior.

Turkey constitutes a unique case in the region, owing to its relatively pluralist political system. This has enabled the capitalists to serve as the “midwives of political change” in an Islamic society. In Turkey, differentiated from most once-colonized countries which maintained undemocratic regimes under the overpowered state, a multiparty system and relative autonomous financial and business oligopolies existed before the rise of Islamic banking and business. By contrast, in other countries of the region, capital remained highly dependent upon the state, and political pluralism relatively underdeveloped. The statistical analysis of capitalist development in promoting democracy in Chapter 3 also shows that the effect of the independent and strong social actors on democracy is stronger and more significant for countries with higher level of formal institution development in a more open and pluralist political system.

A new generation of Turkish Islamic capitalists had more of a chance to be allowed within the system than their counterparts in non-Turkish Muslim countries. Also, the Islamic financial and business groups have been less repressed by the secularist state than their Islamist counterpart in politics. Furthermore, they became empowered and ascendant as the secularist Kemalist elite gradually lost power through market reform and the wider globalization process since the mid-1990s. The five Islamic banks, such as the Al Baraka Turkish, the Faisal-Family, the Kuwait Turkish, Anadolu, and Asya Finance House have expanded their market share, number of branches, and employees and showed a fair amount of growth in their balance sheets since the mid-1990s. The Islamic-oriented MUSIAD member companies also have expanded their markets

into more diverse sectors at home and overseas in the globalization process. It was particularly possible because most of the companies have been export-oriented firms. The Islamic capitalists who have been more independent of the state and less fearful of extending political rights to the Islamist movements than the state-sponsored capitalists, have a moderating impact on the political Islamists who have been more radical and more severely repressed.

The “taming effects” of the Islamic capitalists on the political Islamists is supported by finding both the geographical and personal ties between the two. Regarding the geographical connections, the locations and numbers of local branches of the Islamic banks, were closely correlated with the electoral performance of the moderate political Islamists. Also, regions with greater numbers of MUSIAD members tended to be regions providing greater support of the reformist wing within the political Islamists. As for the personal ties, there were strong personal ties between the Islamic banks and the moderate political Islamists. Also, close connections between MUSIAD member companies and the moderate political Islamists were found. These personal connections were built through interlocking ties established by the Istanbul municipality experience under Erdogan, the transfer of the former Islamic-oriented MP members in the Ozal times to the reformist faction, and the tarikats’ preference of the flexible moderate faction over the rigid traditionalist one.

In sum, Islamic capitalists played the role of indigenous and strong bourgeoisies with the structural power of capital to tame the unruly passions of political Islamists. The growth of Turkish Islamic capitalists generated more

moderate political Islamists who have proven themselves to be capable democrats, obeying the rules of the political game. The findings possess policy implications for those interested in easing the tension between incumbent regimes and the Islamist oppositions in most other non-Turkish Muslim world. The rise of fundamentalist political Islam highlights the limitations of the state to overcome problems of poverty and inequality which become increasingly acute in the globalization process. The Turkish evidence can shed an optimistic light on debates about the compatibility of Islam and liberal democracy.

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