

GLOBAL OUTLOOK: TURKEY'S UPCOMING PRESIDENTIAL AND PARLIAMENTARY ELECTIONS

This report explores various scenarios as to the outcomes of Turkey's May 14 general elections, looking at political, economic and foreign policy ramifications.

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EXECUTIVE SUMMARY:

- The outcomes of Turkey's presidential and parliamentary elections of 14 May 2023 are set to have profound ramifications on Turkish domestic politics, economy, and foreign policy, notably defining Ankara's potential in easing conflicts in Ukraine and the Middle East.
- The main opposition alliance candidate, Kemal Kılıçdaroğlu, has emerged as the most serious challenger to current President Recep Tayyip Erdoğan, with recent polls suggesting a tight race.
- Turkey's faltering economy and public discontent over the government's response to the recent earthquakes have created further uncertainties around the elections, likely undermining Erdoğan's popularity.
- The vote of the Kurdish minority, representing 18% of the population, will highly likely play a pivotal role in the outcomes of these elections.
- A victory of the opposition is likely to be marked by a restoration of the rule of law and a rapprochement with the West. The return to economic orthodoxy pledged by the opposition alliance will likely result in short-term political uncertainties and economic downturn.
- Beyond whoever comes to power, a key determining factor for Turkey's outlook will remain the concomitant parliamentary elections, where Turkish voters will choose 600 members of parliament. An absence of solid majority for either candidate is likely to lead to further short-term policy uncertainty and market volatility.

BACKGROUND:

The upcoming Turkish presidential and parliamentary elections, scheduled to take place on 14 May 2023, are assessed to be the toughest and most contested electoral challenge that President Recep Tayyip Erdoğan, who is seeking his third presidential term, will be facing in two decades of ruling Turkey. Public discontent over the national cost-of-living crisis and harsh criticism over the government's delayed search and rescue response in the immediate aftermath of the devastating 06 February twin-earthquakes, may render Erdoğan more vulnerable than in previous elections. With more than 48,550 people killed in south-eastern Turkey and 1.5 million left homeless, many have criticised Erdoğan's Justice and Development (AKP) government's failure to prepare for an earthquake disaster, pointing out to corruption and misrule in the construction sector.

OVERVIEW:

Erdoğan called for these high-stakes elections a month early, likely due the urgency to secure another term in power before his unconventional policies backfire irremediably. After years of economic mismanagement and highly unorthodox economic and monetary policies, which saw inflation soaring to a 24-year high of 85% last year, the Turkish lira dropping to a tenth of its value against the dollar and record trade deficit, there seem to be a feverish aspiration for change in Turkish society and party headquarters.

For the first time, Turkey's often divided opposition has come together under the broadest-ever joint alliance. Known as the Nation Alliance or 'Table of Six', the coalition embraces six political parties from various ideologies, including secularists, liberals, nationalists, and religious conservatives. Under Kemal Kılıçdaroğlu's leadership, chairman of the centre-left Republican Peo-



ple's Party (CHP), the main secular opposition party, the Nation Alliance hopes to reach consensus by appealing to voters from a broad political spectrum, notably minority groups. This pluralist approach already achieved success in the 2019 local elections, where the opposition defeated AKP's mayoral candidates in several major cities such as Istanbul, Ankara and Izmir. Recent polls have been showing the opposition challenger Kılıçdaroğlu between four to nine points ahead of Erdoğan.

Despite a lead position in opinion polls, the opposition remains heteroclitic and fragile. Although widely regarded as incorruptible, Kılıçdaroğlu is said to lack charisma and popular appeal, which could hinder his ability to unite disparate factions and maintain the Nation Alliance's cohesion in case of victory. Beyond the six parties which compose it, the opposition coalition will also have to obtain the support of the pro-Kurdish People's Democratic Party (HDP) to help secure a potential victory. As the third largest party in parliament, with more than 10% support nationwide, the HDP is vowed to play a decisive role in the outcomes of the upcoming May elections. Although it is yet unclear if the HDP will officially endorse Kılıçdaroğlu, the party's deliberate distance is likely to remain beneficial for the opposition candidate, due to Erdoğan's likelihood in playing up alleged links to Kurdistan Workers Party (PKK) militants.

The race between the two presidential candidates is deemed to remain tight. Erdoğan, who still retains the backing of much of the conservative electorate, is well known for operating U-turns and implementing popular policies to appeal to voters ahead of critical elections. As the worst cost-of-living crisis in two decades threatens his popularity, Erdoğan has been using his "election economy" tactic, announcing a range of financial giveaways including a new minimum wage hike, low interests on credit, debt relief, boosts to pensions, energy price cuts for households and industries and early retirement for over two million Turkish people. It is a realistic possibility that these measures, as the general elections draw closer, will play in Erdoğan's favour, helping him counterbalance his latest economic shortcomings and contributing to restore voters' confidence.

Whoever comes into power is expected to preside over a large public deficit, given the scale of post-earthquake reconstruction works – estimated to be around \$100 billion-, recent expansionist policies and electoral pledges, that will all add on to the pressure on public finance.



SCENARIOS & ASSESSMENT:

The outcomes of these elections are set to have profound ramifications on Turkish domestic politics, economy and foreign policy.

COUNTRY RISKS ASSESSMENT MAP

OVERALL COUNTRY RISK C

SCENARIO 1: ERDOĞAN IS RE-ELECTED



Scenario 1 (Baseline): Continuity and instability if Erdoğan is re-elected

A re-election of Erdoğan, who retains a solid conservative electorate support, kept a high public figure, and dominated the media until now remains the most likely outcome.

Business prospects: If re-elected for a third term, Erdoğan's AKP government will highly likely focus on relief efforts, with massive public spending being directed towards earthquake recovery and reconstruction in the ten affected provinces. After years of foreign investors' exodus, Erdoğan's promise to rebuild more than 500,000 homes within a year is likely to bring concrete opportunities for reconstruction and re-investment in Turkey in the short to medium-term. As Erdoğan will certainly seek to deflect responsibility for the impact of the quakes on the construction sector, increased scrutiny and compliance risks for current and prospective businesses are likely in the short-term. More stringent legal measures will likely be taken with potential overhaul in construction codes, leading to increased reputational risks. Large population displacements are also likely to result in increased security and reputational risks for businesses due to greater exposure of supply chain routes to organised crime groups.

Economic forecast: A return to more orthodox policies under Erdoğan remains unlikely in the short-term. Currency is likely to come under renewed pressure as Erdoğan's "erdonomics" theories – cutting interest rates to lower inflation - are highly unlikely to be sustained in the long-term. Turkey's foreign exchange reserves are likely to continue to drop. Although Ankara's current account deficit is likely to remain high, flows of international aids and import demand from reconstruction efforts are expected to ease the pressure in the short-term. Erdoğan's fiscal pre-elections promises, such as increases in salaries and pension payments, are unlikely to be fully implemented as public funds will have to be primarily directed towards national relief and reconstruction efforts in the affected areas.

Aggravation of public grievances and security risks: As the earthquakes are expected to aggravate underlying socio-economic grievances in Turkey, increased risk of widespread protest activity is likely in the event Erdoğan is re-elected. A tight election outcome, together with accusation of electoral fraud, notably in the affected areas, will likely prompt mass disruptive counter-protests in major cities, particularly Ankara and Istanbul, which could likely turn violent. Heightened anti-government sentiment in the aftermath of the elections is likely to result in tighter state and police surveillance against regime opponents, as well as further securitisation of public and civic spaces. A risk of infiltration of Islamist

and separatist militants within mass protests remains a realistic possibility. Turkey being already the world's leading host of refugees, increased migration flows, particularly of Syrian refugees, are likely to exacerbate public discontent and anti-Syrian sentiment. Terrorist and militant organisations will likely seek to exploit the humanitarian situation to bolster recruitment opportunities and undermine counter-terrorism operations in the coming months.

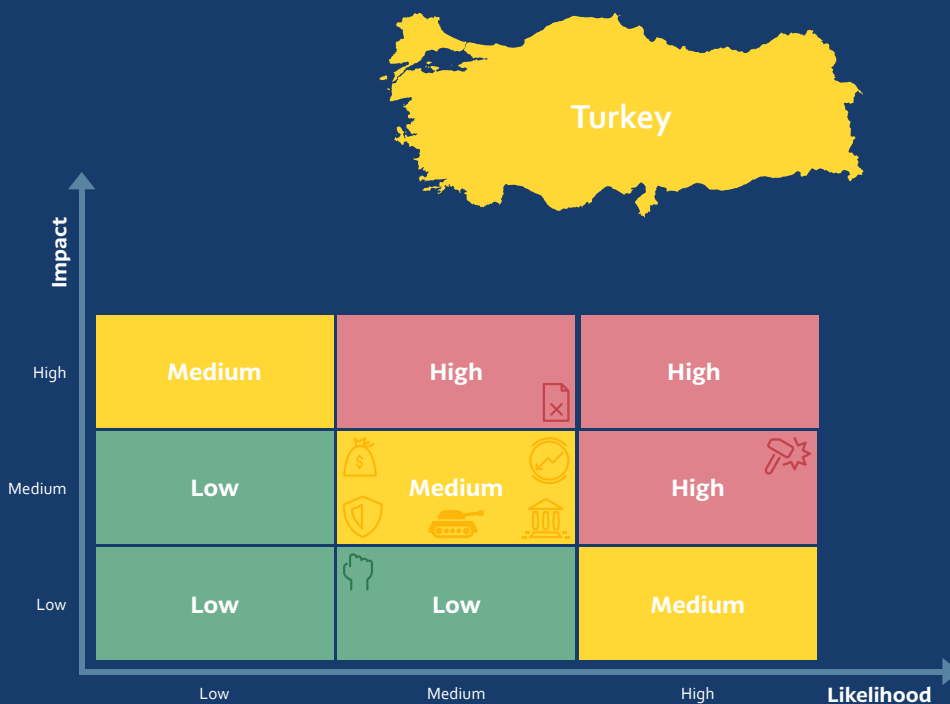
Foreign policy: Erdoğan's anti-western policies are unlikely to shift in the short-term, as a third victory will likely further cement his assertive and authoritative stance on the international scene. Ankara will likely continue to play a strategic role in the Ukraine-Russia crisis, notably through brokering grain deals, and will likely continue to strengthen ties with Moscow despite international sanctions. However, there is a realistic possibility that

Erdoğan will continue to seek a rapprochement and a "reset" of diplomatic ties with notable previous regional competitors such as Egypt, Syria and Israel. Turkey's rapprochement with Gulf Cooperation Council States is also likely to continue. Despite recent Ankara's support of Finland's application for NATO membership, it is likely that Erdoğan will persist in the short to medium-term in denying Sweden's membership application, in the event he does not obtain specific concessions, particularly from the US regarding military procurements. Recent ease of relations, notably with Greece, are likely to continue as international and EU aid will continue to flow. This will likely reduce the risk of Erdoğan attempting a possible move against Greece over eastern Mediterranean maritime boundaries.

COUNTRY RISKS ASSESSMENT MAP

OVERALL COUNTRY RISK B

SCENARIO 2: THE OPPOSITION ALLIANCE WINS



RISK TYPES

GOVERNANCE

- Governance Risk
- Corruption
- State Agencies

SOCIAL

- Civil Protests
- Security & Safety Risk

ECONOMY & BUSINESS

- Unorthodoxy
- Business Default

FOREIGN POLICY

- Interventionism and conflicts

Scenario 2 (Plausible alternative): Political and economic uncertainties if the opposition wins

If elected, the opposition alliance has vowed to implement a comprehensive agenda for reform, reversing many of Erdoğan's signature policies.

Political reforms: In terms of domestic politics, the opposition will likely seek to rule back Erdoğan's autocratic presidential system government by restoring parliamentary democracy, re-establishing checks and balances and re-staffing state institutions to restore the rule of law. However, critical political reforms requiring constitutional amendment, such as the restoration of a parliamentary system, will highly likely remain a challenge for the opposition, as these will require a two-third

majority in the parliament. A “worst case scenario”, which remains possible, would see voters electing Kılıçdaroğlu while giving a parliamentary majority to the AKP and its allies, which would highly likely hamper reform attempts by the opposition. If Erdoğan were to lose, the ability to rebuild Turkish democratic system will likely depend on an alliance-wide consensus on how to hold Erdoğan accountable for his actions.

Economic and monetary orthodoxy: The opposition has pledged to transition to an orthodox monetary policy regime to tackle soaring inflation, while putting an end to years of government intervention in the banking sector. This will likely materialise into a jumbo-sized interest rate hike in the short-term. A return to free market policies is however likely to come in hand with considerable Turkish lira volatility and an initial economic downturn in the short-term. An ambitious inflation target requiring high interests is likely to conflict with government’s massive spending plans, leading to possible frictions with the administration and the central bank. Success on the economic front will likely be pivotal to a new government’s popular support and longevity.

Foreign policy: Although it remains unclear how the Nation Alliance will handle foreign policy in case of victory, it is expected to take a less interventionist approach in its immediate neighbourhood, likely contributing to ease regional tensions, notably with Syria, Iraq and Egypt. As to Syria, the opposition will likely continue to be com-

mitted to sending back Syrian refugees. A ratification of Sweden’s membership by the opposition will likely be implemented without further delay. The opposition is however likely to maintain Turkey’s traditional position with Cyprus and Greece and continue business relationships with Russia. Although it is likely that the coalition will seek a rapprochement with Western economies, notably the EU and the US, Turkey’s economic ties with Moscow and dependence on Russian oil and gas are likely to complexify an immediate normalisation of ties with the West. Structural factors, such as public perceptions of the national interest, broader bureaucratic and ideological trends rooted in Turkish politics and society, are likely to further limit the potential for the “normalization” of a post-Erdoğan Turkey. Finally, a victory of the opposition is likely to have a direct effect on Ankara’s stance on the ongoing war in Ukraine. There is a realistic possibility that Ankara becomes a less active and high-profile negotiator, which may directly affect its strategic role in brokering grain deals between Kyiv and Moscow



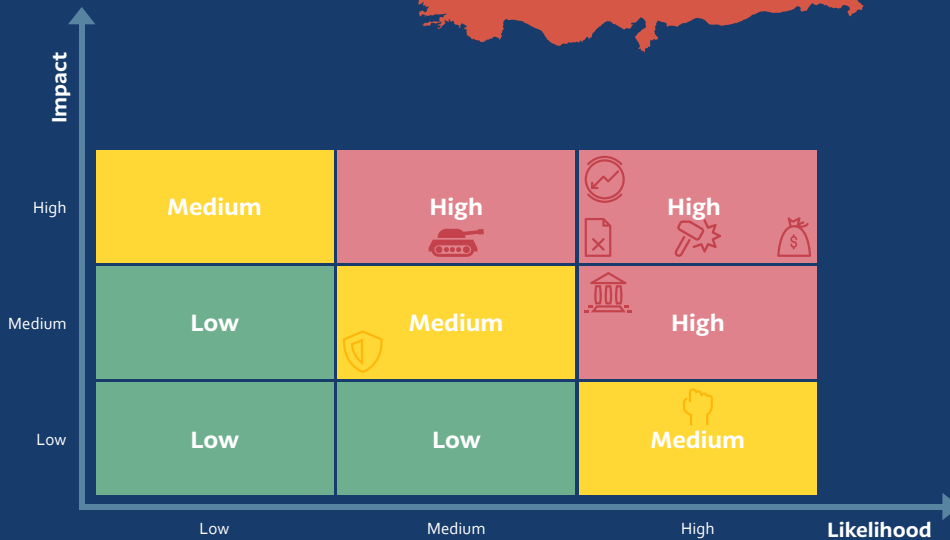
COUNTRY RISKS ASSESSMENT MAP

OVERALL COUNTRY RISK C-

SCENARIO 3: A PRESIDENT AND PARLIAMENT FROM OPPOSITE SIDES



Turkey



RISK TYPES

GOVERNANCE

- Governance Risk
- Corruption
- State Agencies

SOCIAL

- Civil Protests
- Security & Safety Risk

ECONOMY & BUSINESS

- Unorthodoxy
- Business Default

FOREIGN POLICY

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Scenario 3 ('Worst case'): A President and a Parliament from opposite sides

If elected, the opposition alliance has vowed to implement a comprehensive agenda for reform, reversing many of Erdoğan's signature policies.

Scenario 3A: If he is re-elected but loses his current majority, with a parliament dominated by the opposition alliance, there is a realistic possibility that Erdoğan intends to call for snap legislative elections, as he previously did in 2015.

Scenario 3B: Conversely, if the opposition candidate Kılıçdaroğlu is elected, but has to govern with an AKP-dominated parliament, it is highly unlikely that he will be able to effectively implement its reform agenda, particularly a restoration of the parliamentary system.

Both scenarios are likely to result in a period of increased political and economic uncertainty in Turkey, which would inevitably further damage the country's already fragile economy.

Scenario 4: Second round of presidential elections

In the event no presidential candidate gets more than 50% of votes in the May 14 elections, the top two would compete in a second round two weeks later, on 28 May 2023.

In this scenario, whoever controls the parliament will highly likely be well placed to win the second presidential round, given his ability to campaign in favour of political stability.